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INDIAN CAPITAL MARKET: A RETROSPECT AND ITS PROSPECTS

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Introduction

The process of economic development requires, as one of its accompanying structural changes, the development of Capital Market. The Capital Market should help in sustained national industrial development. Indian Capital Market after liberalization has been experiencing metamorphic changes for the last one decade. The competition has become very intense and real, thus affecting the industrial sector and financial services industry. As a result of this, in the area of Capital Market, the companies accessing Capital Markets have introduced more and more new financial instruments.

Capital Market Operations

Capital Market Operations consist mainly of primary market operations and secondary market operations. Primary market or new issue market deals with the issue of new securities to the investors and facilitates the corporate sector in raising funds. The office of the Controller of Capital Issue (CCI) and the Capital Issue (Control) Act - 1947 have been abolished in the year 1992. As a result, the capital market has been completely freed and now there is greater freedom for corporate concerns to decide on the nature of issues, size of the issues and other various terms relating to the issue. As a result the market saw a plethora of issues. Hefty premiums were charged by the issuing companies, as there was no restriction on fixing premiums. Many fly–by-night companies also accessed capital market. But in many cases investors lost heavily as the post issue listings were quoted far below issue prices. It is estimated that around 1000 companies which came out with issues and collected about Rs.3000 crores in 1995 and 1996 have disappeared completely.

Trend of Development of Primary Market

Resources are mobilization from the primary market by various agencies like public sector undertakings, public limited companies, banks and financial institutions through the issue of various financial securities. Also large organizations mobilize funds from International capital market. When liberalization measures were started in 1992, Government realized that corporate sector would require large amounts of funds, which could not be mobilized from domestic markets alone. Hence Indian companies were permitted to raise funds from global market through the issue of Global Depository Receipts or American Depository Receipts.

It can be seen from **Table 1**, that aggregate mobilization in the primary market amounted to Rs.80,025 crores during the year 2003 – 04. It has increased by 46% compared with the year 1998-99. The main reason for increase during the year 2003-04 was large number of public issues by public sector undertakings (PSUs) especially by ONGC and it has collected 10,695 Crores

(54%) from the market during the year 2003-04. Issue of corporate securities include both domestic issues and Euro issues. The trend of Euro issues was also not uniform, except during the year 2001 – 02 and 2003 when increasing trend was witnessed.

Table - 1
Resources Mobalisation from the Primary Market

(Rs.in Crore)

Capital	1998 – 99	1999 – 00	2000 – 01	2001 – 02	2002 – 03	2003 – 04
Public Limited Companies	5013	5153	4890	5692	1878	3210
Public Sector Companies BondsPSU Equity	71	200	215	942	2173	18522
Banks and Finacial Institution	4352	2551	1472	1069	2989	3880
Private placement Both Private and Public sector	49679	61259	67836	64949	66948	59215
Total Domestics Issues	59115	69163	74413	73003	73988	84927
Euro Issues	1148	3467	4197	2342	3428	3098
Total Capital Issue	**60263**	**72630**	**78610**	**75345**	**77416**	**88025**

Source: RBI Annual Report.

Net Resources Mobilisation by Mutual Funds

Table 2 shows that the resources mobilization by mutual funds (Net of redemptions) increased sharply to Rs.47,684 crores during 2003 – 04 from Rs.3610 during the year 1998-99 due to mainly a sharp rise in resources mobilised by private sector mutual funds to Rs.42873 crore from Rs.2518 crore. UTI also experienced net inflow of funds.

Table -2
Net resources mobalisation by mutual funds

(NET OF REDEMPTIONS) (Rs.In Crore)

Year	UTI	Public Sector Mutual Fund	Private Sector Mutual Fund	Total
1998 – 99	170	922	2518	3610
1999 – 00	4548	513	14892	19953
2000 – 01	1999	2859	8480	13339
2001 – 02	-7284	1474	12947	7137
2002 – 03	-9434	1988	12026	4580
2003 – 04	1050	3761	42873	47684

Source : RBI Annual Report

Resources Raised by way of Bonds/Debentures by Select All India FIs

Total resources mobilized by way of issue of rupee bonds/debentures (including private placement and public issue) by select All India FIs rose sharply during 2003-04 as they took advantage of low interest rate. IDBI collected more funds year after year compared with other FIs. Some FIs such as IFCI and IIBI were not permitted to raise fresh borrowings from the markets due to their deteriorating financial position.

Secondary Market Operations

We can understand secondary market operations from the development of Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)

Trend of Development in BSE

Even though there are 23 stock exchanges in India, increase in turnover took place mostly at the BSE and NSE in the country. Table – 3 shows the trend of development in BSE. Number of companies listed in the stock exchange has been decreasing when compared with 1998-99, due to delisting of companies from the stock exchange. Market Capitalization of BSE during the year 1998-99 was Rs.542942 crore but it was Rs.1201207 crore in 2003- 2004. It shows that market capitalization of BSE has increased by 121% during 2003 – 04 and Market turnover of BSE also increased by 61%.

Table - 3

Trend of development in BSE

Rs.in Crore

Year	No. of Companies Listed	Market Capitalization	Market Turnover	Index Level
1998 - 99	5848	542942	311999	3739 . 96
1999 - 00	5889	912842	685028	5001 . 28
2000 - 01	5955	571553	1000031	3604 . 38
2001 - 02	5782	612224	307292	3469 . 00
2002 - 03	5650	572198	314073	3049 . 00
2003 – 04	5528	1201207	502620	5591 . 00

Source : RBI Annual Report.

Trend of Development of NSE

Table-4 shows that number of companies listed at NSE have witnessed a steadily increasing trend when compared with the year 2003-04. Market capitalization and market turnover were doubled when compared with 2003-04. NSE market index (Nifty) increased sharply by 85% when compared with 2003-04.

Table 4

Trend of development in NSE

Rs.In Crore

Year	No. of Companies Listed	Market Capitalization	Market Turnover	Index Level
1998 – 99	645	335209	414474	1078.10
1999 – 00	673	850880	839051	1528.45
2000 – 01	785	543575	1339511	1148.20
2001 – 02	793	636861	513167	1130.00
2002 – 03	673	537133	617989	978.00
2003 – 04	909	1120976	1099535	1772.00

Source : RBI Annual Report

Trend in Institution Investment

At present FIIs exercise full control over stock markets in India. Table –5 shows that FIIs invested more than Rs.39959 crores in equity shares during the year 2003-04 and upto December then FIIs invested 24,463.10 Crores. Total equity investments by FIIs till December 10 recorded Rs.1,25,158 crores and total debt investment recorded Rs.7275 crores. Net equity investment by FIIs has increased as much as 1480.70% during the year 2003-2004 when compared with the year 2002-03. FIIs investment in debt instruments also increased sharply. FIIs continue to be strong buyers in equities. Due to FIIs heavy investment in the secondary market operations, BSE Sensex touched 6119.55 points on 9th January 2004 from the low of 3049 end of March 2003.It has increased 100% from March 2003. They however, turned net sellers in equities in May 2004 for the first time in 18 months in line with their operations in secondary market. Sensex (4,227.50 points) lost 16.6% on 17th May 2004,due to FIIs selling .It was caused mainly by uncertainty relating to the formation of new Government after General Election. FIIs again turned net buyers in equity and as a result BSE Sensex touched 6335.14 points by 2nd December 2004, an increase of 2107.64 points (49.86%) compared with the month of May 2004.

Table -5

Trends in Institutional Investments

Rs.In Crore

	FIIs			Mutual Fund		
Year	Net Investment In Equity	Net Investment In Debts	Cumulative Investment	Net Investment In Equity	Net Investment In Debts	Cumlative Investment
2000-01	10122	- 46	10078	-2767.00	5023.00	2256.00
2001-02	8067	685	8752	-3796.00	10959.00	7163.00
2002-03	2528	182	2710	-2067.00	12604.00	10537.00
2003-04	39959	5805	45764	1308.00	22701.00	24009.00

Source : RBI Annual Report

Risk Factor in Allowing Hedge Funds in Capital Market

SEBI had proposed guidelines for hedge funds including eligibility criteria for registering as foreign investors in India. The capital market watchdog had favoured entry of hedge funds with at least 20% of the investors being strong institutional placements of high net worth investors managed by professional advisors. These funds, which invest in stocks, bonds and currencies, are unregulated. They seek high returns while investing in relatively high-risk assets.

So far, hedge funds have managed to buy into equities here through the participatory notes (PN) route. They are reckoned to have invested over $2 billions through this route so far. SEBI has however, already blocked reckless issue of fresh PNs to HFs. Only those HFs that are registered with regulators in other capital markets around the globe can tap the PN route to invest in Indian stocks. Participatory notes (PN) are offshore derivative instruments based on underlying Indian securities issued by FIIs or their sub-accounts. PNs help investors who subscribe to them to conceal their identities and transact in the Indian market. In the 2001 securities scam, SEBI had expressed suspicion about some Indian promoters having purchased shares of their own companies through PNs. For long the government and regulators have been wary of hedge funds, especially their source of funds. The apprehension about hedge funds centers around routing of hot money into the country. Such flows could also move out swiftly which could destabilize the market. While the question mark over the source of funds could have been a major factor in influencing the decisions not to let hedge funds have a free run, the surge of capital inflows over the last few weeks could have also weighed heavily in the minds of the committee. With FIIs having poured in $1 billion in the Indian stock markets in just one month, allowing hedge funds to register would have only fuelled such inflows

Recent Development in Indian Stock Market

The Nineties have been a period of vast reforms in India's stock market. Innovative initiatives like screen based trading and establishment of National Stock Exchange (NSE) took place in the first half of this decade. Such developments continued in the later half of the decade also which placed the stock market at the forefront of modern capital markets of the world. Recent development in capital market includes; depository services, compulsory rolling settlement, screen based trading, and derivatives trading.

Indian Depository Receipts – IDRs

In terms of the Companies (Issue of Indian Depository Receipts-IDRs). Rules, 2004 notified by the Government on February 23,2004, a company incorporated outside India can issue IDRs subject to the following conditions: i. The pre - issue paid-up capital and free reserves of the issuing company should be atleast US $ 500 million during the preceding three financial years; ii. the company has been making profits for atleast five years preceding the issue and has been declaring dividend of not less than 10 per cent each year in this period; and iii. The pre-issue debt-equity ratio is not more than 2:1. The issuing company may or may not have established any place of business in India. The issuing company would also have to fulfil the eligibility criteria stipulated by the SEBI and obtained necessary approvals from local authorities. IDRs will be listed on one or more recognized stock exchanges having nation wide trading terminals in India and may be purchased, possessed and freely transferred by persons resident in India as defined under the Foreign Exchange Management Act, 1999 (FEMA). IDRs can be transferred and redeemed, subject to the provisions of the FEMA.

Conclusion

The Indian Capital Market has undergone a sea change in the post liberalization era. More particularly, the stock exchanges have witnessed a spurt of activities with increase in number of transactions and increase in market turnover. Even though more volatility in the stock market indices of market capitalization and market turnover record an increasing trend, these were mainly due to Government initiation towards liberalization of the economy and active participation of foreign institutional investors (FIIs) and mutual funds. To operate capital market more efficiently, all the players of the capital market such as FIs, FIIs, mutual funds, merchant bankers, stock holding corporations, depository participants and members of stock exchanges (stock brokers) need to accept discipline in their activities and transparency in their transaction. Towards this end, Government of India must protect Indian investors from unscrupulous market players by giving more powers to RBI & SEBI. A commitment to economic reforms by a stable political system will enhance liberalization prospects further. Therefore, need of the hour is not to have any political bottleneck which may derail this endeavor.

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