

To Study the Role and Importance of Capital Market in Indian Financial System

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Abstract: The capital market is a vital of the financial system. Capital market provides the support of capitalism to the country. The Indian capital market is also undergoing structural transformation since liberalisation. Further, the consistent reforms in Indian capital market, especially in the secondary market resulting in modern technology and online trading have revolutionized the stock exchange. a well-organized financial System provides Adequate capital formation Through savings, finance and investments. This System may be Viewed as a set of sub-system with so many Elements which are interdependent and interlink with each other. This study aims as understand the Role and Importance of capital market in performing Capital formation Process and contribution towards the effective functioning of Indian Financial System.

Keywords: Capital market, Capital formation process, Investments.

1. Introduction

The Indian capital market has been attracting considerable attention in recent years especially after the opening up of the Indian economy. As a result, several researchers have addressed various issues pertaining to the capital market in India. The capital market is a vital of the financial system. Capital market provides the support of capitalism to the country. The wave of economic reforms initiated by the government has influenced the functioning and governance of the capital market. The Indian capital market is also undergoing structural transformation since liberalisation. The chief aim of the reforms exercise is to improve market efficiency, Further, the consistent reforms in Indian capital market, especially in the secondary market resulting in modern technology and online trading have revolutionized the stock exchange.

Capital market concerned with the industrial security market, government securities markets, and long term loan market. Capital market deals with long term loan market. It supplies long-term and medium term funds. It deals with shares, stocks debentures and bonds. Security dealt in capital markets are long-term securities. It provides a market mechanism for those who have saving and to those who have saving and to those who need funds for productive investments. The capital market aids economic growth by moiling the savings of the economic sector and directing the same towards channels of productive uses. Companies turn to them to raise funds needed to finance for the

infrastructure facilities and corporate activities. The capital market is source of income for investors. When stock of other financial assets rise in value, investors become wealthier, often they spend some of this additional wealth boost sales and promoting economic growth. In the post-reform period, India stands as an economy that is rapidly – modernising, globalising and growing. India is poised as a fast growing emerging market economy in the face of the current turmoil and pessimism. The resilience shown by India comes from the strong macroeconomic fundamentals.

2. Literature Review of Capital Markets

- Subir Gokarn (1996) in his research paper “Indian Capital Market Reforms, 1992-96 An evaluation” as used a conceptual framework that draws on the thought of legislation on the one hand and the brand new political monetary system on the other to make an evaluation.
- Anand Pandey (2003) in his thesis entitled "effectively of Indian Stock Market" made an analysis of three favoured inventory indices to test the effectively level and random walk nature of Indian equity market.
- Selvam M (2008) in his be trained paper “effectively of Indian Capital Market to react safely to the announcement of quarterly gains: A learn in Capital goods enterprise” has recounted that an effective and developed-in capital market, is a predominant infrastructure that facilitates capital formation.
- Jumba Shelly (2010) in her file “A mission on Capital Market” has ascertained that the efficiency of the enterprise’s or enterprise positive factors is without doubt one of the most explanations which have direct affect or result on capital market in a country.
- Ahuja Juhi (2012) in her study paper entitled “Indian Capital Market: a summary with Its development” has examined that there was a paradigm shift in Indian capital market.
- "Assessing the role of Indian Capital Market" issued by Pankaj Tiwari (Research Scholar uttrakhand Technological university) in 2016 has made lot on Capital market.

- Research on Indian capital market A review issued by Samir K Barua, V Raghunathan and Jayanth R Varma has given remarkable information regarding Indian Capital Markets.
- A research paper issued " the Study of structure and function of capital market in India" by Muhammad rubani (kalinga university) Provides useful Information on Indian Capital Markets.

3. Objective of Research

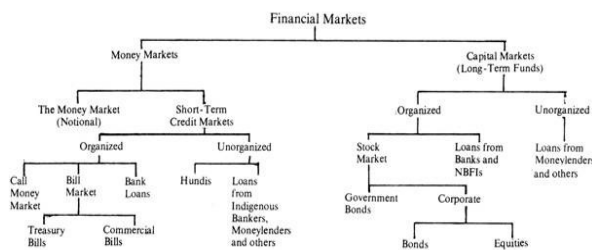
- 1) To analyse the Role of Capital markets in capital formation process in India.
- 2) To understand the importance of Capital market in Indian Economy.

4. Research Methodology

It is always important to be critical of the information presented in sources, especially since the material might have been gathered to address a different problem area. Moreover, many secondary sources do not clearly describe issues such as the purpose of a study, how the data has been gathered, analysed and interpreted making it difficult for the researcher to assess their usefulness. In order to address this problem, I have tried to triangulate the secondary data by using numerous independent sources.

The information about the problem is collected from the Research Journals, Trade Magazines, Annual Reports of Banks and the Internet. For evaluating "Role and Importance of capital market in Indian Financial System" have focused on as recent material as possible. In order to get access to the latest developments in this area I have used a number of articles published in academic journals and trade magazines. We have also used secondary information from Internet based discussion forums.

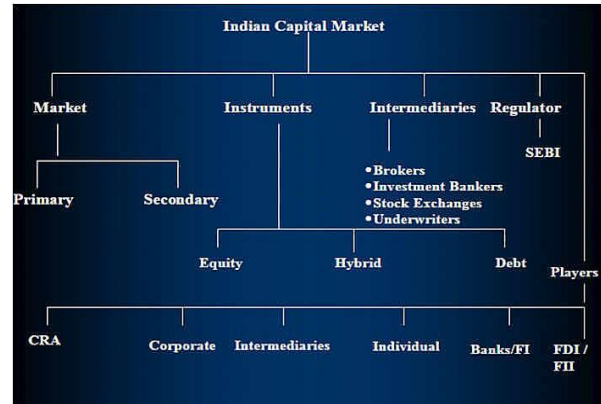
5. Structure of Indian Financial System



A. Structure of Capital markets

Capital market defined as "The market for relatively long-term financial instruments. It consists of gilt edged market and the industrial securities market. The gilt edged market refers to the market for government and semi-government securities backed by the RBI. The securities traded in this market are stable in value and are much sought after by banks and other institutions".

capital market in India consists of the following structure:



6. Capital Market Participants

The supply in this market comes from savings from different sectors of the economy. These savings accrue from the following sources:

1. Individuals.
2. Corporate.
3. Governments.
4. Foreign countries.
5. Banks.
6. Provident Funds.
7. Financial Institutions.

All these entities contribute to savings in the economy part of these savings naturally flow in the capital markets. Individuals invest in these markets directly by investing in shares or debentures of companies through bond issues of public sector units or through mutual funds. Corporate who have more savings than their requirement for funds also are participants in this market.

7. Capital Market Instruments

Financial instruments that are used for raising capital resources in the capital market are known as Capital Market Instruments". The various capital market instruments used by corporate entities for raising resources are as follows:

1. Preference shares
2. Equity shares
3. Non-voting equity shares
4. Cumulative convertible preference shares
5. Company fixed deposits
6. Warrants
7. Debentures
8. Bonds
9. Mutual fund
10. Derivatives
11. Commodities
12. Currency exchange

8. Types of capital market

The Capital Market comprises the primary capital market and secondary capital market.

A. Primary Capital Market

The primary capital market is a market for new or fresh issues. It deals to the long-term flow of fund from the surplus sector to the government and corporate sector through primary issues and to banks and non-bank financial intermediary secondary issues, primary issues of the corporate sector lead to capital formation. The Primary market for securities is the new issues market which brings together the “supply and demand” or “sources and uses” for new capital funds.

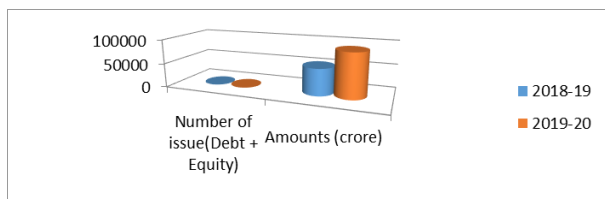
A follow on public offering/Further Issue is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document.

Table 1

Capital raised from the primary market through public Issue

Year	Number of issue (Debt + Equity)	Amounts (crore)
2018-19	158	54,903
2019-20	109	91,366

Source: SEBI



B. Secondary Capital Market

The secondary market also called "aftermarket" is the financial market for trading of securities that have already been issued in its initial private or public offering. Stock exchanges are examples of secondary markets. Alternatively, secondary market can refer to the market for any kind of used goods. Secondary market is also called share market. Share market includes exchange of those securities which are already sold and listed in the Primary market. Any transaction in the share market can be executed by the members of the exchange keeping in mind the rules and regulations of the SEBI. The Indian secondary capital market classifies into two ways as follow:

- 1) Secondary capital market for corporate and financial intermediaries
- 2) Secondary capital market for government securities and public sector bonds.

Following exchanges are Regional Stock Exchanges.

1. Bombay Stock Exchange
2. National Stock Exchange
3. Over The Counter Stock Exchange
4. Kolkata Stock Exchange
5. Uttar Pradesh Stock Exchange
6. Ahmadabad Stock Exchange

7. Delhi Stock Exchange
8. Pune Stock Exchange
9. Ludhiana Stock Exchange
10. Bangalore Stock Exchange
11. Hyderabad Stock Exchange
12. Saurashtra and Kachchh Stock Exchange
13. Chennai Stock Exchange
14. Madhya Pradesh Stock Exchange
15. Vadodara Stock Exchange
16. Guwahati Stock Exchange
17. Bhubaneswar Stock Exchange
18. Cochin Stock Exchange
19. Magadha Stock Exchange
20. Coimbatore Stock Exchange
21. Jaipur Stock Exchange
22. Mangalore Stock Exchange

Table 2
 Snapshot of Indian Capital Market

Description	March 2020
<i>Index in Equity Market</i>	
Sensex	29,468
Nifty 50	8,598
Nifty 500	6,997
BSE 500	11,098
Nifty IT	19,144
Nifty Bank	12,764
BSE Healthcare	12,149
BSE FMCG	10,255
<i>Market Capitalisation (in crore)</i>	
BSE	1,13,48,757
NSE	1,12,43,112
<i>P/E Ratio</i>	
BSE	17.8
NSE	19.4
<i>No of Listed Companies</i>	
BSE	5,377
NSE	1,734
<i>Gross turn over in Equity Segment (crore)</i>	
BSE	81,972
NSE	10,06,249
<i>Gross turn over in Equity Derivatives Segment (crore)</i>	
BSE	1,09,021
NSE	2,47,46,498
<i>Gross Turnover in Currency Derivatives Segment (crore)</i>	
BSE	4,71,806
NSE	12,31,222
MSEI	6,404
<i>Gross Turnover in Interest Rate Derivatives Segment (crore)</i>	
BSE	11,043
NSE	33,798

Sources: SEBI, NSE, BSE, MSEI

9. Role of Capital market

Capital market plays an extremely important role in promoting and sustaining the growth of an economy. It is an important and efficient Nexus to channel and mobilize funds to enterprises, and provide an effective source of investment in the economy. It plays a critical role in mobilizing savings for investment in productive assets, with a view to enhancing a country's long-term growth prospects.

A. Capital Arrangement

The capital market promotes capital formation in the country. Rate of capital formation depends upon savings in the country. Though the banks mobilize savings, they are not adequate to match the requirements of the industrial sector.

B. Encouragement to Saving and Investments

With the development of capital, market, the banking and non-banking institutions provide facilities, which encourage people to save more. The capital market facilitates lending to the businessmen and the government and thus encourages investment. It provides facilities through banks and nonbank financial institutions.

C. Economic growth

Capital market smooth the progress of the growth of the industrial sector as well as other sectors of the economy. The main purpose of the capital market is to transfer resources from masses to the industrial sector. The capital market makes it possible to lend funds to various projects, both in the private as well as public sector.

D. Development of Backward Areas

The capital markets provide funds for the projects in backward areas. This facilitates the economic development of backward areas.

E. Generates Employment

Capital market generates employment in the country:

1. Direct employment in the capital markets such as stock markets, financial institutions etc.
2. Indirect employment in all sectors of the economy, because of the funds provided for developmental projects.

F. Long Term Capital to Industrial Sector

The capital market provides a stable long-term capital for the companies. Once, the funds are collected through issues, the money remains with the company.

G. Generation of Foreign Capital

The capital market makes possible to generate foreign capital. Indian firms are able to generate capital from overseas markets by way of bonds and other securities.

H. Developing Role of Financial Institutions

The various agencies of capital market such as industrial financial corporation of India (IFCI), state finance corporations (SFC), industrial development bank of India (IDBI), industrial credit and investment corporation of India (ICICI), unit trust of India (UTI), life insurance corporation of India (LIC), etc.

I. Investment Opportunities

Capital markets provide excellent investment opportunities to the members of the public. The public can have alternative source of investment i.e. In bonds, shares and debentures.

J. Regulations of the Capital Market

Securities and Exchange Board of India (SEBI) was set up as an administrative arrangement in 1988. In 1992, the SEBI Act was enacted, which gave statutory status to SEBI. It mandates SEBI to perform a dual function: investor protection through regulation of the securities market and fostering the development of this market. SEBI has been vested most of the functions and powers under the Securities Contract Regulation (SCR) Act, which brought stock exchanges, their members, as well as contracts in securities which could be traded under the regulations of the Ministry of Finance. It has also been delegated certain powers under the Companies Act. In addition to registering and regulating intermediaries, service providers, mutual funds, collective investment schemes, venture capital funds and takeovers, SEBI is also vested with the power to issue directives to any person(s) related to the securities market or to companies in areas of issue of capital, transfer of securities and disclosures. It also has powers to inspect books and records, suspend registered entities and cancel registration.

K. Depository System of India

A Depository Participant (DP) is described as an agent of the depository. They are the intermediaries between the depository and the investors. The relationship between the DPs and the depository is governed by an agreement made between the two under the Depositories Act, 1996. In a strictly legal sense, a DP is an entity who is registered as such with SEBI under the provisions of the SEBI Act. As per the provisions of this Act, a DP can offer depository related services only after obtaining a certificate of registration from SEBI. A depository is an organization which assists in the allotment and transfer of securities.

1) National Securities Depository LTD. (NSDL)

The NSDL, the first depository in India which has been promoted by three premier institutions in India, i.e. Industrial Development Bank of India, UTI and NSE. The NSDL started from November 8 1996. The NSDL is a public limited company framed under the companies Act 1956 with a paid up capital of Rs. 105 crore.

2) Central Depository Services LTD (CDSL)

CDSL was promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank. CDSL was set up with the objective of providing convenient, dependable and secure depository services at affordable cost to all market participants. It commenced its operation on march 22 1999. BSE has 45% stake in CDSL while the bank have a 55% stake.

3) The Bulls

A bull market is when everything in the economy is large, people are finding jobs, GDP is rising, and stocks are rising. Possessions are just plain rosy! Picking stocks during a bull market is easier because everything is going up. Bull markets cannot last forever though, and sometimes they can lead to

dangerous situations if stocks become overvalued. If a person is an optimist, believing that stocks will go up, he is called a bull and said to have a bullish outlook.

4) *The Bears*

A bear market is when the economy is bad, recession is looming, and stock prices are falling. Bear markets make it tough for investors to pick profitable stocks. One solution to this is to make money when stocks are falling using a technique called short selling. Another strategy is to wait on the sidelines until you feel that the bear market is nearing its end and only then start buying in anticipation of a bull market. If a person is a pessimist, believing that stocks are going to drop, he is called a bear and said to have a bearish outlook.

10. Conclusion

In the Recent past Indian Financial System has Undergone drastic changes and Invented many new Channels of Financial Sub system through the process of Financial Reforms as a result Capital Formation process has increased in the economy and new investment has come in India from both Domestic sources and International sources and it has positive Impact on Economic growth(GDP) of India, India now Considered one of the fastest growing economy in the World Due to strong capital market, India is fast becoming engines for future growth. Indian having a most excellent economy in the world in spite of that market performance always highly volatile, India is facing problems of Global Crisis, Trade war, and recession etc. Another problem is the confidence of serious investors which has weakened because of issues like Corporate Governance and such investors are not easy to convince. After all the governance makes or breaks a corporate and investors trust is bound to lose. In the long term future of Indian stock exchange is undoubtedly very bright and rising. There are many factors influenced on Indian capital market like as macro-economic factors, global stock market performance, foreign investments, government and politic interferences, behaviour of investors etc.

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