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Capital Markets in India: A Conceptual Framework

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Abstract
The history of the Indian capital market goes back to the 18th century when the securities of East Indian companies were traded. The contribution of the Indian capital market for the sustainability of the Indian economy is considerable since the year 1890s. The capital market plays a role in terms of wealth distribution and the economic development of a country like India. The capital market acts as a transformer of savings into capital investment. The capital market has witnessed major reforms since the implementation of New Economic Policy 1991 and after that. The Indian government and SEBI have adopted various reforms to enhance the performance of Indian stock exchanges. The present study tries to analyze the recent reforms in the Indian capital market from the year 2010 onwards. The present research is largely based on secondary data. The statistical facts and figures regarding the growth and development of the capital market were available from various journals, publications, and websites.
Keywords: Capital market reforms, New economic policy 1991, Indian economy, Stock exchanges & Indian government.

Introduction

The capital market plays a vital role in the growth and development of a country's economy. The capital market helps the government and corporations to raise funds. It is termed as one of the barometers to measure the growth of an economy. There is a direct relationship between the capital market and the growth of an economy. A capital market is a financial market where long term debt and securities are bought and sold. The capital market channelizes the wealth of savers into long term productive use. Financial regulators like the Bank of England, US Securities and Exchanges Commission, SEBI oversee the capital market to protect investors against fraudulent activities. Empowering the market regulators is the first step in reforming the capital market, the vibrant capital market is necessary to the growth of business and economy as well. After the nationalization of commercial banks, there has been a steady growth in the industrial and agricultural sectors. Establishment of a new financial institutions like NABARD, EXIM Bank, SIDBI, etc. are responsible for providing funds in the capital market. The reforms of the Indian capital market were initiated during the year 1991 as a part of structural reforms including industrial, deregulation, privatization, globalization, and other reforms through the liberalization of domestic economic policy. Since the year 2000, the market enjoyed a complete transformation of market design (1). All the stock exchanges in India switched to new reforms like order matching by computers, risk management institution, operational vulnerabilities' of physical share certificates, the establishment of the derivatives market, etc ha.ve bought a complete transformation in market design in the equity market.

Review of Literature

(Miss. KiranGangawani 2015) in her paper titled "Emerging trends in Indian Capital market" (2015) has explained the capital market takes an important role in the economic development of a country. It provides financial support to the sectors of the economy. To improve the market, the efficiency and to enhance the transparency of the capital market where the main objective to develop the capital market. Implementation of the repeal of capital issues contract Act, Qualified Institution Placement(QIP), and other major reforms have strengthened the Indian capital market that resulted in an effective regulatory framework.

(Anitha and A. Praveen 2012) –"Capital market reforms in India" (2012) have stressed on the capital market reforms that took place to the post introduction of new economic policy 1991. The authors have identified the major capital market reforms to the post introduction of LPG. SEBI and the Indian government have taken various steps for the growth of Indian stock exchanges. Establishment of Investors Protection Fund (2001), CCIL (2001), NSDL (1998), and other institutions have resulted in a productive and transparent capital market.

(Parray Firdous Ahamad and Tiwari Anshiya 2015) through their research paper titled "Indian Capital market: A Review" (2015) identified the growth of the capital market since the last decade. Authors have explained the growth of the mutual fund industry; the insurance sector and the stock exchanges have resulted in the speedy growth of the Indian economy, which has attracted foreign institution investors (FII) directly and dimensionally.

(Bhavin.S. Shah 2012) – "Current issues in Indian capital market" (2012) have discussed the structure of the Indian capital market concerning pre-independence and post-independence. The contribution of the Indian capital market for the growth and sustainability of the Indian economy is considered since the 1890s. When India was fully mobilized as a supply base, this led to the development of stock exchanges in India. When the government of India has adopted the principle of unitary control, many pseudo stock exchanges were closed. The remarkable growth and reforms took place after 1985. The establishment of OCTEI has solved the problems of traditional trading mechanisms such as the absence of liquidity, lack of transparency, long settlement period and other mechanisms affected the small investors to a great extent.

(Mohammed Rubani 2017) – "A study of structural and function of capital market in India" (2017)examined the functions of the capital market plays a crucial role in mobilizing and diverting of available resources into productive channels. Through the stock exchanges, the Indian capital market is acting as a mediator between investors and savers in channelizing their funds in a productive way. This smoothens and accelerates the process of economic growth.

(Jency. S 2017) - "Trends of capital market in India" (2017) observed the primary market and secondary market for six years. Tremendous developments have taken place in the primary market since the year 2015-2016. It has been observed that the increase in the mobilization of corporate through private placements from 2013 onwards. The market capitalization of BSE increased to 1,07,88,709 crores during the period 2016-2017, and NSE increased to 1,06,18,012 crores. Innovation and reforms in the capital market have not only developed the economy but also led to the decrease of in the cost of capital and risk associated with the instruments of the capital market, SEBI is working to make Indian capital market as a world-class with 100% of transparency and competency.

(Gunjan Malhotra 1991) – "Indian capital market growth, challenges, and future) has conducted a survey on the capital market in pre-reforms (1991). Before the introduction of new economic policy – BSE was a monopoly in the market, and a variety of manipulative practices were prevailing in the market. With the objective of developing the marker efficiency, a package of measures like free-pricing, screen-based trading system, laundering Act 2002, and establishment of SEBI has helped to develop the capital market.

(Dr. Vandana K Mishra) in her paper title "Globalization and the Indian market," it has analyzed the trading statistics of the different stock exchanges and slow down after the global crisis. When India's economy was liberalized in 1991, India has seen tremendous growth in the capital market. In the year

2010, India ranked 4th place by contributing 3.7% of global IPO shares, whereas china has contributed 47%. This indicates that the Indian capital market is losing its growth in the post-financial world. To overcome the shock of the global financial crisis, SEBI has worked on transforming the Indian capital market into global competition.

(B.K Muhammed Jumane and M.K Irshad) – "An overview of Indian capital markets" (2015) has researched factors influencing the development of the capital market. Authors have suggested that the development of financial institutions, entrepreneurship, expansions, and modernization in MNC's projects are the main reasons to boost the capital market.

(Mohd. Shamim. Ansari) – "Indian capital market review: issues, dimensions, and performance analysis" (2012) has conducted an empirical study on the performance of the Indian capital market by comparing the Indian capital index with selected global indicators like US DOWS JONES, UK'S FTSE, JAPAN'S NIKKIE and other indices. From the year 2010, both SENSEX and NIFTY has been most promising when compared to other emerging markets among Asian countries. The P/E ratio of India is 24.6% and has secured 1st place (S & P CNX NIFTY) among all Asian countries. The author concludes by saying that there is a positive co-relation between the finance and economic development of a country. Thus, economic development is impossible without quality reforms in the Indian finance market.

Objectives of the Study

- To study the capital market reforms from the year 2010.
- To analyze the impact of capital market reforms on the growth of the economy.

Problematization

Innovation and implementation in the capital market sector reforms have a positive impact on the economy of a country. Since the year 2010, the capital market has seen tremendous growth in the economy. There is no much research on the capital market reforms from the year 2010. The study intends to study the capital market reforms since the year 2010. This paper attempts to analyze the various reforms in the capital market and their impact on the Indian economy.

Methodology of the Study

This is a descriptive research paper; this paper focuses on secondary data for researching the capital market. Many secondary sources do not clearly define the issue and purpose of a study. However, the data has been gathered, analyzed, and interpreted for research. The information about the problem is collected from Research Journals, RBI publications, E-magazines, and internet sources.

Scope of the Study

The study areas cover the capital market reforms, and the period is restricted to 2010 onwards. The researchers have detailed their study to post-2010 reforms and their positive impact on the Indian economy.

Limitations of the Study

The following are the limitations of the study.

- Due to the academic hole, the researcher has less time to cover all the aspects.
- The study of capital market reforms is restricted from 2010 onwards.

Conceptual Framework

The history of capital markets set back to the 18th century when the securities of East India company were traded. The concept of stock exchanges was established during the year 1890 when the industrialists of cotton textiles, flour mills, steel, and sugar were associated with stock exchange. Many stock exchanges limited(1940), Nagpur stock exchanges limited, Hyderabad stock exchanges were incorporated. There was an increase in the number of stock exchanges, and there was a regulatory body to control the functions of stock exchanges. Thus many stock exchanges suffered collapsed.

When the Government of India adopted the principle of unitary control and securities contract(regulation) Act of 1956 for the purpose of recognizing the stock exchanges, many pseudo stock exchanges were closed, and few stock exchanges were merged. Thus, during the 1960s, only eight stock exchanges were recognized by the government of India. The number of stock exchanges remained unchanged for the two decades. During the 1980's Pune stock exchange, Cochin stock exchange and other stock exchanges were established. At present, 21 stock exchanges are operating in India except for OCTEI and NSE.

Post Introduction of LPG: The appointment of the Narasimhan committee in 1991 has resulted in great reforms in the Indian Capital market. Formation of SEBI(1992), Electronic trading, CRISIL, Screen-based trading, and many other reforms were introduced in the capital market, and this encouraged many investors to enter the stock market.

The Major Reforms During the New Economic Policies are as Follows

- **Establishment of Credit Rating Agencies:** Three credit rating agencies viz CRISIL (1988), ICRA (1991), and CARE were setup to guide the investors.
- **Establishment of SEBI:** SEBI was established in the year 1988. It got a legal status in the year 1992. The SEBI was setup with a fundamental objective "to protect the interest of investors in the securities market. The establishment of SEBI has given a legal framework to the capital market.
- **New Instrument:** Several new financial instruments have come into vogue after 1992. New financial instruments like convertible preference shares, secured premium notes, warrants Etc were introduced.
- **Electronic Transaction:** Due to technological advancement in the last few years. The physical transaction is no more in the paper. The introduction of electronic transactions has resulted in a safer investment. It is encouraging more people to join the capital market.
- **Investors' Protection:** Under the guidelines of SEBI and the central government of India has setup the Investors Education and Protection Fund (IEPF) in 2011. It tries to protect investors from frauds and malpractices.
- **Derivatives Transaction:** From the year 2000, the NSE has introduced the derivatives trading in the equities. These innovative products have given variety for the investment leading to the expansion of the capital market.

Recent Reforms Since the Year 2010

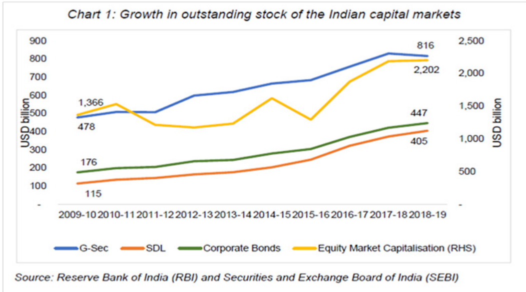
The following are the recent major reforms that are formed to the post-2010 to bring more stability in the Indian capital market.

- **United Payments Interface (UPI):** The UPI payment option for the investors has saved investors and issuer's waiting period of 3 days as with cheque. With an increase in UPI users in India, it is easy for investors to make payments using phones, laptops, and other electronic medium.
- **Creation of FSLRC:** Several committees proposed various reforms to enhance the Indian financial system. The government realized that it is not able to progress without a legal fundamental changes in the financial market. So, the Finance Minister created the "Financial Sector Legislative Reform Commission," chaired by Justice Srikrishna. In March 2011, the committee designed a new legal foundation for Indian finance. The objective of this committee was to construct an effective financial law required for understanding the market failures in the Indian financial market.
- **Modern Monetary Policy:** The Indian government and RBI decided to introduce a modern monetary policy framework with a focus on inflation targeting. The objective of this policy is to maintain price stability. The extensive use of Modern monetary policy by RBI has accumulated surplus liquidity of Rs,5,242 billion on November 25th, 2016.
- **Unified Exchanges:** From October 2018, SEBI has allowed all the stock exchanges to trade in securities and commodity derivatives under a Unified license. The unified license of SEBI has allowed the stock brokers to deal in the securities market to trade in commodity derivatives without setting up a separate entity.

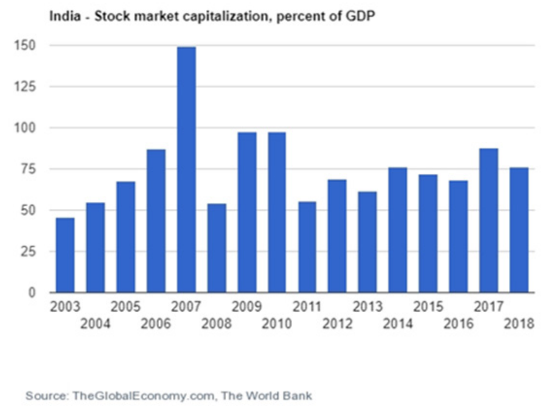
"The integration of stock brokers in equity and commodity derivatives market while having many synergies in terms of trading and settlement mechanism, risk management redressal of investor grievances, etc., would benefit investors, brokers stock exchanges and SEBI." - Ajay Tyagi, Chairman of SEBI

- **Establishment of Insolvency and Bankruptcy Code(IBC):** IBC, 2016, is the bankruptcy law of India that consolidates the existing framework by creating single law for individuals, companies, and partnership firms. IBC was introduced by late Finance minister Arun Jaitley on 28th April 2016. A study has noted that India's Corporate Bonds contribute 17% to the Country's GDP. IBC creates a framework to solve the bankruptcy and insolvency of corporate bonds in India. It has solved more than 500 corporate insolvency cases within three months of the establishment of IBC. The establishment of IBC has bought boosted the confidence of investors.
- **Revision of Issue of Capital and Disclosure Requirements(ICDR):** The ICDR regulation 2009 of SEBI was revised in the year 2018. The SEBI constituted ICDR Committee under the Chairmanship of Mr. PrithviHaldea in June 2017. The ICDR regulation 2018 aims at simplifying the language and regulations of ICDR regulation 2009 to enhance its readability and stability. The key amendments of ICDR regulations of 2018 are Institutional trading platform- regulation 288, Institutional investor [Regulation 2(1)(z)], Fugitive economic offender under section 12 of Fugitive Economic Offender Act, 2018, etc. The New ICDR Regulations particularly emphasis on Disclosure of financial statements of materials subsidiaries,
- **Increased Transparency:** The SEBI and Indian government has increased their focus on the transparency and Corporate Governance of the Board of the listed companies by emphasizing the role of the independent directors. The role of the Board of Directors of a listed company will be evaluated for their performance as fulfilling criteria by the Board of Listed company(2018).
- **Investor Awareness Campaign:** To secure the Indian and Foreign investors, SEBI has started an investor awareness campaign. SEBI has created an official site, and sub domain at http://investor.sebi.gov.in/ under this campaign, workshops, and seminars are conducted by the Investors association, which are recognized by SEBI.
- **Goods and Service Tax:** Implementation of the GST Act has promoted the competitiveness and productivity of Indian companies and has contributed to the growing market.
- **Know Your Customer(KYC):** The Aadhaar based E-KYC and E-Sign facilitated wider market penetration electronically. Fully online process of registration with the capital market and its intermediaries like MF's, Brokers, Portfolio managers, etc ha.ve resulted transparency in the Indian capital market.

Data Analysis and Interpretation



The above figure shows the performance of the various stock of the Indian capital market between the years 2009-2019. It can be concluded that there is continues growth in the stocks of G-Sec, SDL, and Corporate bonds, but there is a fluctuation in equity market capitalizations.



The above bar chart represents the contributions of the Indian stock market to the country's GDP over 15 years. In the year 2007, the Indian stock market has contributed 150 % to the GDP of a country. There was a huge fluctuation in the contribution to GDP.

Major Findings

The major findings of this study are as follows,

- 2017 was the best year for the Indian equity market after 2009. India has gained more than 35% in terms of dollars apart from Hungary and South Korea.
- The Indian capital market surged to $2.29 trillion (46%) in the year 2017.
- Insolvency and Bankruptcy Board of India has closed 586 cases out of 1484 (40%) in the year 2018. Out of 586, 302 cases were closed by the liquidation of the corporates.
- With the recent demonetization, 86% of cash circulation was destroyed. After demonetization, the automobile sector was dipped down by 1.12%, and the average return of private banks was dropped under 0.74%.
- Through the Investors Awareness Program, the SEBI has tapped popular internet and mobile platforms to safeguard the investors from possible frauds. In the fiscal year 2014, SEBI has busted more than 150 cases involving RS 13,000 crore.
- The P/E ratio of NSE and BSE as on December 2018 was 23.5% and 26.2% with a market capitalization of 1,44,48,466 crore and 1,42,79,083 crore respectively.
- The introduction of GST in the Unified market has made the transactions quit smooth across the states. The improved competency led to an increase in GDP.
- India scaled from 100th rank to 77th rank in the Ease of Doing Business Index in 2019.

Conclusion

India's financial market has seen major reforms after the implementation of a new economic policy in 1991. Major reforms like the establishment of SEBI, Credit rating agencies, dematerialization of shares, etc ha.ve bought transparency in the Indian capital market. India being an apparent economic country it requires innovative and productive reforms in the Indian capital market. The innovation in the capital market must aim at the reduction of cost of capital, mitigate of exposure, liquidity management, and it has to attract foreign inflows through foreign institutional investors.

There is a positive co-relation between the capital market and the economic development of a country. The economic development of the country is impossible without qualitative and productive reforms in the Indian capital market. Innovation in the capital market fills the gaps of the untapped market. India has a large market for the securities; a well-developed capital market attracts the Indian as well as foreign investors. Thus, frequent and innovative reforms in the Indian capital market are necessary for the growth and development of the Indian economy.

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