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## An analysis of Indian Capital Market

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### Abstract

*The Indian capital market has witnessed structural changes during the past one decade as the result of ongoing economic reforms initiated by the Government of India since 1991 in the wake of Liberalization, Privatization and Globalization. Investment in securities of capital market can be made through primary market or secondary market. In the primary market, corporate entities offer new securities directly to the investors and mobilize the funds needed for their development. The secondary market provides continuous liquidity to the securities by trading them in the stock exchanges. The present paper focuses the development of Indian capital market.*

### Introduction

The economic development of a country depends mainly on the sustained growth of the industrial and service sectors. Investment in securities of capital market can be made through primary market or secondary market. In the primary market, corporate entities offer new securities directly to the investors and mobilize the funds needed for their development. The secondary market provides continuous liquidity to the securities by trading them in the stock exchanges. The investors can buy or sell the existing securities at the prevailing market prices in the stock exchange through stockbrokers. The Indian securities market has witnessed major transformation and structural changes during the past one decade as the result of ongoing economic reforms initiated by the Government of India since 1991 in the wake of Liberalization, Privatization and Globalization (LPG). These reforms have been aimed at improving market efficiency, enhancing

transparency, checking unfair trade practices and bringing the Indian capital market up to international standards. Several changes have also taken place in the operation of secondary markets such as automated on-line trading on stock exchanges, enabling trading terminals of NSE and BSE to be available across the country, reduction in the settlement period, opening of stock markets to Foreign Institutional Investors etc.. This paper is divided into two sections as below.

### Section - A: Evolution of the Indian Capital Market

#### Section - B: An Analysis of Pattern of Resource Mobilization in Primary Market

#### Section - A

#### Evolution of the Indian Capital Market

The history of Indian capital market can be traced back to the 19<sup>th</sup> century. Even in medieval times, trading in hundies was common amongst the trading communities. But the first instance of organized trading was related to trading in securities of East India Company in the 19<sup>th</sup> century. In 1887, an indenture was executed and the Bombay Stock Exchange (BSE) was formally established as a society named, Native Share and Stock Brokers Association. The effects of Industrial Revolution began to be felt in India by the dawn of 20<sup>th</sup> century.

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In 1991, Government of India launched a policy of liberalization and globalization of the Indian economy in general and of the financial sector in particular. It covered measures like abolition of industrial licensing except for a short list of industries, reduced reservation for public sector and abolition of assets ceiling for companies under Monopolies and Restrictive Trade Practices Act to accommodate 51 percent foreign ownership of equity, allowing Foreign Institutional Investors (FIIs) to invest in securities in primary and secondary markets and permitting Indian companies to raise capital abroad through the issue of Global Depository Receipts (GDRs) or American Depository Receipts (ADRs). Subsequently, the securities scam was unearthed in June 1992. The scam had a paralyzing effect on the operation of stock exchanges. It shattered the confidence of investors in the capital market and money market. The parliamentary committee, which probed into the scam, recommended that SEBI should examine trading practices and systems in the stock exchanges and should effect necessary change. Also the Narasimham Committee and Estimates Committee of the Parliament underscored the urgency of providing sufficient legal and administrative safeguards to protect small and inexperienced investors so as to minimize the risk of exploitation by unscrupulous elements and fly-by-night operators. Consequently SEBI, which was formed in 1988 as a non-statutory body, was endowed with statutory powers through the enactment of SEBI Act, 1992.

### Reforms in Securities Market

The authorities have been promoting the securities market as an engine of growth to provide an alternative but efficient means of resource mobilization. They have effected fundamental institutional changes in the market design in the last decade, resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety. They have ushered in as much as ten special legislative

interventions during the last decade to support the reforms in the securities market, which is the most reformed sector in the Indian economy today. It is the first in many respects in the Indian economy and a marvel in the financial system in the country. It also provided bench marks for many securities market abroad also. It gave birth to the first ever-demutualised stock exchange in the world. It used satellite based communications technology for securities transactions for the first time. It started real time on-line position monitoring of brokers. It is the first to introduce the straight through processing in securities transactions. It is the first major market to have implemented T+2 rolling settlement. These have yielded considerable benefits to the market as evidenced by the growth in the volume of securities transactions, increasing globalization of the Indian market, reduction in transaction costs and the level of compliance with international standards. All these have earned for the Indian securities market a place of respect amongst the community of securities markets in the world.

### Development of Securities Market in India

**Table - 1** depicts the registered market intermediaries in securities market from 1993 to 2006. According to the Table cited above, there were 21 cash markets in the year 1993 and it increased to 22 in 1994, and continued to increase up to 1998. Again the number of cash markets intermediaries increased to 23 in 1999. The same level continued till 2004. Again it falls into 22 till 2006. In the case of derivatives market, it was just 2 from 2000 to 2006. There were 143 corporate brokers in cash segment in the year 1994, followed by 616 (1995) and 1917 (1996). The highest number of corporate brokers of 3961 was recorded in 2006. The number of mutual fund intermediaries was 12 in 1994 and it went up to 41 in the year of 1999. But in 2006, it went down to 38 intermediaries in mutual fund. The over all performance of the market intermediaries showed that the highest number of brokers in cash segment was recorded from 1993 to 2003. From

**Table - 1**  
**Registered Market Intermediaries in Securities Market from 1993 to 2006**

Market Intermediaries	As on 31 <sup>st</sup> March													
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Stock Exchanges (Cash Market)	21	22	22	22	22	22	23	23	23	23	23	23	22	22
Stock Exchanges (Derivatives Market)	NA	NA	NA	NA	NA	NA	NA	2	2	2	2	2	2	2
Brokers (Cash Segment)	5290	6413	6711	8476	8867	9005	9069	9192	9782	9687	9519	9368	9128	9335
Corporate Brokers (Cash segment)	NA	143	616	1917	2360	2976	3173	3316	3808	3862	3835	3746	3733	3961
Sub-brokers (Cash Segment)	NA	202	876	NA	1798	3760	4589	5675	9957	12208	13291	12815	13684	23479
Brokers (Derivative)	NA	NA	NA	NA	NA	NA	NA	NA	519	705	795	829	994	1120
Foreign Institutional Investors	18	158	308	367	439	496	450	506	527	490	502	540	685	882
Custodians	NA	NA	NA	NA	NA	NA	NA	15	14	12	11	11	11	11
Depositories	NA	NA	NA	NA	1	1	2	2	2	2	2	2	2	2
Depository Participants	NA	NA	NA	NA	28	52	96	191	335	380	438	431	477	526
Merchant Bankers	74	422	790	1012	1163	802	415	186	233	145	124	123	128	130
Bankers to an Issue	NA	NA	70	77	80	72	66	68	69	68	67	55	59	60
Underwriters	NA	NA	36	40	38	43	17	42	57	54	43	47	59	57
Debenture Trustees	NA	NA	20	23	27	32	34	38	37	40	35	34	35	32
Credit Rating Agencies	NA	NA	NA	NA	NA	NA	NA	4	4	4	4	4	4	4
Venture Capital Funds	NA	NA	NA	NA	NA	NA	NA	NA	35	34	43	45	50	80
Foreign Venture Capital Investors	NA	NA	NA	NA	NA	NA	NA	NA	1	2	6	9	14	39
Registrars to an Issue & Share Transfer Agents	NA	100	264	334	386	334	251	242	186	161	143	78	83	83
Portfolio Managers	28	40	61	13	16	16	18	23	39	47	54	60	84	132
Mutual Funds	NA	12	22	27	37	38	41	38	39	38	38	37	39	38
Collective Investment Schemes	NA	NA	NA	NA	NA	NA	NA	0	0	0	0	0	0	0
Approved Intermediaries (Stock Lending Schemes)	NA	NA	NA	NA	1	1	4	6	8	10	4	3	3	3

Source: www.sebi.gov.in

NA: Not Available.

**Table-2**  
**Secondary Market- Selected Indicators**

(Amount in Rs.mn)

At the End of Financial Year			Capital Market Segment of Stock Exchanges						Turnover of Non-Repo Govt. Securities		Turn over of Derivatives Segment of Exchanges
	No of Brokers	No of Listed Companies	S&P CNX Nifty	Sen sex	Market Capitalisation	Market Capitalisation Ratio (%)	Turn over	Turn over Ratio (%)	On WDM Segment of NSE	On SGL	
1990-91	-	6229	366.45	1167.97	1102790	20.6	-	-	-	-	-
1991-92	-	6480	1261.65	4285.00	3541060	57.4	-	-	-	-	-
1992-93	-	6925	660.51	2280.52	2287800	32.4	-	-	-	-	-
1993-94	-	7811	1177.11	3778.99	4000770	45.6	2037030	50.9	-	-	-
1994-95	6711	9077	990.24	3260.96	4733490	45.6	1629050	34.4	-	-	-
1995-96	8476	9100	985.30	3366.61	5722570	47.0	2273680	39.7	92433	295300	-
1996-97	8867	9890	968.85	3360.89	4883320	34.6	6461160	132.3	381023	939210	-
1997-98	9005	9833	1116.65	3892.75	5898160	37.7	9086810	154.1	975152	1610900	-
1998-99	9069	9877	1078.05	3739.96	5740640	34.1	10233820	178.3	904158	1875310	-
1999-00	9192	9871	1528.45	5001.28	11926300	84.7	20670310	173.3	2915915	4564910	-
2000-01	9782	9954	1148.20	3604.38	7688630	54.5	28809900	374.7	4124958	5721456	40180
2001-02	9687	9644	1129.55	3469.35	7492480	36.4	8958180	119.6	9269955	12119658	1038480
2002-03	9519	9413	978.20	3048.72	6319212	28.5	9689093	153.3	10305497	13923834	423333
2003-04	9368	-	1771.90	5590.60	13187953	52.3	16204977	122.9	12741190	17013632	21422690
2004-05	9128	-	2035.65	6492.82	16984280	54.4	16668960	98.1	8493250	12608667	25641269
2005-06	9335	-	3402.55	11280.00	30221900	85.6	23901030	79.1	4508016	7080147	48242590
2006-07	9443	-	3821.55	13072.10	35488081	86.0	29014715	81.8	2053237	3982988	74152780

Source: www.nseindia.cor

Table-3  
Growth and Distribution of Turnover on Stock Exchanges

Sl. No.	Stock Exchanges	Year of Establishment	1994-95	1995-96	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
1	NSE	1992	85090	800090	4811970	5198520	11432680	17704580	15622830	21265445	45462793	45744186	68693315	95206640
2	Mumbai	1875	677480	500640	2073830	3119990	6850282	10016190	3093156	3165516	5146730	5357913	8160830	10167917
3	Calcutta	1908	528720	621280	1787780	1717804	3571655	3550354	270747	65399	19275	27150	28000	6940
4	Delhi	1947	90827	100760	678400	517593	932889	838711	58280	111	34	0	0	0
5	Ahmedabad	1984	56508	87860	307710	297342	375656	540352	148435	154586	45445	80	0	0
6	Uttar Pradesh		78230	23730	153900	186267	240478	247467	252373	147634	117510	53430	14860	7990
7	Ludhiana	1983	24880	48490	83150	59779	77405	97322	8566	-	-	0	0	0
8	Pune	1982	36720	70710	86240	74528	60868	61705	11710	18	-	3	0	0
9	Bangalore	1957	7120	8900	86360	67790	111474	60328	703	-	1	0	0	0
10	Hyderabad	1943	13752	12850	18600	12759	12365	9778	413	46	20	140	890	920
11	ICSE		-	-	-	7	5452	2331	554	648	1	0	0	0
12	Cochin	1978	5970	18030	17830	7730	-	1866	-	-	-	0	0	0
13	OCTE1	1989	3650	2180	1250	1422	35879	1259	38	1	158	0	0.1	0
14	Madras	1908	30327	-	12280	3696	2502	1092	241	-	1009	270	50	12
15	Madhya Pradesh		1182	2040	10	9	97	24	235	-	-	0	0	0
16	Magadh	1986	7968	16290	3230	-	80	16	-	5	1	0	910	0
17	Vadodara	1990	16210	12590	45760	17491	1593	9	101	25	1	0	0	0
18	Gauhati	1984	2853	6190	200	302	-	-	1	1	-	0	0	0
19	Bhubaneshwar	1989	1434	2260	2020	770	701	-	-	-	-	0	0	0
20	Coimbatore	1991	13095	25030	21360	3947	388	-	266	-	-	0	0	0
21	Jaipur	1983-84	8786	10470	4310	648	21	-	-	-	-	0	0	0
22	Mangalore	1985	615	390	3080	112	1	-	-	-	-	-	-	-
23	SKSE	1989	5447	5640	170	-	-	-	-	-	-	0	0	0
	Total		1696864	2376420	10199440	11288506	23712466	33133385	19468650	24799434	50792977	51183172	76898855	105390419

Note: Turnover means total value of transactions of securities in all market segments of an Exchange. For NSE, all three segments Viz. CM, F&O and WDM and BSE, two segments Viz. CM and F&O are included.

Source: www.nseindia.com

guidelines issued from time to time. SEBI also promotes self-regulatory organizations.

#### Structure of the New Issue Market

While New Issue Market, as a channel for private corporate investments, has grown over the years, the pattern of growth of the NIM varies through the various phases of its growth, in terms of both financial instruments and channels of marketing used by private corporate firms. The choice of NIM as an instrument was substantially influenced by economic conditions and policy changes. Equity and debentures were the two main instruments issued through NIM because these instruments show a growing degree of complementarity over the years. Equity issues showed a consistent trend in all three phases, in correspondence with the growth in NIM. The intermediation phase witnessed a greater reliance on equities than on debentures, pointing to the influence of the intermediation activities by banks and FIIs which provided debt in the form of credits.

#### Primary Market Developments

**Table- 4** brings out aggregate pattern of capital issues in India from 1995-96 to 2005-06. The total number of public issues over a period of eleven years stood at 3,337 with an average of 303.36 issues and the value of public issues was Rs.1, 49, 685 cores with an average of Rs.1 3, 607, 73 cores per annum. It is clearly understood from the table that the companies have raised an amount of Rs.13, 607, 73 cores every year from the public. The number of issues was highest in 1995-96 with 1725 issues. The year 2002-03 accounted for the lowest number at 26 issues. The year 2004-05 recorded Rs.28, 256 cores from the public claiming the highest amount of capital raised during the study period. The number of issues were in fluctuation during the period from 1995-96 to 1998-99 and from 2000-01 to 2002-03 and later it continuously increased year after year.

**Table-5** represents the components of capital issues in order to bring out type of securities that are predominately popular in the total capital issues in India from 1995-96 to 2005-06. Further, it is also aimed to highlight whether a particular type of issue

of securities was continuously popular during the study period or there was any change in this pattern. The total capital issues are being grouped into equity and debt. For the past few years i.e. from 1997-98 to 2002-03, debentures have been pre dominant in the public issues. However, since 2003-04 there has been a reversal in this trend. The share of debt in resource mobilization through public issues was only 16.1 % in 2004-05. The year 2005-06 has seen a striking phenomenon of complete elimination of the share of debt in resource mobilization through public issue. The amount raised through equity issues has been the highest ever in the history, so far, of the Indian capital market accounting for 100 % of resource mobilization.

**Table-4**  
**Aggregate Pattern of Capital Issues in India**

Years	No of Issues	Amount (Rs. crore)
1995-96	1725	20804
1996-97	882	14276
1997-98	111	4570
1998-99	58	5587
1999-00	93	7817
2000-01	151	6108
2001-02	35	7543
2002-03	26	4070
2003-04	57	23272
2004-05	60	28256
2005-06	139	27382
Total	3337	149685

Source: www.sebi.gov.in

Note: Base year of 1993- 94 = 100 %

**Table-5**  
**Resource Mobilized Through Debt and Equity**

Year	Percentage Share	
	Equity	Debt
1995-96	72.39	27.61
1996-97	55.99	44.01
1997-98	41.17	58.83
1998-99	15.34	84.66
1999-00	58.41	41.59
2000-01	52.79	47.21
2001-02	16.88	83.12
2002-03	18.00	82.00

2003-04	80.47	19.53
2004-05	83.96	16.04
2005-06	100.00	0.00

Source: www.sebi.gov.in

The ownership pattern of capital issues is exhibited in **Table-6**. The ownership pattern of capital issues is classified into two categories viz. government sector and private sector. It is further classified into four regions- north, south, east and west. The Table clearly indicates that number of public issues by public sector was high during the years 1996-97 and 2003-04 when compared to rest of the study period. It is evident from the data of the Table that out of the total number of 139 public issues with a value of Rs.27,382 crores in the year 2005-06, private sector contributed with 131 issues for a value of Rs.20,199 crores, whereas the public sector accounted for only 8 number of issues with Rs.7,183 crores of capital. The ownership pattern of capital issues clearly indicates that during the study period, the maximum number of public issues of 680 issues was recorded in 1995-96 while 56 issues were recorded in 2005-06. It is interesting to note that the portion of capital from public issues increased from Rs. 10,811 crores in 1995-96 to Rs. 14,963 crores in 2005-06. Southern Region contributed a total number of 40 issues, representing a value of Rs.5,535 crores, next to Western Region. According to the public issues wise comparison, Western Region took the first place, Northern, Southern and Eastern Region obtained second, third and fourth place respectively during the study period. The overall analysis explains that private sector were dominant in number and amount of capital issued from 1995-96 to 2005-06. In respect of region wise comparison, Western Region dominated the study period.

The amount of capital issue relating to industry wise classification is presented in **Table- 7**. For the purpose of analysis, the total number and the amount of capital issues are classified into banking, cement and construction, finance, chemical, information technology etc. The IT sector accounted for 22 to 89 number of capital issues from 1993-94 to 2000-01. It is important that IT sector has come out with a large number of public issues. The number of issues in the finance sector accounted for 113 issues in 1993-94 to 527 issues in 1995-96. There

were no issues during the period 2000-01 to 2002-03 in industries like food processing, paper & pulp and power sectors. It is understood from the analysis that the post economic reforms period was dominated by banking and financial institutions with the highest amount of capital issues. The banking and FIs mobilized significantly greater proportion of funds of the total capital issues. This may be on account of the reforms triggered by the Narshimham Committee recommendations introduced in banking sector. Further, many banks came out with mega public issues and launched variety of innovative schemes of mutual funds in order to mobilize resources from the primary capital market.

Size wise classification of capital raised from the primary market from 1993- 94 to 2003-04 is presented in **Table- 8**. For this purpose of analysis, the total capital issues are grouped into the following sizes.

- i) Below Rs. 5 crores,
- ii) Rs.5 Crores- Rs.10 crores
- iii) Rs. 10 crores-Rs.50 crores
- iv) Rs. 50 crores- Rs. 100 crores
- v) Rs. 100 crores and above

The average number of capital issues during the study period were 50.41 % in the size group below Rs. 5 crores, followed by the size group of Rs. 100 crores (2.42 %) in the year 1994- 95. The mega size capital issues moved between 2.42 % to 43.86 % from 1994-95 to 2003-04 with fluctuations. The capital issue size group of Rs. 50 crores-Rs.100 crores moved from 3.01 % in 1994-95 to 8.77 % in 2003-04. However the capital issue size group of below Rs. 5 crores have attributed for maximum number over the period under review. In respect of the capital issue size of Rs. 10 crores- Rs.50 crores, it decreased from Rs. 6356 crores in 1994-95 to Rs 199 crores in 2001-02. The capital issue size group below 5 crores claimed highest number, though its share in total amount of capital issues was very insignificant and moved between Rs 2569 crores in 1994-95 to Rs. 16 crores in the year 2003-04. The size group above 100 crores mobilized Rs. 12090 crores in 1994-95 to Rs. 22539 crores in 2003-04 from the primary market.



Table-7  
Industry -Wise classification of Capital Issues

(Rs.crore)

Industry	1995-96		1997-98		1998-99		1999-00		2000-01		2001-02		2002-03		2003-04		2004-05		2005-06	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
Banking/FIs	17	6118	8	2242	15	4738	15	4039	13	3139	14	5142	13	3443	11	5428	12	11311	12	12439
Cement& Construction	NA	NA	5	22	4	199	3	337	2	82	2	27	1	30	1	8	2	169	11	1020
Chemical	101	1129	7	226	2	37	4	181	5	32	3	187	1	16	7	522	4	128	2	128
Electronics	NA	NA	3	62	4	204	3	213	4	69	0	0	0	0	4	238	2	61	2	54
Engineering	NA	NA	7	108	6	27	2	10	2	23	4	760	2	10	1	993	3	133	6	1124
Entrainment	*	*	*	*	*	*	2	129	13	458	0	0	2	24	2	153	3	154	7	710
Finance	527	2562	22	74	8	75	3	124	10	440	1	33	1	30	2	71	3	116	7	824
Food processing	135	1339	4	85	2	21	3	71	0	0	0	0	0	0	1	8	6	317	9	427
Health Care	NA	NA	6	28	0	0	7	575	4	48	0	0	2	74	1	329	2	109	10	651
Information Technology	NA	NA	1	9	5	47	36	1547	89	804	6	38	3	227	9	804	5	5095	15	902
Paper & Pulp	NA	NA	3	16	0	0	1	14	0	0	0	0	0	0	9	0	1	60	4	182
Plastic	NA	NA	1	12	0	0	1	7	1	4	0	0	1	218	0	0	0	0	0	0
Power	NA	NA	0	0	1	13	1	15	0	0	0	0	0	0	0	0	2	5854	6	2164
Printing	*	*	*	*	*	*	*	*	*	*	0	0	0	0	0	0	1	130	1	43
Telecom	NA	NA	1	5	0	0	1	75	2	922	1	834	0	0	0	0	2	25	0	0
Textile	159	1118	12	418	4	122	4	68	0	0	2	126	0	0	4	61	0	0	13	771
Others	104	1680	31	763	4	105	7	387	5	4	2	397	0	0	14	14954	12	4595	34	5944
Total	1043	13945	111	4570	58	5586	93	7817	151	6108	35	7543	26	4070	57	23272	60	28256	139	27382

Source: www.sebi.gov.in

\*Data pertaining to above variables may have been clubbed into the 'others' category. \*NA: Not Available.

Table-8

## Size-wise Classification of Capital Raised (Rs.crore)

Year	Total		<5cr.		> 5cr.- <10cr.		>10cr.- <50cr.		>50cr.- <100cr.		>100cr.	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
1995-96	1725	20804	1066	3183	418	2833	175	3344	43	2934	23	8511
1996-97	882	14276	547	1760	215	1473	87	1671	14	908	19	8465
1997-98	111	4570	52	122	26	177	15	368	6	420	12	3484
1998-99	58	5587	15	35	9	63	14	297	9	581	11	4611
1999-00	93	7817	19	53	15	105	26	629	14	997	19	6034
2000-01	151	6108	66	186	25	165	34	764	8	507	18	4486
2001-02	35	7543	3	7	3	20	8	199	3	177	18	7140
2002-03	26	4070	2	6	1	8	10	255	0	0	13	3801
2003-04	57	23272	6	16	5	36	16	330	5	351	25	22539
2004-05	60	28256	2	3	5	44	17	461	11	723	25	27025
2005-06	139	27382	6	20	4	32	47	1325	33	2189	49	23815

Source: www.sebi.gov.in

NA: Not Available

**Conclusion**

From the above discussion it is concluded that the reforms in the stock market were aimed at enhancing the efficiency, safety, integrity and transparency of the market. Introduction of electronic trading system in the secondary market has resulted in transparency in trades, better price discovery and lower transaction costs. The efficiency of the market has improved through faster execution of trades. Investments in equity can be initially started at a smaller level and progressively increased by the investors as they get the experience and confidence. The stock market in India has shown its strength and maturity and it is comparable with any stock market in the developed countries. The investors' protection measures taken by SEBI are excellent as also the standards of corporate governance. All these make the primary market an attractive avenue for investment opportunity.

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