COHERENCE – The Multidisciplinary Research Journal
Volume No: 17, (Special Issue: June 2026)
PP: 30-33
ISSN: 0976-5301
Peer Reviewed & Refereed Journal (IF: 7.85)
Journal Website www.coherencejournal.in

CAPITAL MARKET TRENDS IN INDIA: A VIEW

Srinivasa. K.R.

Associate Professor
Department of Economics, Government First Grade College, B.H Road, Tumkur

ABSTRACT

Capital market in any country plays a pivotal role in the growth of economy and meeting country's socio economic goals. They are an important constituent of the financial system, given their role in the financial intermediation process and capital formation of the country. The importance of the capital market cannot be underemphasized for developing economy like India which needs significant amount of capital for the development of strong infrastructure. The entire paper is divided into three parts. In the first part we have discussed the conceptual framework of the capital market and in the next section; we have focused on the trends in the capital market in India. In the third section, we have discussed various issues and challenges of the capital market in India.

INTRODUCTION

In sum, India's capital market witnessed a rapid growth since around 1980. It accelerated by the end of the decade. This is also significant in comparison with other emerging market economies. Increases in nominal interest rates since early last decade, incentives offered on traded securities, and changes in related policies (and procedures) seem responsible for this development. The financial liberalization thesis posits its likely positive effect on the economy's saving, investment and efficiency. A well-functioning stock market also has a screening and monitoring role. However, recent advances in analytical literature highlights the possible inefficiencies in financial markets due to imperfect information that could be acute in LDCs, and underscores the need for state intervention further, reviving the financing hierarchy hypothesis, the new evidence on corporate financial structure in major OECD countries shows that the stock markets contributed very little to fixed investment. Secondary market's role in improving corporate governance is also open to a serious debate both on theoretical and empirical grounds. In the light of these competing perspectives, this study examined the implications of the India's capital market boom for the economy and the corporate sector. Capital market growth has changed domestic financial saving's composition from bank deposits to 'shares and debentures', without favorably influencing domestic saving rate, or its share in financial assets. Equity capital's share in the total capital market mobilization declined, as bulk of such mobilizations is in the form of debt securities. However, growth rate of fresh equity capital raise di substantial. Promoters' contribution to it has more than doubled.Over the last two decades, the corporate sector that secured most of these 'resources witnessed a long-term decline i.n the share of internal finance in corporate physical investment.This happened, despite a steady fall in tax burden (tax provision as proportion of gross profits). These changes are quite at variance with the developed countries' experience, where intimal finance forms the largest and stable source of finance for corporate capital formation. In 1980s, composition of external finance shifted away from trade credit to equity capital (including share premium), while the proportion, of borrowing remaining and increase 'somewhat. However, within borrowing, debentures replaced bank credit and fixed deposits.

CONCEPTUAL FRAMEWORK OF CAPITAL MARKET

Capital market is the financial market for the buying and selling of the long term debt or equity backed securities . The market channels the wealth of savers to those who can put it to long term productive use. Modern capital markets are hosted on computer based electronic trading system which can be accessed by entities within the financial sector. The capital market can be divided into :

1) Primary Market: It deals with issue of new securities .Companies, government, and public sector institutions can obtain funds through sale of new stock or bonds issue.

2) Secondary Market: It is also called liquid market. In this market the securities are sold by or transferred from one investor to another. Thus, this market gives liquidity to the long term securities.

TRENDS IN CAPITAL MARKET IN INDIA

A Performance of Primary Market Primary market facilitates government as well corporate in raising capital to meet their requirements of capital expenditure and/or discharge of other obligation such as exit opportunity for venture capitalist/ Private Equity firm. The most common primary mechanism for raising capital is an Initial Public Offer (IPO), under which shares are offered to common public as a precursor to the trading in secondary market of an exchange. When securities are exclusively offered to the existing shareholders of company, as opposed to the general public it is called Rights Issue. Another mechanism whereby a listed company can issue equity shares, fully and partly convertible debentures which can be converted into equity shares later on, to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement.

The Indian capital primary market showed a skewed growth. The heat of the financial crisis 2008 was also felt by the primary market when companies put public offer on hold and preferred private as important source of funds mobilization which accounted for about 95% of the total funds. The negative impact of current recession and much awaited reforms could also be observed for the financial year 2011-12. It could be observed that primary debt market in India is not yet mature which range between 1 to 2%. Private placement has been the most popular source of raising funds from the primary market by the companies in India which account for about average 76% B.Performance of Mutual Fund Industry Mutual Funds play an important role in financial services by offering diversification, liquidity and professional management at an affordable price. The Indian Mutual Fund industry consists of 44 players. In addition to advance tax commitments adverse interest rate scenario, slowing growth in India and concerns of global recession were other important reasons that led to the downfall.

Throughout the period from 2007-08 to 2013-14, investors have shown greater confidence in the debt oriented scheme as these are the regular source of income and investors in India are risk averse. Also, the difference in the amount invested in the debt oriented scheme has increased considerably from the year 2012-13 onwards.

The foreign institutional investors have always favored investment in equity market over the debt market but whenever there is crisis in the economy then they tend to prefer debt market over the equity market. As we can see in the above figure that in 2008, investment in the equity market was negative where as in case of bond it was low but positive but as the economy started recovering, the investment in equity market tend to higher than the investment in the debt market. Performance of Secondary Market Sensex and Nifty are the barometer of India’s feel-good factor was at 21,000 marks prior to Global Financial Crisis

ISSN: 0976-5301
Peer Reviewed & Refereed Journal (IF: 7.85)
Journal Website www.coherencejournal.in

followed Great recession worldwide. However, in recent years both the index witnessed volatile trends due to global and domestic factors.

Market capitalization is the total dollar value of a company's outstanding shares. The BSE shows increasing trend of market capitalization except the year 2008-09 in which economy was in recession. P/B ratio is used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share P/E ratio is the valuation ratio of a company's current share price compared to its per share earnings. Both P/E ratio and P/B ratio shows declining trend throughout the period of 2011-12 to 2013-14.

ISSUES AND CHALLENGES OF INDIAN CAPITAL MARKET

Opening of the financial markets will result in competition and greater efficiency .However, foreign participation will bring increased risk and exposure . Stability is thus need for financial markets for which safeguarding mechanism need to be established. The equity market in India is extremely vibrant but equity based funding solely, cannot lead the economy to growth. The debt market remains underdeveloped with a huge potential for increased activity. A strong hand is required to drive the long term financing of infrastructure, housing and private sector development. The road ahead for deepening the capital market need to be paved by the strong linkage between development of economy and the financial system. A greater measure of transparency is also required to built regulating procedures, to bring in a new dimension to financial market and take it to the next level. One of the challenges before the Indian capital market is expanding the investor base and provide them access to high quality financial service .With a population of more than a billion, a mere 1% of population participates in capital market and of that only a fraction is active. Investor participation is very shallow considering the size of Indian economy Trading volume in Indian capital market are lower as compared to other markets such as US, China, UK, Germany etc. Another Challenge faced by the investor is the cost involved in trading, which are comparatively higher in India, than in developed markets Way Forward to Capital Market

1. Investor education and regulation of mutual fund distributors
2. Allowing AMCs to the flexibility to charge fees
3. Innovative products across different asset classes
4. Amending tax regime to encourage domestic AMCs to manage foreign funds from India
5. Although higher investment by domestic institutional investors such as insurance companies,
6. Pension funds to make investment in capital markets
7. Make implementation of proposal of SME stock exchange effective
8. Allowing institutional investors to participate in commodity markets
9. Reduction in current withholding tax of 20% on income from debt securities to encourage investment in debt market.

CONCLUSION

India being an emerging economy needs innovations and reforms in the financial market. Innovation and reforms not only add value in the existing technology and system but also lead to decrease in the cost of capital and mitigate the risk exposure of the capital market

ISSN: 0976-5301
Peer Reviewed & Refereed Journal (IF: 7.85)
Journal Website www.coherencejournal.in

instruments. No doubt that there is a positive correlation between the finance and the economic growth of the country. Economic growth needs sound financial system which further requires the well-developed financial market. Emerging economies like India depends heavily on the banking system for financing its capital needs. But banks which are highly protected in India hardly fulfill its funding requirements. The creation of deep and innovative bond market can fill this gap. Steps have been taken up to develop the equity market but there is lots to be done in case of the bond market development. Reforms need to be initiated, bottlenecks need to be removed, policies need to be changed to deepen the bond market in India and to make it as competitive as the world best bond markets.

REFERENCES

1. Ansari, Mohd.Shamim. 2011. Impact of Sub-Prime Crisis on India: An Empirical Analysis. In Proceeding of Global Financial Crisis: Issues, Concern and Challenges for India and Emerging Market Economies,74–84.
2. Sengupta, Arjun K. 2008. The financial crisis and the Indian response. The Hindu, October 24.
3. Balakrishnan, Ajit. Brave new world of derivatives. Business Standard, November 11.
4. BIS. 2006. Developing Corporate Bond Markets in Asia. BIS Papers 26. Basel: Bank for International Settlements
5. BIS. 2002. The Development of Bond Markets in Emerging Economies. BIS Papers 11. Basel: Bank for International Settlements.
6. Economy Survey. 2010–11. Financial Intermediation and Markets. Chap.5: 99–132.Bhide, Amar (1994): 'Efficient Government and Deficient Governance', Harvard Business Review, Vol 27, No 6, November- December.