Emerging Trends in Indian Capital Market

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Introduction:

Capital Market plays a crucial and effective role in the economic development of a nation. It provides the financial resources needed for the long term and sustainable development of the different sectors of the economy. The Zone of the activities in the capital market is dependent partly on the savings and investment in the economy and partly on the performance of the industry and the economic in general. During pre-seventies the average Indian investor used to put all his/her savings in bank and unit Trust of India only the rich and the daring invested in the market.

Capital market were quite inactive in sixties and seventies and the private corporate sector dependent on their retained earnings and loan funds from the government owned financial and investment institutions for their expansion and growth. In the early independent era, the capital market virtually remained passive players in the process of economic development and was unable to mobilize the financial resources of the nation in required volume. It was in the late 1970s that the average Indian thought of risking his money in the stock market.

The recent years witnessed significant reforms in the capital market. it is well known that trading platform has become automatic, electronic, anonymous, order driven, nation widened screen based. Uniform settlement cycle of Monday to Friday are on all stock exchanges which was recommended by the SEBI and also inform listing procedures were adopted and coordinated by an all Indian Listing Authority since 2004.

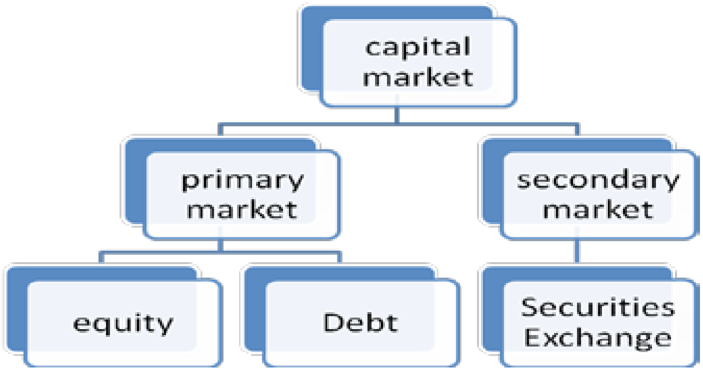
What is Capital Market :

The Indian securities market consists of primary (new issues) as well as secondary (stock) market in both equity and debt. The primary market provides the channel for sale of new securities, while the secondary market deals in trading of securities previously issued. The issuers of securities issue (create and sell) new securities in the primary market to raise funds for investment. They do so either through public issues or private placement. There are two major types of issuers who issue securities. The corporate entities issue mainly debt and equity instruments (shares, debentures, etc.), while the governments (central and state governments) issue debt securities (dated securities, treasury bills). The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risk and return. A variant of secondary market is the forward market, where securities are traded for future delivery and payment in the form of futures and options. The futures and options can be on individual stocks or basket of stocks like index. Two exchanges, namely National Stock Exchange (NSE) and the Stock Exchange, Mumbai (BSE) provide trading of derivatives in single stock futures, index futures, single stock options and index options. Derivatives trading commenced in India in June 2000

A capital market is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds. It is defined as a market in which money is provided for periods longer than a year, as the raising of short-term funds takes place on other markets (e.g., the money market). The capital market includes the stock market (equity securities) and the bond market (debt).

Capital markets may be classified as primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors via a mechanism known as underwriting. In the secondary markets, existing securities are sold and bought among investors or traders, usually on a securities exchange, over-the-counter, or elsewhere.

The capital market has two interdependent and inseparable segments the new issue market (primary market) and the stock market (secondary market). The primary market provide the channel for creation and sale of new securities while the secondary market deals in securities previously issued.



The securities issued in the primary market are issued by public limited companies or by government agencies. The resources in this kind of market are mobilized either through the public issue or through private placement route. It is a public issue if anybody and everybody can subscribe for it whereas if the issue is made available to select group of persons it is termed as private placement. There are two types of major issuer of securities the corporate entities who issue mainly debt and equity instrument and the government (central as well as state) who issue debt securities and treasury bills.

The secondary market or the stock exchange enables participants who hold securities to adjust their holding in response to changes in their assessment of risk and returns. Once the new securities are issued in the primary market they are traded in the stock market or the secondary market. The secondary markets operates through two mediums namely the over the counter (OTC) market and the exchange traded markets. Most of the trades in the government securities are in the OTC markets. All the spot trades where securities are traded for immediate delivery and payment take place in the OTC market. The other option is to trade using the infrastructure provided by the stock exchange.

The market has essentially three categories of participant's viz. the issuer of securities, the investor in the securities and the intermediaries:-

1) The issuer is the borrowers who issue securities to raise funds.
2) The investors who are surplus savers deploy their savings by subscribing to these securities.
3) The intermediaries are the agents who match the needs of users and suppliers of funds for a commission.

There are a large variety and number of intermediaries providing various services in the Indian securities market. This process of mobilization of resources is carried out under the supervision and over view of the regulators.

Recent Trends in Indian Capital Market :

The recent years witnessed significant reforms in the capital market. it is well known that trading platform has become automatic, electronic, anonymous, order driven, nation wideand screen based. Shouting and gesticulations have yielded place to punching & clicking. speed & efficiency are the hallmark of the current system. Weekly settlement system was enforced on all stock exchanges uniformly which was followed by Daily Rollover System in selected scrips from 1999. Trade guarantee fund and investor protection fund were maintained in many stock exchanges. Enforcement of a code of corporate governments, quarterly publications of results and better disclosures were insisted upon the listed companies. Uniform settlement cycle of Monday to Friday are on all stock exchanges was also recommended by the SEBI and inform listing procedures were adopted and coordinated by an all Indian Listing Authority since 2004.

BSE went over to electronic trading system in January 1995, called BOLT, BOLT System was enlarged and more centers in India got connected for internet trading. NSE has also planned for overseas centers for trading purposes. Badla system was streamlined and strengthened with better surveillance in selected scrips. Volumes of trading and liquidity had increased due to electronic trading. This trend was facilitated by Demat form holding shares, quicker weekly settlements and clearing supported by a powerful regulatory system, operated by SEBI.

There have been significant changes in the securities market in India as well as the international arena during the last one year, this is mainly due to the reforms/ initiative taken by the government and the regulators, in the arena of clearing and settlement reforms in the payment system have been initiated by RBI viz. real time gross settlement (RTGS) has been introduce by RBI to settle inter bank transactions online at real time mode. The development in the securities market provides the necessary imputes for growth and development and thereby strengthens the emerging market economy in India. The objective of recent trends in the securities market is as follows:-

1) To improve market efficiency.
2) To enhance transparency.
3) To prevent unfair trade practices.
4) To bring the Indian capital market upto the international standard.

The recent trends that have taken place in the Indian capital market during the recent years can be summarized as follows:-

1. **Repeal of capital issue control act:-**
   Capital issues control act 1947 was repealed and the office of controller of capital issue (CCI) was abolished with effect from May 29, 1992. Companies are now free to approach to capital market after clearance by SEBI. Today SEBI's main stress is to provide self regulatory systems in capital markets. It has issued guidelines for free pricing of securities for certain categories of company by virtue of which companies can ask for any amount of premium.
   SEBI guidelines intend to give only direction and certain requirements with reference to disclosure and investor protection. SEBI has advised that premium based on CCI formulate should be given in the prospectus. The philosophy of free pricing guidelines of SEBI is that the issues can price their shares according to their wish. But they have to give a justification as to the price and give sufficient disclosure in the prospectus. With the abolishment of CCI act in May 1992, government's control over issue of capital, pricing of the issue, fixing of premium and rates of interest on debentures etc.ceased.
2. **Rolling Settlement System:-**
   The recent reform of SEBI with regards to stock market includes interalia, the strengthening of the rolling settlement system which was done during 2000-01. Bulk of reforms during 1996 to 2000 encompasses the electronic trading system, clearance and settlement system. Uniform trading cycle, clearance an settlement through Demat system, without the need for physical certificates, weekly settlement and T+2 settlement, setting up of trade guarantee funds for ensuring settlements, customer protection funds, quicker settlements, internet trading, broker website trading, etc. are some of the examples of the recent stock market reforms, affected by SEBI.
3. **Trading Cycle:-**
   An investor today need not wait, with his fingers crossed, for a fortnight or more, for getting crossed cheques or crisp notes for the sale proceeds of his securities. The trading cycle has been shortened progressively from T+5 to T+2 days with effect from April 1, 2003. This shortening of the cycle has been done in a phased manner but in a rapid succession – from T+5 to T+3 to T+2, all in a matter of two years.
4. **CDSL: Central Depositary Services Limited :-**
   The CDSL is promoted by Bombay Stock Exchange. The SEBI has mandated that the major stock like NSE, Delhi, Ahemdabad and Calcutta should be connected to CDSL. The clearing member of this exchanges should open account with CDSL to facilitates settlement of trade in DEMAT form. This is in addition to NSDL, setup mainly by NSE
5. **Demat Form Of Trading (Demutualization):-**
   Majority of scrips are put in a Demat form trading in a last few months during 1999 to 2004.nearly 90% of the trade is already in Demat form, with nearly 600 scrips in compulsory Demat trading as at end may 2000. By 2005 all scrips which are traded are in Demat form of trading with T + 2 settlements. . Inconvenience of physical custody and transfer, medium of intimating change of address and problems of bad delivery, late delivery, non delivery and the risks of forgery and frauds have virtually disappeared – or shall I say - have been dematerialised! The benefit is relished but not the cost. We should bear in mind the maxim – no cost, no benefit. There is no free lunch in this world. Still, there is no denying the fact that there could be a possibility

for reduction in the cost; such possibilities are explored.

6. **Globalization of the capital market:-**
   Indian capital market is getting increasingly integrated with the rest of the world .Indian companies have been permitted to raise resources from abroad through issue of (ADRS) American Depository Receipts, Global Depository Receipts (GDRS), and Foreign Currency Convertible Bond (FCCBS). Further foreign companies are allowed to tap the domestic stock market; Indian companies are permitted to list their securities on foreign stock exchange by sponsoring ADR/GDR issues. NRIS and overseas corporate bodies (OCBS) are allowed to invest in Indian companies. The investment by foreign institutional investors (FIIS) enjoys full capital account convertibility. Finally the trading platform of Indian exchanges is now accessed through the internet from anywhere in the world.
7. **Electronic Form Of Trading :-**
   Globalization of stock exchange is now on way. The electronic age has come to the stock market. Nearly 100% of all transaction is executed through electronic media online trading system. There are 23 exchanges in India and all of them follow a systematic settlement period. The number of cities covered by NSE and BSE electronic network would have crossed 1000 mark, by end 2000. More and more brokers and sub-brokers are getting into the internet trading system. Corporate bonds and Government Securities used to be traded via telephone exchange. A beginning has been made for their trading on the stock exchange now. As is natural, the weaning takes time!
8. **Internet Trading (e-trading)**
   The SEBI have allowed e-trading and brokers would rush to the web-sites and trading through web sites would increase. On the internet, one would be able to trade instantly and transparently from any part of the world. Today, a trading member need not wend his way to the Tower in Dalal Street, Mumbai or to any stock exchange building elsewhere; he can comfortably sit at his computer terminal and execute the order. Laptops, palmtops and hand mobiles, in fact, challenge the relevance of the brick and mortar.
9. **Electronic Funds Collection**
   Under this system, the broker get their fund directly credited to their account and the client can in turn get their accounts credited or debited for the net fund to flow across the country. This facilitates quicker payments, improves the liquidity position of brokers and gets funds one day after the pay out day to obviate possible defaults or cash-out positions of brokers and sub-brokers.
   The other facility include basket trading, trading in index fund, voting and non voting share, tracker share and portfolio tracker. Tracker shares refer to the separate division shares of a company such I.T. Divisions WIPRO or TATAs. Portfolio trackers for valuation website, company analysis and M.I.S. on the companies in one's portfolio are presented through the website. There will be automatic borrowing and leading facilities, institutionalized security leading, automatic financing or margin buying and a host of other facilities on the stock exchanges.
10. **Foreign listing**
   As the country open upto foreign operations many more Indian companies got listed on foreign stock market of London, New York, NASDAQ, etc. Internet and online trading facility is created and selected foreign centers. The regional stock exchanges and local trading became gradually redundant in the context of global trading. Slowly foreign companies would be listed on the Indian Exchanges and trading would take place in such foreign shares in India.
   Indian capital account controls are slowly getting dismantled and liberalized. Free flow of FDI funds into India and liberal borrowing facilities for Indian Companies abroad tended to globalize Indian markets. Indian Mutual Funds are allowed to invest in foreign securities up to a limit. The GDRs (Global depository receipts) and ADRs (American depository receipts) of Indian companies are well received in foreign market and are traded freely in foreign stock markets.
11. **Preference for Mutual Fund :-**
   Many public sector banks, LIC & GIC came out with their mutual funds which have helped the new issue market as well as secondary market. In addition to the UTI these mutual fund started mobilizing funds for investment in the capital market since 1987. it appears that more & more people prefer mutual fund as their investment vehicle. This change in investor behaviour is induced by the evolution of a regulatory framework

for mutual funds, tax concession offered by government and preference of investor towards mutual fund. **SEBI** has now facilitated transaction in Mutual Fund through stock exchange for getting benefit of investing in Mutual Fund through stock exchange.

12. QIP: Qualified Institutional Placement

Qualified institutional placement (QIP) is a capital raising tool, primarily used in India, whereby a listed company can issue equity shares, fully and partly convertible debentures, or any securities other than warrants which are convertible to equity shares to a Qualified Institutional Buyer (QIB).

The Securities and Exchange Board of India (SEBI) introduced the QIP process through a circular issued on May 8, 2006, to prevent listed companies in India from developing an excessive dependence on foreign capital.

The corporate governance and corporate performance do reflect and get reflected in the conditions of capital market. As a market regulator and protector, SEBI is concerned with corporate governance practice on an ongoing basis. According to the Economic Intelligence Unit Survey of 2003 regarding corporate governance across the countries, "Top of the country class, as might be expected, was Singapore followed by Hong Kong and, somewhat surprisingly, India." It is significant to note that Singapore and Hong Kong claiming the top positions, was not a matter of surprise, but India coming as third, surprised the world! It shall be our collective endeavour to eliminate the "surprise element". As part of its endeavour towards continual improvement, SEBI has got corporate governance code and practice reviewed, by Narayana Murthy Committee. The Committee's recommendations for refinement were evolved through consultative process, transparent deliberations and democratic approach.

13. Initial Public Offering (IPO)

Initial Public Offerings (IPOs) or Initial Issues refers to Issue of shares for the first time to the public, either after incorporation or conversion of private limited company to public limited company. In other words, an offer by unlimited company to the public for the first time to get listed its securities in stock exchange.

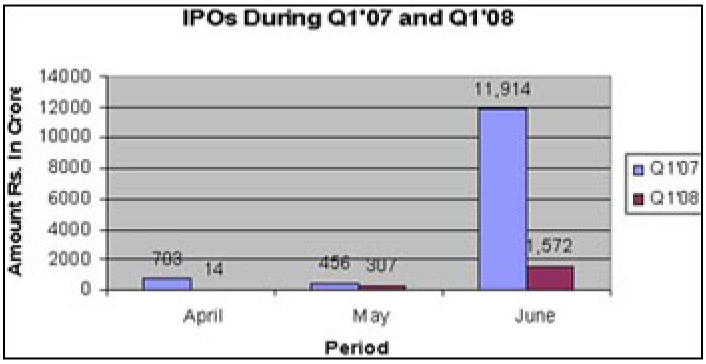
Recent Trends (Impact of recession on IPOs)

In the last quarter of FY 2007-08, several large equity offerings, including those from reputable business houses, have struggled to hit their targets. India's stock markets have been volatile, reacting to fears of a widening global credit crunch and fears of a U.S. recession. Let's have a glance of IPOs in the Indian primary market during Q1'07 & Q1'08 in India.

Table 2: IPOs during Q1'07 & Q1'08 in India:

Period	IPOs Numbers	IPOs Amount (Rs. In Crores)
Q1'07		
April	4	703
May	6	456
June	10	11,914
Total	20	13,073
Q1'08		
April	1	14
May	4	307
June	8	1,572
Total	13	1,509

(Source: www.epwrf.res.in/upload/Current_Statistics/c10822-13.xls)



IPOs witnessed a sharp decline in collections during the June 2008 quarter. Corporate raised just over Rs 1,509 crore from IPOs, indicating a fall of 88.45% from the year-ago levels. The data on number of IPOs that were issued are not encouraging either.

Fund raising by Indian companies has seen a sharp drop in the last quarter of financial year 2007-08. This is evident from an analysis of data presented in the above table.

Impact on global financial assets

The full fallout \ recession from the credit market volatility of 2007 remains to be seen. But over the longer term, the volume of global financial assets (the value of all bank deposits, government debt securities, corporate debt securities, and equity securities) will continue to expand. Over the past 25 years. This source of growth was shaky by 2007.

Conclusion :

The recent years witnessed significant reforms in the capital market. It is well known that trading platform has become automatic, electronic, anonymous, order driven, nation wideand screen based. In terms of different parameters such as operational and systematic risk management, settlement system, disclosure norms and accounting standards the Indian capital market is at par with the best in the world. Following the implementation of reforms in the securities market during the last decade Indian stock market has stood out in the world, ranking as well as in the developed and emerging markets. The development of the capital market continuous coupled with an effective regulatory framework and thus the capital market has come up to global standards. Some are given below:-

The transaction has become user friendly.

The rolling settlement system which was done during 2000-01.

It reduces the trading cycle T+2.

Demat form of trading has reduced the cost & time.

The volume of trading & liquidity has increased because of dematerialization of shares.

After the crunch of U.S. Recession, IPOs witnessed a sharp decline in collections during the June 2008 quarter.

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