ISBN: 978-81-972400-5-8

6. A Study on Performance of Capital Market in India

Dr. Manoj Kumar Dash

Assistant Professor,
School of Commerce and Management, Arka Jain University,
Saraikela Kharsawan, Gamharia, Jharkhand.

Abstract:

Capital markets are financial markets that bring buyers and sellers together to trade stock, bonds, currencies, and financial assets. Capital market consists of primary market and secondary market. Despite of the economic growth, India still faces massive income inequalities, high unemployment, illiteracy and poverty. So, there is need to initiate some reforms for strengthening capital market. This paper aims to focusing the role and challenges and trends of Indian capital market in current scenario and also attempt to evaluate the performance of capital market in India using exchange-wise trading statistics for Cash Segment of BSE and BSE from 2021-22 to 2022-23.

Keywords:

Secondary market, Primary market, financial institutions, ESG fund

6.1 Introduction:

Capital markets play a crucial role in facilitating investment, capital formation, and economic growth by connecting those with surplus funds to those in need of capital for productive purposes. Participants in these markets include both individuals and institutions. It provides a platform for individuals and institutions to invest in various financial instruments such as stocks, bonds, and derivatives. This process efficiently directs savings and investments from those who have excess capital (investors) to those who need capital (companies and governments) for growth and development. By enabling companies to raise funds through issuing stocks and bonds, the capital market fuels investment in new projects, expansions, and innovation. This, in turn, stimulates economic growth and job creation. The capital market is a place where the prices of financial assets are determined based on demand and supply dynamics, as well as fundamental factors such as company performance, economic conditions, and investor sentiment. These prices provide valuable information to investors, companies, and policymakers. It offers a range of financial products, including derivatives and insurance-linked securities, which allow investors to manage risks associated with fluctuations in interest rates, exchange rates, commodity prices, and other variables. Investors can buy and sell financial assets easily in the capital market, providing liquidity to investors and ensuring that capital can be quickly mobilized and allocated to its most productive uses. Through the issuance of publicly traded stocks, the capital market promotes transparency and accountability among publicly listed companies.

Shareholders exert influence on corporate decision-making through mechanisms such as voting rights and shareholder activism. Participation in the capital market allows individuals and institutions to build wealth over time through investment returns. Moreover, dividends and interest payments from investments contribute to income generation and wealth distribution in the economy. Capital markets are normally divided into two main components:

Primary Markets is the market where new securities are issued and sold for the first time. This is where companies raise capital by issuing stocks or bonds to investors. Functions include facilitating the transfer of investible funds from savers to entrepreneurs seeking to establish or expand enterprises.

Investors in this market include banks, financial institutions, insurance companies, mutual funds, and individuals. Methods of floating new issues in the primary market include offering through prospectus, offer for sale, private placement, and rights issue.

Secondary Markets is the market where existing securities are bought and sold among investors. This provides liquidity to investors by allowing them to buy or sell securities after the initial issuance. It is also known as the stock market or stock exchange.

6.2 Role of Capital Markets in India:

The capital market plays a crucial role in the Indian economy, serving various functions that contribute to economic growth, development, and financial stability. Here are some key roles of the capital market in India:

Raising Capital: One of the primary functions of the capital market in India is to facilitate the raising of capital by companies, both from domestic and international investors. Through the issuance of equity shares, debentures, bonds, and other securities, Indian companies can raise funds for expansion, investment in new projects, research and development, and other capital-intensive activities.

Facilitating Investment: The capital market provides opportunities for individuals and institutions to invest their savings in a diverse range of financial instruments, including stocks, bonds, mutual funds, and derivatives. This allows investors to participate in the growth of the Indian economy and earn returns on their investments.

Secondary Market Trading: The Indian capital market includes a vibrant secondary market where investors can buy and sell previously issued securities such as stocks and bonds. This secondary market provides liquidity to investors, allowing them to exit or enter positions easily and efficiently.

Price Discovery: The capital market in India serves as a platform for price discovery, where the prices of financial assets are determined based on market forces such as supply and demand, investor sentiment, and economic fundamentals. Accurate price discovery facilitates efficient allocation of capital and investment decision-making.

Promoting Corporate Governance: Listed companies in India are subject to regulatory requirements and corporate governance standards enforced by regulatory bodies such as the Securities and Exchange Board of India (SEBI). The capital market plays a role in promoting transparency, accountability, and good corporate governance practices among publicly traded companies, thereby enhancing investor confidence and protecting shareholder interests.

Facilitating Government Borrowing: The Indian government also raises funds through the capital market by issuing government securities such as treasury bills, bonds, and bonds. This helps finance budget deficits, infrastructure development, and other government expenditures.

Encouraging Financial Inclusion: The capital market in India has seen efforts to increase participation from retail investors and promote financial inclusion. Initiatives such as dematerialization of securities, online trading platforms, and investor education programs have made it easier for individuals from diverse backgrounds to invest in the capital market and benefit from its potential returns.

6.3 Challenges Faced by Capital Markets in India:

Lack of Depth and Liquidity: The Indian capital markets, especially the bond market, still lack depth and liquidity compared to developed markets. This limits the ability of investors to buy and sell securities efficiently, particularly during times of market stress.

High Volatility and Speculation: Indian markets can be highly volatile, driven by factors such as geopolitical events, regulatory changes, and global economic trends. Excessive speculation in the markets can lead to price distortions and undermine investor confidence.

Regulatory and Compliance Burden: While regulations are essential for investor protection and market integrity, excessive regulatory burden can stifle innovation and growth in the capital markets. Simplifying and streamlining regulatory processes while maintaining adequate investor protection is a challenge.

Infrastructure and Technology: The infrastructure supporting trading and settlement in Indian capital markets needs continual improvement. This includes upgrading technology systems, enhancing connectivity, and ensuring robust cybersecurity measures to protect market integrity and investor data.

Corporate Governance and Transparency: While significant progress has been made in improving corporate governance standards in India, challenges persist, including related-party transactions, insider trading, and inadequate disclosure practices. Strengthening corporate governance and enhancing transparency are ongoing priorities.

Retail Investor Participation: Despite efforts to promote retail investor participation, a large segment of the Indian population remains outside the formal financial system.

Increasing financial literacy, improving accessibility to capital market products, and addressing investor concerns about risk are essential for broadening retail investor participation.

Infrastructure Financing: India requires substantial infrastructure investment to support its growing economy. However, the capital market's ability to finance long-term infrastructure projects is limited due to regulatory constraints, project risks, and the absence of a robust corporate bond market for infrastructure financing.

Macroeconomic Factors: External factors such as inflation, interest rates, currency fluctuations, and global economic conditions can significantly impact Indian capital markets. Managing these macroeconomic risks and maintaining stability is a continual challenge for policymakers and market participants.

6.4 Trends in the Indian Capital Market:

Digital Transformation: The Indian capital market is witnessing a significant digital transformation, with the adoption of technology-driven platforms for trading, settlement, and investment management. Online trading platforms, mobile apps, and digital wallets are becoming increasingly popular among investors, enhancing accessibility and convenience.

Rise of Retail Investors: There has been a notable increase in the participation of retail investors in the Indian capital market, driven by factors such as easier access to information, lower trading costs, and increased awareness about financial markets. Retail investors are increasingly using online platforms to invest in equities, mutual funds, and other financial instruments.

Focus on ESG Investing: Environmental, Social, and Governance (ESG) considerations are gaining prominence among investors in India. There is growing interest in investing in companies that demonstrate strong ESG practices, such as sustainability, social responsibility, and good corporate governance. This trend is driving demand for ESG-themed funds and investment products.

Expansion of Debt Market: The Indian debt market is experiencing growth and diversification, driven by regulatory reforms, infrastructure development, and increasing corporate borrowing. The introduction of electronic trading platforms for corporate bonds, reforms in bond issuance and trading norms, and the development of credit derivatives are contributing to the expansion of the debt market.

Investor Education and Awareness: There is a growing emphasis on investor education and awareness initiatives in India, aimed at empowering investors with knowledge about financial markets, investment products, and risk management. Regulators, financial institutions, and market intermediaries are actively involved in organizing investor education programs, seminars, and workshops.

Startup and IPO Boom: India is witnessing a boom in startup activity, fueled by supportive government policies, technological innovation, and entrepreneurial talent.

Many startups are tapping into the capital market through initial public offerings (IPOs) to raise funds for expansion and growth. The surge in IPO activity is attracting investor interest and driving valuations in the Indian equity market.

Regulatory Reforms: Regulatory reforms aimed at enhancing market transparency, efficiency, and investor protection continue to shape the Indian capital market. Initiatives such as the introduction of dynamic price bands, enhanced disclosure norms, and the implementation of risk management frameworks are contributing to a more robust and resilient market ecosystem.

6.5 Literature Review:

Kannadhasan, (2015), has conducted a study on 778 respondents in Raipur, Chhattisgarh, India on January and February 2013 and revealed that the function of demo-graphic factors to differentiate retail investors into Financial Risk Tolerance (FRT) and Financial Risk Behavior (FRB). He used Using 6 independent variables gender, age, marital status, education, occupation, income and 2 dependent variables Financial Risk Tolerance, Financial Risk Behavior, the outcome shows some demographic element that significantly maneuver a role in deciding FRT and FRB levels are gender, age, education, and occupation, whereas the marital status of the investor and incomes do not alter the FRT and FRB levels.

Sindhu and Kumar, (2014) According to the study conducted by Sindhu and Kumar Indian households dominate over public and private sectors in saving. Indians are the largest population saving their incomes. So, the study sidestep that these savings need to be channelized increasingthe returns in different investment instruments.

Nagarajan. R, (2006), in his article, "green shoe option in IPO", the study states that to stabilize the share price after the listing, the company can hold Green Shoe Option after the book buildingmechanism. Green shoe an option allows underwriter of an Initial Public Offering to selladditional shares to the public. But the regulator has to be vigilant to keep way the fraudulent activity and the investor should study the investment opportunities before investing.

Subha. M.V, (2008), in her article entitled, "Indian Capital Markets Road Ahead", focused on the current issues of lack of individual investor participation and policies and ways to restore the investor confidence in the Indian capital market. This lies with the regulators. The regulator should take up the responsibility of making the investor aware, build trust and confidence the regulators, stock exchanges and companies. Should act in a responsible way and provide a healthy atmosphere for the functioning of an efficient capital market.

Deene, Madari and Ganga Shetty, (2009), in their paper, " Capital market Reforms: some issues", capital market is Backbone of the economy. A fundamentally strong and vibrant securities market assists corporate world initiatives, finance and exploration of new processes and instruments facilitates management of financial risk. In India the capital market is ruled By FIIs, FDIs, banks, insurance companies and pension funds.

Retail investor though the backbone of the capital market. But the retail investor is deterred due to scams and scandals and that results into dilution of their faith market, attempting to make the retail investor confident and protect his interest the government formulated different policies and various reforms. It also educates the retail investor regarding their rights and duties.

6.6 Objective of the Study:

- To highlight the role and importance of capital market in India.
- To know the process of reforms in Indian capital market.
- To Know the factors responsible for growth and development of capital market in India.

6.7 Research Methodology:

This study uses the parameters like market size, market liquidity, market turnover and market volatility to gauge the performance of Indian capital market. This paper assumes the two leading stockmarkets of India, namely, BSE and NSE. All the pertinent data have been gathered the publications of SEBI bulletin and SEBI annual report. The sample period of the study one year from 2021-22 to 2022-23.

6.7.1 Data Analysis:

Market Capitalization Decline**:** Both BSE and NSE experienced a decline in market capitalization by 2% in the fiscal year 2022**-**23 compared to the previous year.

Free Float Market Capitalization**:** The free float market capitalization as a percentage of the total market capitalization increased to 47% in 2022-23 from 46% in 2021-22 for each exchange. This indicates a shift towards higher liquidity and potentially more active trading in freely available shares.

Decline in Cash Segment Trading**:** There was a significant decline in trading activity in the cash segment at both BSE and NSE during 2022-23 compared to the previous year. This decline could be due to various factors such as market sentiment, economic conditions, regulatory changes, etc.

Table 6.1: Exchange-wise Trading Statistics for Cash Segment

Stock Exchange	**2021-22**	**2022-23**	**Variation (per cent)**
Turnover (` crore)			
NSE	16566257	13305073	-19.7
BSE	1338225	1028865	-23.1
MSEI	43	44	3.5
Total	17904525	14333983	-19.9
Total Market Capitalization (` crore)			

Stock Exchange	**2021-22**	**2022-23**	**Variation (per cent)**
NSE	26181064	25632704	-2.1
BSE	26406501	2581896	-2.2
MSEI	24177249	25157438	4.1

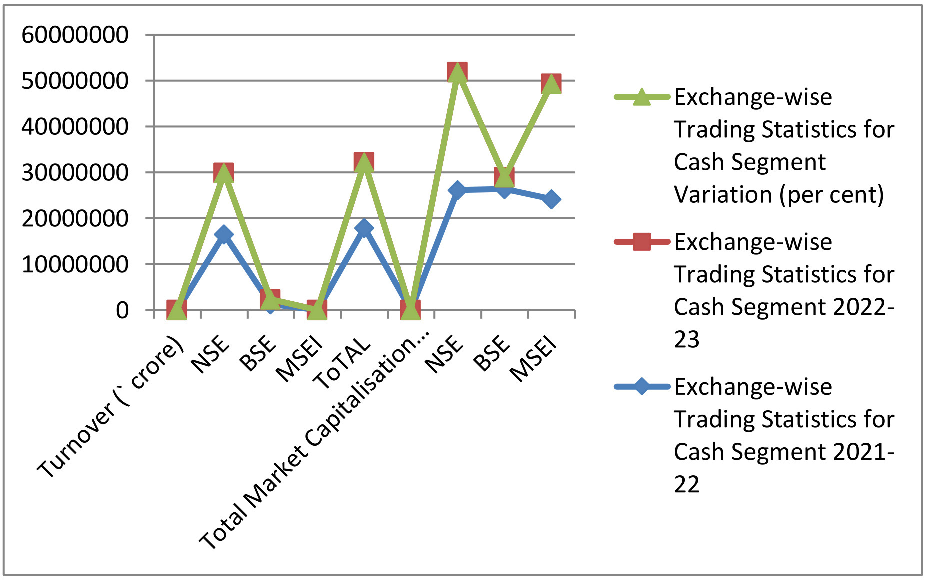

Figure 6.1: Exchange-wise Trading Statistics for Cash Segment
Sources:(SEBI bulletin)

Decline in Number of Trades and Quantity Traded: The number of trades decreased by more than 15% at both the NSE and BSE. The quantity of shares traded fell by 17.5% at NSE and 16.5% at BSE during the fiscal year 2022-23 compared to the previous year. The Average Daily Turnover (ADT) in 2022-23 experienced a significant decline. At NSE, it fell by 20.0% to Rs.53,434 crore. At BSE, it decreased by 23.4% to Rs. 4,132 crores compared to the previous year. During the year 2022-23, Market Share of NSE in Cash Segment Turnover accounted for 92.8% of the aggregate turnover of Rs.143.3 lakh crore across all exchanges in the cash segment. This indicates NSE's dominant position in the market.

Table 6.2: Turnover of Top 10 Cities in the Cash Segment

City	**BSE**		**City**	**NSE**	
	2021-22	**2022-23**		**2021-22**	**2022-23**
Mumbai	36.4	39.7	Mumbai/Thane	67.6	68
Ahmedabad	21.2	23.2	Ahmedabad	9.1	11.2
Kolkata	2.3	1.9	Kolkata	5	4.2
New Delhi	2.2	1.5	New Delhi	5.4	3.7
Rajkot	0.9	0.9	Hyderabad	2.7	2.5
Nalgonda	0	0.8	Rajkot	0.8	1

City	BSE		City	NSE	
	2021-22	2022-23		2021-22	2022-23
Noida	0.3	0.6	Chenai	0.7	0.9
Vanasthalipuram	0	0.5	Banglore	1.2	0.8
Vadodara	0.4	0.3	pune	0.3	0.4
Jaipur	0.3	0.3	Cochin	0.5	0.4
Others	36	30.3	Others	6.7	6.9
Total	100	100	Total	100	100

Sources :(SEBI Annual Report)

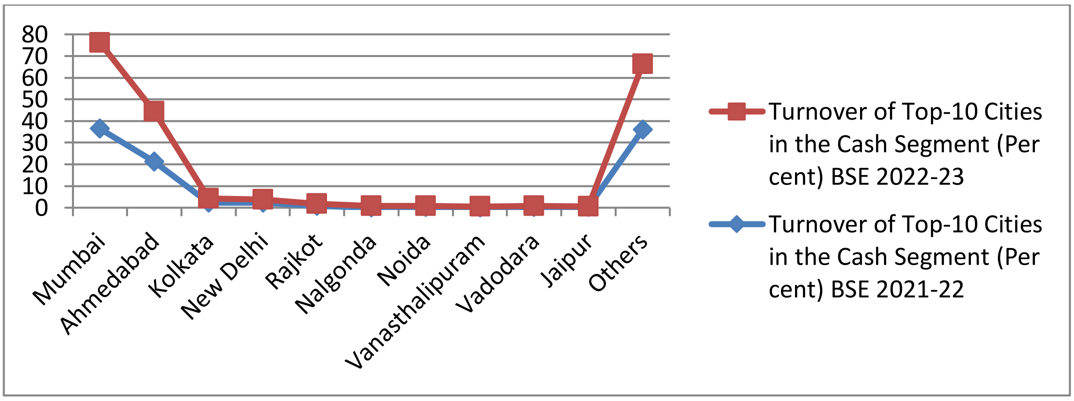

Figure 6.2: Turnover of Top 10 Cities in the Cash Segment (BSE)

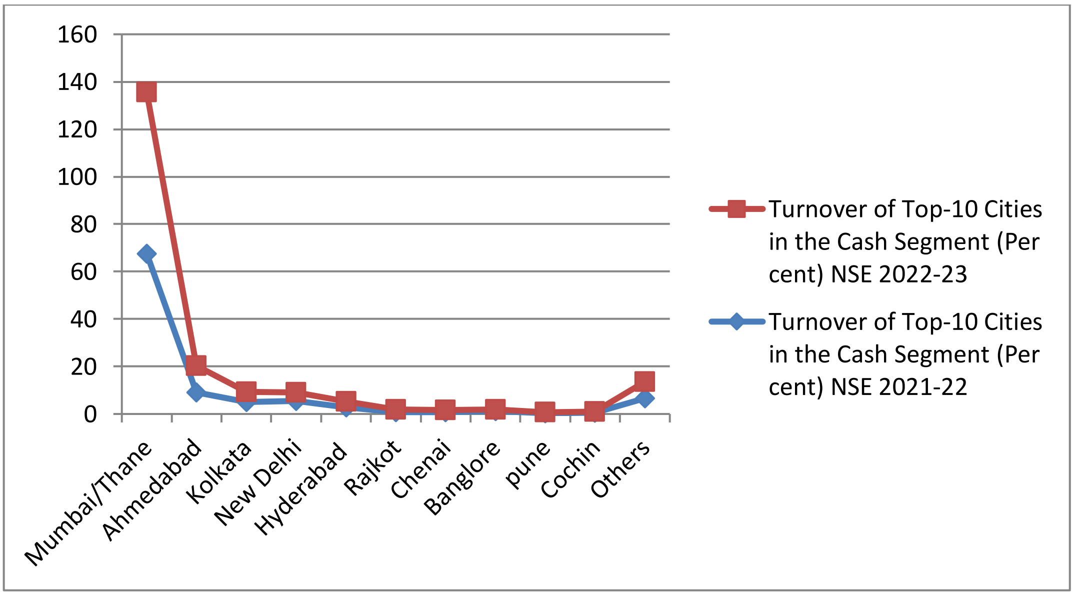

Figure 6.3: Turnover of Top 10 Cities in the Cash Segment (NSE)

A. NSE (National Stock Exchange):

- More than 68% of NSE's turnover was concentrated in Mumbai (including Thane).
- Ahmedabad accounted for 11.2% of NSE's turnover.
- Other cities with a share higher than one percent include Kolkata, Delhi, and Hyderabad.

B. BSE (Bombay Stock Exchange):

- Around 40% of BSE's turnover in the cash segment was concentrated in Mumbai (including Thane).
- Ahmedabad accounted for 23.2% of BSE's turnover.
- Other cities with a share higher than one percent include Kolkata and Delhi.

This data suggests that Mumbai remains the primary hub for stock market activity, with a significant portion of turnover coming from there. Ahmedabad's share in turnover has been progressively increasing, indicating its growing importance in the stock market landscape. Additionally, Kolkata, Delhi, and Hyderabad also contribute substantially to the turnover, albeit to a lesser extent compared to Mumbai and Ahmedabad.

6.7.2 Suggestions for Growth:

To enlarge the capital base the following suggestions will be incorporated.

Enhancing Investor Confidence and Protection: Strengthening investor protection measures, transparency, market integrity, and supervision over market intermediaries are crucial for rebuilding investor confidence.

Streamlining Regulatory Procedures: Minimizing regulatory procedures and ensuring clarity in the regulatory framework can promote free and open trade. Resolving conflicts between regulatory authorities, such as the recent one between IRDA and SEBI over ULIPs, is essential for regulatory stability.

Expanding Investor Base to Small Cities: Organizing investor awareness programs and launching special incentive schemes for investors in small cities can encourage their participation in the market, tapping into their potential for investment.

Channeling Savings into Productive Sectors: Initiatives should be undertaken to attract domestic savings and global investments into infrastructure and other productive sectors, thereby stimulating economic growth.

Diversification through Mutual Funds: Encouraging investment in instruments other than equities, such as mutual funds managed by professional firms and portfolio managers, can offer diversification opportunities to investors.

Developing Interest Rate Derivatives Market: Establishing a robust market for interest rate derivatives is crucial for hedging rate risks, which are significant macroeconomic risks.

India should aim to increase the turnover of interest rate derivatives to align with global trends.Expanding Investment Options for Pension Funds and Insurance Companies: Allowing pension funds to invest in investment-grade corporate bonds and enabling insurance companies to invest in various investment-grade corporate bonds and credit hedging instruments like Credit Default Swaps can diversify their portfolios. Creating a liquid benchmark index for pricing can further facilitate these investments.

6.8 Conclusion:

Since the economic reforms of 1991, India has experienced significant economic growth. This growth has been accompanied by rapid changes in the capital markets. Despite the progress made, there is a recognition that deeper and more wide-ranging reforms are necessary to address the challenges posed by increasing competition and to create an environment conducive to sustained growth. It's essential for regulators to strike a balance between ensuring stability and allowing for financial engineering and innovation in the market. Regulation should not unnecessarily hinder the development of new financial products and services. India has identified key sectors like Pharmaceuticals, Retail, Automobiles, and Education for development. These sectors offer significant potential for growth and investment. Allowing foreign direct investment (FDI) in various sectors is seen as crucial for attracting foreign investors and fueling economic growth. Opening up sectors to FDI can bring in capital, technology, and expertise, which are essential for the development of these sectors and the overall economy. India recognizes the need for ongoing reforms to address the challenges of growth and to capitalize on its potential as an emerging economic power. This requires a collaborative effort between regulators, service providers, and policymakers to create an environment that fosters innovation, attracts investment, and supports sustainable economic development.

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