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To Study the Structure and Functions of Capital Market in India

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Abstract: *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. What has been the trend of research in this field over the last 15 years? This article by Barua, Raghu Nathan, and Verma examines this issue and provides a comprehensive review on the nature of research in the field of capital market in India. In the process, it also identifies research gaps and research issues that need attention from researchers. Capital is one of the important factors of production in any economy. In economy, a well-organized financial system provides adequate capital formation through savings, finance and investments. the term system in the context of finance means a set of complex and closely connected financial institutions, instruments, agents, markets and so on which are interdependent and interlinking with each other to produce the economic growth with in the country. Transfer process is effectively fulfilled by the financial system to facilitate economic growth through the channel of finance. This study aims at analyzing the structure and functions of Capital Market in India*

Keywords: Primary Market, Secondary Market, Corporations, Bank Investments, FD's.

I. INTRODUCTION

The Capital Market is a market of finance, where the long-term debt or equity assured securities are the product for buying and selling. In this market, money is provided for the time longer than a year. A capital market is the source of financing for companies around the world, and it is the market for buying and selling equity and debt instruments. It is the engine of growth for an economy, and it tirelessly performs a very critical role as an intermediary between the savers and those companies which are seeking additional financing for their business expansion. Starting from a controlled economy, India has moved towards a world where prices fluctuate every day. The introduction of risk management instruments in India gained momentum in the last few years due to liberalization process and Reserve Bank of India's (RBI) efforts in creating currency forward market. Derivatives are an integral part of liberalization process to manage risk. NSE gauging the market requirements initiated the process of setting up derivative markets in India. In July 1999, derivatives trading commenced in India.

The capital market is the market for securities, where Companies and governments can raise long-term funds. It is a market in which money is lent for periods longer than a year. A nation's capital market includes such financial institutions as banks, insurance companies, and stock exchanges that channel long-term investment funds to commercial and industrial borrowers. Unlike the money market, on which lending is ordinarily short term, the capital market typically finances fixed investments like those in buildings and machinery. The capital market consists of number of individuals and institutions (including the government) that canalize the supply and demand for long-term capital and claims on capital. The stock exchange, commercial banks, co-operative banks, saving banks, development banks, insurance companies, investment trust or companies, etc., are important constituents of the capital markets.

The capital market, like the money market, has three important Components, namely the suppliers of loanable funds, the borrowers and the Intermediaries who deal with the leaders on the one hand and the Borrowers on the other.

II. ADVANTAGES OF CAPITAL MARKET

Capital markets are the lifeline of the economy because it is through capital market new as well as existing companies can raise funds from the market. Capital market in simple words refers to that market in which individuals and companies buy and sell various financial instruments like equity shares, debentures, futures and options of various instruments, preference shares, bonds, and so on.

Facilitates Transactions

The first and foremost advantage of capital market is that it facilitates transactions between the people who are savers that is individuals, banks, high net worth individuals, and spenders that are the companies who are in constant need of funds and thus helps the savers in earning income in the form of dividends, interest, and capital appreciation while companies can also use this money to grow and become big.

Liquidity

Capital markets are very liquid in the sense that investors can invest and take their money out from the market whenever they require the money which is not the case with other markets like the real estate market where one cannot easily enter or exit from the market. In simple words, the fact that you can buy and sell securities in the capital market with a click of a button ensures that you will never have to suffer due to lack of liquidity and hence this factor ensures that investors and companies have more confidence in the capital market as compared to other markets.

III. DISADVANTAGES OF CAPITAL MARKET

Risky

The biggest drawback of the capital market is that it is very risky because all instruments of capital markets whether its equity shares, derivatives, swaps have an inherent risk associated with them, and hence many innocent investors lose their life savings due to wrong decisions and bad investment in capital markets. In simple words, investors who want safety and are accustomed to steady returns should avoid the capital market as it is not a place for weak-hearted people.

Additional Costs

In the case of capital markets, there are many costs like brokerage, exchange fees, taxes and so on which makes trading in capital markets expensive as compared to bank fixed deposits where there are no such costs and hence puts an additional burden on people investing in capital markets.

Complex

Various instruments of capital market are not easy rather have many complexities which make them even more difficult to trade and make money from that trading. Hence various instruments like futures, options, swaps, and various strategies like straddles, strangles, covered call, bond swapping, and so on are not easy to understand and people having financial background can understand them and trade them successfully.

IV. TYPES OF CAPITAL MARKET

There are two types of Capital Market i.e. Primary Market and Secondary Market.

Primary Market

The Primary Market is a new issue market; it solely deals with the new issues of securities. A place where security of trading is done for the first time. The main objective is capital formation of government, institutions, companies, etc. also known as Initial Public Offer (IPO). Primary market is the market for new shares or securities. A primary market is one in which a company issues new securities in exchange for cash from an investor (buyer).It deals with trade of new issues of stocks and other securities sold to the investors.

Secondary Market

The Secondary Market is a place where trading takes place for existing securities. It is known as Stock Exchange or Stock Market. Here, the securities are bought and sold by the investors. Secondary market deals with the exchange of prevailing or previously-issued securities among investors. Once new securities have been sold in the primary market, an efficient manner must exist for their resale. Secondary markets give investors the means to resell/ trade existing securities

V. REVIEW OF LITURATURE

Gupta (1972) in his book has studied the working of stock exchanges in India and has given a number of suggestions to improve its working. The study highlights the' need to regulate the volume of speculation so as to serve the needs of liquidity and price continuity. It suggests the enlistment of corporate securities in more than one stock exchange at the same time to improve liquidity. The study also wishes the cost of issues to be low, in order to protect small investors. (1981) in an extensive study titled `Return on New Equity Issues' states that the investment performance of new issues of equity shares, especially those of new companies, deserves separate analysis. The factor significantly influencing the rate of return on new issues to the original buyers is the `fixed price' at which they are issued. The return on equities includes dividends and capital appreciation. This study presents sound estimates of rates of return on equities, and examines the variability of such returns over time.

VI. RESEARCH METHADOLOGY

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, analyzed 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 „Structure and Functions of Capital Markets in India ‟, It 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.

RESEARCH OBJECTIVE

The Main Objective to study the Research Methodology is:
i) To analyze the structure of Financial Market in India.
ii) To understand the Functions of Indian Capital Market.

DATA COLLECTION METHOD

The sources in the data used in the research paper are Primary Data as well as Secondary Data.

1. Primary Data

Primary source of data collection consisted of survey method. The survey was collected through a Structured Questionnaire. The questionnaire was prepared keeping in mind the objectives of the study and factors that were to be considered for the study.
The questionnaire mainly consisted of two parts i.e. Name of the Respondent and Benefits social media has done in a positive way in their lives and in the world according to them.

2. Secondary Data

The secondary source of data collection is assessed to gain information and knowledge about our research problem that may be previously discussed by some other researcher. The secondary is referred to know what has already been discussed and what more scope can be there for research.
The secondary data was useful for the study of Review of Literature. We could study various aspects of different researchers which gave us an idea about the factors being previously discussed and also the conclusions drawn from them. It also gave us an insight on what more could be studied to solve the research problem.

DATA ANALYSIS

Data analysis is a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, informing conclusions, and supporting decision-making.Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, while being used in different business, science, and social science domains.The goal for all data collection is to capture quality evidence that allows analysis to lead to the formulation of convincing and credible answers to the questions that have been posed.

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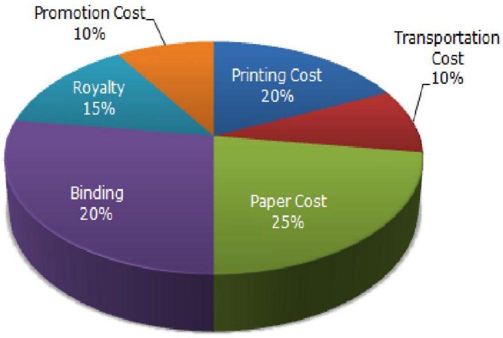
VII. DATA ANALYSIS & INTERPRETATION

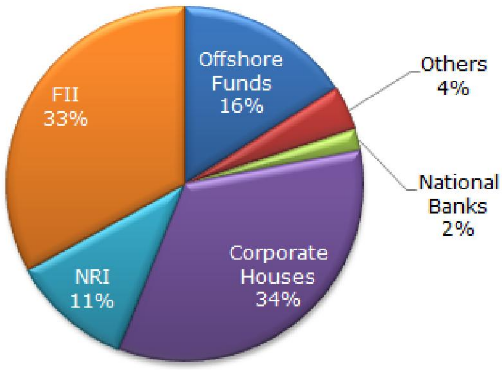
1. The following pie-chart shows the percentage distribution of the expenditure incurred in publishing a book. Study the pie-chart and the answer the questions based on it.

Various Expenditures (in percentage) Incurred in Publishing a Book

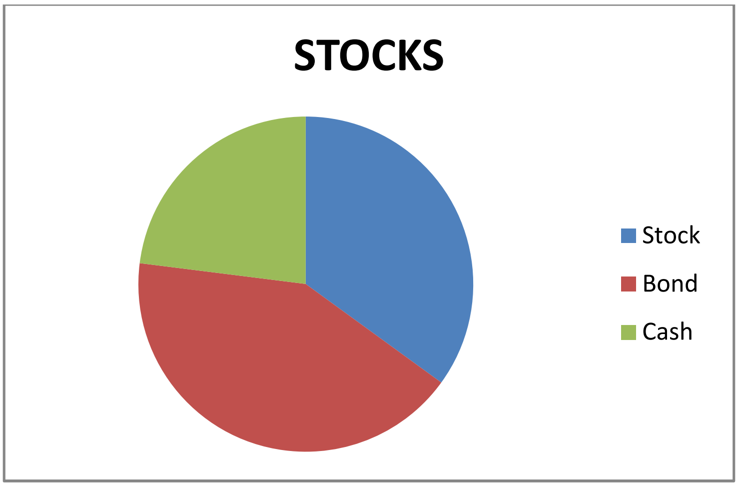


2.The following pie chart shows the amount of subscriptions generated for India Bonds from different categories of investors.

Subscriptions Generated for India Bonds



3. The Following Pie Chart Shows the Investment Portfolio Showing Stocks, Bonds and Cash.



4. The Following Chart shows the Market Shares of Banks (in %) in the Capital Market.

SBI	BOB	BOI	AXIS	HDFC	Other Banks
34%	2%	11%	33%	16%	4%

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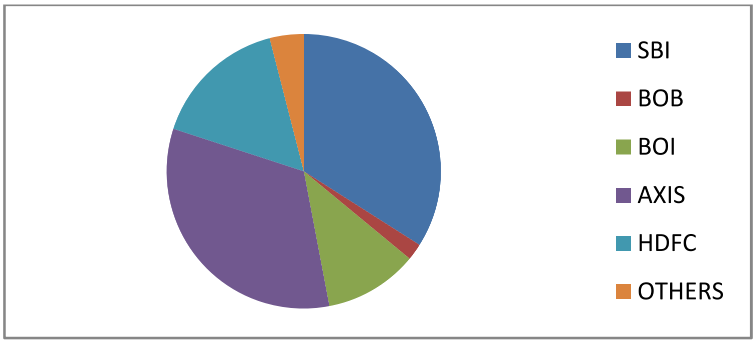
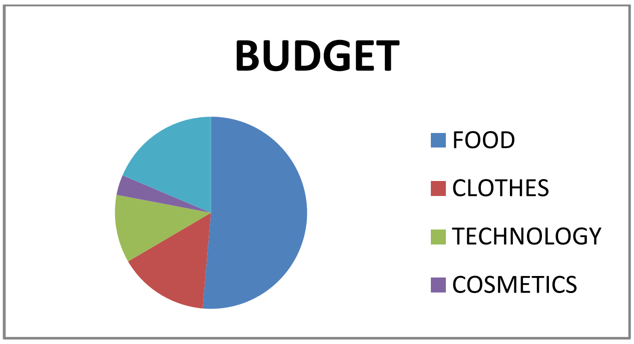


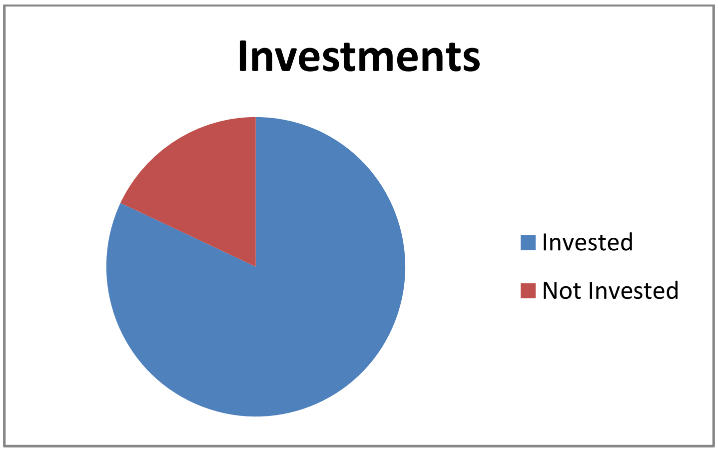
5. The Following Chart shows the Market Budget (in %) in India.

FOOD	CLOTHES	TECHNOLOGY	COMETICS	OTHERS
51.3%	15.16%	11.38%	3.4%	18.6%



6.The Following Chart shows the peoples Investment (in %) in the Capital Market in India.

Invested in Capital Market	Not Invested in Capital Market
82%	18%



VIII. CONCLUSION

Reforms in Capital Market of India The major reforms undertaken in capital market of India includes:-Narasimham Committee: It is a high level of committee on the financial system with Shri. M. Narasimham as the chairman was set up in 1991. TheNarasimham committee need for strengthening the SEBI powers, vesting of CCI powers in the SEBI and freeing of operations in the capital market with the SEBI asthe supervisory and regulatory authority.

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Indian capital market suffered bruises in the last part of the nineties owing to the manipulative trade practices of unscrupulous brokers and other participants; it has been witnessing fine times in the recent past, thanks to many favorable conditions contributing to it. With the kind and the quality of human skills possessed by India's financial Industry, it is quite imperative that there is need to provide sound capital foundation for the stock market.

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