CHAPTER – I

INTRODUCTION

INTRODUCTION:

Capital market is a market for long term funds. It refers to all facilities and institutional arrangements for borrowings and lending of medium term and long term funds. It deals not with capital goods but with raising of money for capital investment. In the capital market the supply of funds is largely from individual savings, corporate savings, banks, insurance companies, specialized financing agencies and government. The demand for long term capital comes mainly from private sector industries and Government¹.

The institutions like IFCI, ICICI, IDBI and UTI are providing long term capital to the private sector. The rapid expansion of the corporate and public sectors necessitate the development of capital market in India². Capital market is the key driver of wealth creation and growth in many countries. They regulate financial institutions and most importantly the investors keep trade of the development in the global capital markets. It is estimated that the growth of global financial stock is $ 200 trillion by 2010.

The development is the testimony to the expanding Indian capital markets and their potential would help in further strengthening the participation of investors across the country. The market capitalization of BSE stood at Rs. 63. 87 lakh crore at the end of March 2013 compared to Rs.62.14 lakh crore as on 31st March 2012 while its ratio to GDP stood at 63.7 percent for 2012-13. The market capitalization of NSE was Rs. 62.39 lakh crore at the end of March 2013 compared to Rs.60.96 lakh crore as of end-March 2012 while its ratio to GDP stood at 62.2 percent for 2012-13.

It is observed that the United States, Europe and Japan are the major contributors to the global financial stock. Due to the increasing depth in financial markets, both businessmen and investors are enthusiastic to enter capital markets and make profits. The U.S led the race with 37 percent share followed by the U.K, Japan and other developing countries.
Capital markets have observed volatility of capital flows, contributing of financial developments in India have played a critical role in promoting industrialization, facilitating the mobilization of capital for large investments. A financial market consists of investors or buyers, sellers, dealers and brokers and does not refer to physical location. The participants are linked with formal trading rules and communication networks for originating and trading of financial services. The financial instruments can be used to raise resources in the capital market. High net worth individuals, investors and corporate entities are engaged in purchase and selling of financial instruments in the capital market. 

**REASONS TO INVEST BY PEOPLE:**

Though people tend to invest for numerous reasons, National Council of Applied Economic Research (NCEAR), India with the sponsorship of Securities and Exchange Board of India (SEBI) has conducted a research on household savings and investments. In their report for the year 2011, they have mentioned the following prime reasons for people to invest.

(i) **Securing post retirement life:**
As per the recent World Health Organization report (WHO 2012) on the life expectations of people around the world, it is mentioned that people across the globe are expected to live longer but with bad health. This is a real cause of concern for many in the world, in view of the increase in medicines and treatment. When most of the people are expected to live longer after their retirement, they can have enough money when needed only when they are able to invest during their days of earnings.

(ii) **Education of children and marriage:**
Due to the love and affection on the children, most people in this world feel that, it is their moral duty to create better future for their loved ones. As the needs of their children, whether education expenses or marriage expenses will arise after a long time, which in many cases may range over a decade or two, one can fulfill this family obligation only by making proper investment.
(iii) Creation of wealth:

As someone said “yesterday is history and tomorrow is mystery”; it is true that no one knows what will happen in future. Hence, it is always advisable to invest today to face unforeseen events of tomorrow. Especially after every economic recession, the people who lost their earning capacity and could not invest during their earning days remained as unfortunate examples for others. If people invest and nothing unfortunate happens in the future, they can use the investments either to spend on tours or can have a one life much above the regular comfortable and they will be in a position to create wealth to pass on to their next generation, who can utilize for any productive activity.

ROLE OF INVESTMENT IN ECONOMIC DEVELOPMENT OF THE NATION:

The economic development of a nation will take place only when the nation is vibrant in at least in one of the sectors of agriculture, manufacturing or service. Along with men and machinery, investment in the form of capital is an important factor of production for an economic activity. In fact, it is not possible to arrange other factors of production without capital.

In the globe only a few nations are not blessed with abundance of natural resources, but still, only because of investment on industry and technology, they became economic superpowers. One can take Japan as an example to prove this point. Japan is a tiny nation which is subjected to a variety of natural calamities like earth-quake and tsunami. It does not have enough of fertile land due to the affects of atom bombs that were dropped on its cities. But due to the investments made on technology front, it is able to become fourth largest economy in the world

Surprisingly, two of worlds’ most populous nation; China and India, did not invest to the required levels. As a result, they have become the global destinations for outsourcing and making goods for the companies of other nations. As per the global brand index, which is compiled by brandinex.com, China and India put together did not have at least one global brand whereas small nations like Finland and Denmark have number of brands.

Ruchir Sharma (2010) supported this point by taking examples of Russia and China. They both did not encourage private investment for long. They felt every business organization
must be in the hands of the Government. He further added that only after opening up of economies for private investors, along with Brazil and India, these two became rising economic powers and together called as BRIC nations. East Asian nations like Malaysia and Thailand have invested on tourism infrastructure and as a result they are able to attract domestic and foreign tourists which in turn developed their economies.

A similar observation was made by Easterly, W. and Rebelo, S., (2011)\(^6\) They stated that the investment on infrastructure by Singapore attracted not only tourists, but also many Multi-National Companies to set up their offices which resulted in the economic development of Singapore. On the other hand, most of the African nations like Nigeria, Uganda, Rwanda and others did not invest on any of the sectors and as a result, people there do not have any jobs and hence either they suffer with internal wars or turn to be international pirates.

**SAVINGS AND INVESTMENT TREND IN INDIA:**

The Central Statistics Office points that there was a decrease in India’s Gross Domestic Savings as a percentage of GDP at market prices from 34 percent in 2010-11 to 30.8 percent in 2011-12. The share of financial assets in household savings decreased to 8.0 percent in the 2011-12 from 10.4 percent in the previous year. This is the lowest when compared with data of financial savings over a decade. Financial Savings since 2000 have always contributed over 10 percent barring the year 2004-05, which saw a share of 9.8 percent. In the light of the decreased share of financial savings, it is also worthwhile to note that the share of savings in physical assets is currently the highest since 2000 at 14.3 percent. The saving pattern seems to be propelled by the rising inflation along with growing (growth) concerns, and has resulted in reduced real rate of return on the financial savings. Investors have hence chosen to invest in physical assets like gold that seems to be a “safe haven” for investment by households.

With the share of household savings being around 22 percent since 2001-2002, attractiveness of investors to physical assets always seem to have negative impact on the financial investments indicating that some substitution takes place between the two kinds of savings. While it is not only the household savings that has declined, the private corporate and public sector savings have also been reduced in 2011-2012.
While the private corporate savings have decreased marginally from 7.9 percent in 2010-2011 to 7.2 percent in 2011-2012, public sector savings have been reduced to 1.3 percent in the financial year 2011-2012 when compared with 2.6 percent in 2010-11. A slowdown in industrial sector along with high interest payments and high input costs impact the level of private corporate savings and consequently its industrial revival may be a pre-condition to the improvement in the rate of private corporate savings.

Gross Domestic Savings (GDS) at current prices in 2011-2012 stood at Rs.27.65 crore as against Rs.26.51 crore in 2010-2011, registering a growth of 4.3 percent. Household savings increased by 9.3 percent from Rs.18.32 crore in 2010-2011 to Rs.20.03 crore in 2011-2012. While absolute savings in physical assets increased by 25.3 percent from Rs.10.24 crore in 2010-2011 to Rs.12.84 crore in 2011-2012, the financial savings shrunk by 11.0 percent from Rs.8.08 crore to Rs.7.19 crore for the corresponding time period. Private corporate savings moved up by 4.1 percent in absolute terms from Rs. 6.19 crore in 2010-2011 to Rs.6.44 crore in 2011-2012. Public sector savings decreased to Rs.1.17 crore in 2011-2012 from Rs.1.99 crore in 2010-2011 registering a decline of 41.4 percent.

The savings-investment gap has widened to 4.2 percent of Gross domestic product at market prices in 2011-2012, up from being 2.8 percent in the previous financial year. While the savings has decreased, there has not been a proportionate decrease in investment in recent times, a result of which has been heavy reliance on capital inflows which increased by 71.2 percent. So, while the fiscal deficit needs to be reduced to stimulate public savings, domestic savings also need to be channelized to meet the growing investment demands of the economy.

AVENUES TO INVEST BY PUBLIC:

The following are the important avenues where the public is interested to invest their savings:

(i) Land:
According to Ferguson N (2010): When human being started investing for his future, he was looking for an asset which he was able to use for productive purpose and the one that gives him safety, so he started investing on land. Probably land is the first asset that was considered as worth investing and from time immemorial people are investing on land for many reasons.
Karthik.C.K (2001) stated that in India, holding a title of land is a social security measure and hence the Government of India dispersed agricultural land to retired persons of armed forces and some sections of society.

(ii) House:

Every person has a dream to live in his or her own house. As a result, without looking for much return, everybody considers investing on housing. Generally while making investment on assets, people tend to give the highest ranking to return on the investment while selecting an asset. But, in the case of housing many feel the return on investment is secondary to social security and comfort. When an online survey is conducted among respondents of different nations by Struyk, Raymond & Margery Austin Turner in 2006, they found that 78% of the respondents mentioned housing is their first priority in their investments.

They further stated that they are ready to lose any asset but certainly not their house. Saunders, P. (1990) discovered that the emotional levels are high when investors purchase a house more than when making any other investment.

(iii) Precious Metals:

No researcher was able to trace the date since when people have been making investments on precious metals like gold and others. But, everybody knows the reasons for which large numbers of investors are investing in gold. According to the world gold council, the following are some of the reasons for people to invest in gold:

(a) Portfolio diversification:

Investment in portfolios primarily holds traditional financial assets, such as stocks and bonds. Diversifying one’s portfolio can offer added protection against fluctuations in the value of any single asset or group of assets. Risk factors that may affect the gold price are quite different in nature from those that affect other assets. Historically it is proven that portfolios containing gold are generally more robust and less volatile than those that do not.

(b) Inflation:

Market cycles come and go, but over the long term, gold retains its purchasing power. Gold’s value, in terms of the real goods and services that it can buy, has remained remarkably stable for
centuries. In contrast, the purchasing power of many currencies has generally declined, for the most part to the rising price of goods and services. Hence investors often rely on gold to counter the effects of inflation.

(c) Currency fluctuations:
Gold is employed as a hedge against fluctuations in currencies, particularly the US dollar. If the world’s main trading currency i.e. dollar is appreciated, gold price generally falls. On the other hand, a fall in the dollar relative to the other main currencies produces a rise in the gold price. Hence, gold has consistently proved to be one of the most effective assets in protecting against dollar weakness.

(d) Preference investment for risk management:
Gold is significantly less volatile than most commodities and many equity indices. It tends to behave more like a currency. Assets with low volatility will help to reduce overall risk in portfolio, adding an advantage on expected returns. Gold also helps to manage risk more effectively by protecting against consequential negative events, often referred to as “tail risks”. The price of gold tracks the shifting balance of supply and demand. Long lead times in gold mining mean production of gold is relatively inelastic, regardless of increases in demand. That is why the rally in the gold price since 2001 has not produced a meaningful increase in gold production levels. Some researchers have supported the concept of investment on gold and further till the recent economic recession, most of the investors were treating gold as an ornament. But, after the recession, they found that gold is a perfect hedge against the inflation and since then, their investment on gold has gone up.

(e) Investment in financial Assets:
Investors would like to maintain a contingency fund to face unforeseen incidents in the form of holding cash or any other financial asset that can be easily liquidated. According to International Financial Reporting Standards (IFRS), a financial asset is defined as cash or cash equivalent, bond, debenture or other corporate securities. If an investor holds cash with him, it will not yield any return. Hence he is investing on financial assets that give considerable amount of return. Often, these financial assets are backed by government, if they are issued by them or physical assets of corporate body viz., in the case of debentures.
In India, if an investor makes any deposit in a bank, by default his deposit is insured to the extent of his deposit in terms of money or rupees one hundred thousand (Reserve Bank of India Banking Regulations). In nations like Japan, where availability of land for housing and agriculture purpose is very limited, the real estate prices are very high. Often, they are not in the reach of common man who migrates to cities seeking employment. Hence they tend to invest their money on financial assets and the proceeds are generally withdrawn only after their retirement. According to Allianz SE (2002), in some of the nations, where inflation which is defined as rate of increase in wholesale price index is relatively higher than other nations, the comparative returns on financial assets at times are giving lesser returns to inflation rate in short term period.

Generally, investors tend to invest on them for longer periods as they appear safer investment during long term period and also expect to yield a return that matches with inflation. As safety is the main concern while investing on financial assets, householders are predominantly investing their funds in bank deposits, especially after the 2007 global economic crisis.

**EMERGENCE OF EQUITY CULTURE:**

The modern economies are heavily dependent on the corporate form of business. Once the scale of modern commercial activity goes beyond the individual store and workshop, it is increasing demand for capital beyond the resources of most individual entrepreneurs. Although the capital needs could be met by partnership in some cases, the partnership business has proved to be inflexible and is used primarily by very small enterprises and the professions.

The use of companies to pool large sums of capital to raise capital for large new commercial ventures has been increasingly becoming common since the Dutch and English East India companies were organized at the beginning of the seventeenth century. By the twentieth century corporations have become the dominant organizational vehicle for commercial ventures almost without exception throughout the world. Initially, these corporations have borrowed funds from other sources, but, they have two main limitations:
(i). Borrowed funds have to be repaid within limited period

(ii). Irrespective of the profitability, interest is to be paid

The corporations were looking for a permanent source of capital on which they are under no mandatory pressure to pay annual interest. As a result, they started issuing new class of securities called equity shares.

Features of Equity Shares: It is a financial instrument, which is allowed to offer to general public in every nation and it is governed by the laws of the respective nations. These legal regulations are different from country to country. But there are some common features in every country’s laws regarding equity shares. Those are:

(i) Equity shareholders are eligible to receive part of profit called dividend only after every other security holder received his due.

(ii) Equity shareholders may get dividend only when the company is in profits and in the case of loss, they will not get any dividend.

(iii) Only equity shareholders are eligible to elect the board of directors and cast their vote on all other occasions.

WHY INDIVIDUALS INVEST ON EQUITY SHARES?

Generally, investors who are investing their funds for long duration, look for capital appreciation. Companies which are growing in business size prefer not to distribute the dividends to shareholders. They would rather re-invest the profit in their business itself. As long as the company is able to generate better profits, the investor will be happy, as his capital is appreciated, hence the share value of the company in the market will also be appreciated and in general, the return due to the capital appreciation is higher than any other alternative. The above argument is well substantiated by Thomas R. (2003) who concluded in his research paper that for any interval of seven years, equity shares have outperformed all other assets.
Generally speaking, investors will not invest their entire funds on one single class of securities. They always create a portfolio of assets keeping in mind their requirements, returns and safety. Mostly, certain amounts of funds are invested on bank deposits and other liquid assets by the investors. At times, the returns generated by these financial assets are less than inflation rate. Hence to match with inflation rate and to earn a positive return on their overall portfolio, investors are looking for an asset that is expected to generate a higher return than inflation and are investing on equity shares in attaining positive return on overall portfolio.

Some investors who have limited funds with them which are insufficient to buy land or house are often investing their funds on equity shares as an alternative. Some class of investors who have physical assets like land and/or house also invest on equity shares as an alternative asset. In a nation like India, Income tax exemption is offered to the investors who invest on equity oriented securities. As a result, a good number of investors invest on them.

Maciejovsky B. (2007)\textsuperscript{11} has observed that some investors have made investment as their full time profession. He further noticed that a minimum of 60% of their investments are made on equity shares irrespective of stock market conditions. Another interesting reason for equity investment by the individuals is identified by Harshvardhan.S (2011)\textsuperscript{12}. He found that some invest on equity shares as they feel equity investment is fun and exciting. He stated that a majority of these sort of investors are influenced by the returns earned by their friends and other known persons.

**PROMOTING OF EQUITY CULTURE:**

It is a fact in the world that a nation cannot prosper if it does not develop industries. The essential element of promoting any industry is to make the capital available. Most of the nations in the world find it difficult to arrange the necessary capital on their own to start industries as they already are in deficit budget.

In some nations, the respective governments have promoted companies issuing shares to public, and in other nations, the governments encouraged the private sector to do the same. This has led to economic development in their nations. The nations, in which equity culture is
existing for long period of time have got benefited with better industrialization which, in turn helped their economies prosper.

DEVELOPMENT IN THE INDIAN CAPITAL MARKET:

The Indian securities market has a history of nearly 150 years. The Bombay Stock Exchange, the Ahmadabad Stock Exchange and the Calcutta Stock Exchange are among Asia's oldest stock exchanges. However, the modern era in the Indian securities market and its transformation began with the economic reforms in the early 1990s when the government initiated more reforms in the country for open economy with greater reliance on market forces in which the private sector plays an important role. The Indian securities market gained greater importance and the SEBI Act, 1992 established the Securities and Exchange Board of India (SEBI) as a statutory authority to oversee securities market in India. SEBI is mandated with three principal objectives:

(i) To protect the interests of investors in securities.

(ii) To promote the development of the securities market.

(iii) To regulate the securities market.

Before the establishment of SEBI, activities in securities markets lacked a comprehensive regulatory framework. Since the establishment of SEBI, the securities market in India has developed significantly. It led to a successful transformation from a highly controlled merit based regulatory regime to market-oriented, disclosure-based regulatory regime. SEBI's focus has been on developing a well regulated modern securities market in India by adopting global standards and international best practices. Access to information has increased due to implementation of various rules and regulations prescribed by SEBI. The risk of defaults has gone down and overall governance and ambience have become conducive for protection of investors' interests and the development of the securities market in India.
(i) Primary Securities Market:

An efficient primary securities market is vital for mobilization of funds by corporate sector to meet their growth and expansion plans by the mobilization of funds. The development of primary securities market in India has followed a unique pattern as presented in table 1.1

Table 1.1: Trends in public and rights issues during 2001-2013.
(Rs. in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Issue</th>
<th>Rights Issue</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001–02</td>
<td>20</td>
<td>65.02</td>
<td>15</td>
</tr>
<tr>
<td>2002–03</td>
<td>14</td>
<td>36.39</td>
<td>12</td>
</tr>
<tr>
<td>2003–04</td>
<td>35</td>
<td>222.65</td>
<td>22</td>
</tr>
<tr>
<td>2004–05</td>
<td>34</td>
<td>246.40</td>
<td>26</td>
</tr>
<tr>
<td>2005–06</td>
<td>103</td>
<td>232.94</td>
<td>36</td>
</tr>
<tr>
<td>2006–07</td>
<td>85</td>
<td>297.96</td>
<td>39</td>
</tr>
<tr>
<td>2007–08</td>
<td>92</td>
<td>545.11</td>
<td>32</td>
</tr>
<tr>
<td>2008–09</td>
<td>22</td>
<td>35.82</td>
<td>25</td>
</tr>
<tr>
<td>2009–10</td>
<td>47</td>
<td>492.36</td>
<td>29</td>
</tr>
<tr>
<td>2010–11</td>
<td>68</td>
<td>581</td>
<td>23</td>
</tr>
<tr>
<td>2011–12</td>
<td>55</td>
<td>461</td>
<td>16</td>
</tr>
<tr>
<td>2012–13</td>
<td>53</td>
<td>235</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: SEBI, NSE.
It can be seen from the data in table 1.1 that in the first decade of the 21st century i.e. 2001-2002 the trend gradually reversed to previous trend that the number of issues remained low which is less than 200 but the amount mobilized increased significantly. It further shows that the trend of public and rights issues registered an increased trend up to 2007-2008 and subsequently it fell continuously, excepting the year 2008 –2009 when the US economy was hit by the sub-prime crisis leading to a global financial crisis. Where in 2007–2008 an amount of Rs. 870.29 billion was mobilized through 124 public and rights issues, the amount mobilized fell to a mere 162.20 billion through 47 issues in 2008–2009. With the gradual decreasing of the sub-prime crisis in 2009–2010, the market regained confidence and an amount of Rs.575.55 billion was mobilized through 76 issues in 2010-2011, capital raised from public and rights issue increased to Rs.676 billion, and in 2012-2013, capital raised from public and rights issue declined by 33 percent on the back of 28.3 percent decline in 2011-2012 to Rs.325 billion.

The total number of public issues both equity and debt also continued to decline during the period 2012-2013; public issues fell from 55 issues in 2011-2012 to 53 in 2012-13. In the equities, a total of 33 IPOs were launched during 2012-2013, compared to 34 in 2011-2012. Interestingly, the total capital raised by way of initial public offerings increased despite the fall in number of initial public offerings to 65 billion in 2012–2013 from Rs.59 billion in 2011–12. Encouragingly, the mobilization of funds through right issues recorded a huge increase of 276 percent in 2012–2013, after a 75 percent decrease witnessed in 2011-2012. Resource mobilization through rights issue witnessed an increase from Rs.24 billion in 2011–2012 to Rs.89 billion in 2012 –2013.

(ii) Mutual Fund Industry:

At the global level the mutual fund industry as intermediate mechanisms has a unique role in the asset management. Further it also plays an important role in managing the retirement assets. This trend happened particularly in countries like USA, Australia, and UK. In India, mutual funds have evolved significantly over the last decade. These are playing a vital role in channelizing funds to promote financial inclusion and financial participation.

The popularity of the mutual fund industry as an investment source has increased over period of time and, as a result, new funds with various types of schemes increased in a very
short period of time. The Unit Trust of India was the first mutual fund set up in India in the year 1963. The government allowed public sector banks and institutions to set up mutual funds since early 1990s. To protect the interests of the investors, SEBI first issued regulations for mutual funds in 1996. At a later stage mutual funds sponsored by private sector companies were allowed to enter in the financial market.

Table 1.2: Trends in resource mobilization by mutual funds during 2001-2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Mobilization</th>
<th>Redemption</th>
<th>Net Inflow</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>1,64,523</td>
<td>1,57,348</td>
<td>7,175</td>
</tr>
<tr>
<td>2002-03</td>
<td>3,14,706</td>
<td>3,10,510</td>
<td>4,196</td>
</tr>
<tr>
<td>2003-04</td>
<td>5,92,190</td>
<td>5,43,381</td>
<td>46,808</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,39,708</td>
<td>8,37,508</td>
<td>2,200</td>
</tr>
<tr>
<td>2005-06</td>
<td>10,98,149</td>
<td>10,45,370</td>
<td>52,779</td>
</tr>
<tr>
<td>2006-07</td>
<td>19,38,493</td>
<td>18,44,508</td>
<td>93,985</td>
</tr>
<tr>
<td>2007-08</td>
<td>44,64,376</td>
<td>43,10,575</td>
<td>1,53,802</td>
</tr>
<tr>
<td>2008-09</td>
<td>54,26,353</td>
<td>54,54,650</td>
<td>-28,296</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,00,19,022</td>
<td>99,35,942</td>
<td>83,080</td>
</tr>
<tr>
<td>2010-11</td>
<td>88,59,515</td>
<td>89,08,921</td>
<td>-49,406</td>
</tr>
<tr>
<td>2011-12</td>
<td>68,19,678</td>
<td>68,41,702</td>
<td>-22,024</td>
</tr>
<tr>
<td>2012-13</td>
<td>72,67,885</td>
<td>71,91,346</td>
<td>76,539</td>
</tr>
</tbody>
</table>

*Source: SEBI.*
Table 1.2 shows the trends in resource mobilization by the mutual funds during the period 2001-2002 to 2012-2013. It can be seen from the data in table that resource mobilization by mutual funds has grown during the period 2001-2002 to 2007-2008. Since 2008-2009 except during the year 2009-2010, the net inflows continuously declined. The gross mobilization of resources by mutual fund industry during the period 2012-2013 was Rs.72.67 crore compared to Rs.68.19 crore during the previous year, indicating an increase of 6.6 percent over the previous year. Interestingly redemption also increased by 5.1 percent to Rs.71.91 crore in 2012-2013 from Rs.68.41 crore in 2011-2012. The net resources mobilized by all the mutual fund industry aggregated to Rs.76.53 thousand crore in 2012-2013 compared to net outflow of Rs.22.02 thousand crore in 2011-2012. As at the end of March 2013, the cumulative net assets managed by all the mutual funds totalled to Rs.7.01 crore as against Rs.5.87 crore at the end of March 2012, representing an increase of 19.5 percent.

(iii) Foreign Institutional Investors (FIIs):

Foreign Institutional Investors (FIIs) were allowed in the Indian securities market in 1992 and since then they have been playing a dominant role in the Indian securities market. FIIs have been permitted to invest in all types of securities, including government securities. They can invest in an Indian company under the portfolio investment route up to 24 per cent of the paid-up capital of that company.

Table 1.3: Trends in Foreign Institutional Investments during 2001-2013

<table>
<thead>
<tr>
<th>Period</th>
<th>Purchases</th>
<th>Sales</th>
<th>Net Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>49,919</td>
<td>41,165</td>
<td>87,549</td>
</tr>
<tr>
<td>2002-03</td>
<td>47,060</td>
<td>44,371</td>
<td>26,891</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,44,857</td>
<td>99,094</td>
<td>45,763</td>
</tr>
<tr>
<td>2004-05</td>
<td>2,16,953</td>
<td>1,71,073</td>
<td>45,880</td>
</tr>
<tr>
<td>2005-06</td>
<td>3,44,978</td>
<td>3,05,512</td>
<td>39,466</td>
</tr>
<tr>
<td>2006-07</td>
<td>5,20,509</td>
<td>4,89,668</td>
<td>30,841</td>
</tr>
<tr>
<td>2007-08</td>
<td>9,48,019</td>
<td>8,38,930</td>
<td>1,09,089</td>
</tr>
<tr>
<td>2008-09</td>
<td>6,14,581</td>
<td>6,60,392</td>
<td>-45811</td>
</tr>
<tr>
<td>2009-10</td>
<td>8,46,440</td>
<td>7,03,781</td>
<td>1,42,658</td>
</tr>
<tr>
<td>2010-11</td>
<td>9,92,599</td>
<td>8,46,161</td>
<td>1,46,438</td>
</tr>
<tr>
<td>2011-12</td>
<td>9,21,285</td>
<td>8,27,562</td>
<td>93,723</td>
</tr>
<tr>
<td>2012-13</td>
<td>9,04,845</td>
<td>7,36,481</td>
<td>1,68,364</td>
</tr>
</tbody>
</table>

*Source: SEBI, NSE*
Table 1.3 shows the trends in foreign institutional investments during the period 2001-2002 to 2012-2013. It can be seen from the data that foreign institutional net investment has fluctuated during the period 2001-2008. The net inflows into India have grown remarkably since 2009-2010. In 2012-2013, India received a total net FII inflow of Rs. 1.68 lakh crore compared to Rs.93.7 thousand crore in 2011-2012, showing a rise of 79.6 percent. This was the highest net FII inflow in terms of rupee in any year since the FIIs were allowed to invest in Indian markets. The combined gross purchases of debt and equity by FIIs declined by 1.8 percent to Rs.9.04 lakh in 2012-2013 from Rs.9.21 lakh crore in 2011-12. The combined gross sales by FIIs declined by 11.0 percent to Rs.7.36 lakh crore from Rs.8.27 lakh crore during the period 2012-2013 in previous year. During the period 2012-2013, the net FII inflows into equity sector increased by 220.1 percent to Rs.1.40 lakh crore from Rs.43.7 thousand crore in 2011-2012. In the debt segment, the net FII inflows declined by 43.3 percent to Rs.28.3 thousand crore in 2012-13 from Rs.49.9 thousand crore in 2011-2012. The net FII investment was the highest in the 2012-2013 financial year.

During 2012-2013, there was a decrease in the number of foreign institutional investors (FIIs) registered with SEBI. On March 31, 2013, there were 1,757 FIIs registered with SEBI as compared to 1,765 during the period 2012-2013. It explains a decrease of eight members during one year. However, the number of registered sub-accounts has increased marginally to 6,335 as on March 31, 2013 compared to 6,322 as on March 31, 2012. Further we note that 581 fresh sub-accounts were registered with SEBI out of which USA has the maximum number of 578, followed by UK-207, Luxembourg -125, Mauritius -101, Canada -79 and Singapore-75 respectively.

(iv) Stock Market Indices:
Indian stock market witnessed several corrections during 2000–2001, leading to a sharp decline in the total market capitalization, turnover and trading activities.
Table 1.4: Trends in stock market indices during the period 2001-2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>BSE</th>
<th>BSE 100</th>
<th>CNX NIFTY</th>
<th>CNX Midcap</th>
<th>CNX 500</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>3469</td>
<td>1716</td>
<td>1129</td>
<td>1566*</td>
<td>775</td>
</tr>
<tr>
<td>2002-03</td>
<td>3048</td>
<td>1500</td>
<td>978</td>
<td>1259*</td>
<td>701</td>
</tr>
<tr>
<td>2003-04</td>
<td>5591</td>
<td>2966</td>
<td>1772</td>
<td>2165</td>
<td>1458</td>
</tr>
<tr>
<td>2004-05</td>
<td>6493</td>
<td>3482</td>
<td>2036</td>
<td>2927</td>
<td>1773</td>
</tr>
<tr>
<td>2005-06</td>
<td>11280</td>
<td>5904</td>
<td>3403</td>
<td>4787</td>
<td>2910</td>
</tr>
<tr>
<td>2006-07</td>
<td>13072</td>
<td>6587</td>
<td>3822</td>
<td>4850</td>
<td>3145</td>
</tr>
<tr>
<td>2007-08</td>
<td>15644</td>
<td>8233</td>
<td>4735</td>
<td>6241</td>
<td>3826</td>
</tr>
<tr>
<td>2008-09</td>
<td>9,709</td>
<td>2,867</td>
<td>3,021</td>
<td>3,408</td>
<td>2,295</td>
</tr>
<tr>
<td>2009-10</td>
<td>17,528</td>
<td>5,394</td>
<td>5,249</td>
<td>7,705</td>
<td>4,313</td>
</tr>
<tr>
<td>2010-11</td>
<td>19,445</td>
<td>5,856</td>
<td>5,834</td>
<td>8,040</td>
<td>4,626</td>
</tr>
<tr>
<td>2011-12</td>
<td>17,404</td>
<td>5,315</td>
<td>5,292</td>
<td>7,711</td>
<td>4,222</td>
</tr>
<tr>
<td>2012-13</td>
<td>18,836</td>
<td>5,679</td>
<td>5,683</td>
<td>7,402</td>
<td>4,438</td>
</tr>
</tbody>
</table>

Source: SEBI, NSE. *CNX Nifty Junior

Table 1.4 presents the data on the trends in stock market indices in Indian capital market during the period from 2001-02 to 2012-13. It can be observed from the data that from the year 2002–2003 due to bullish trend, stock market witnessed an upward momentum. In the next three to four years i.e. 2003-2004 to 2006-2007, the stock markets recorded a significant uptrend and the BSE SENSEX and CNX NIFTY rose from 3048.72 to 13072.10 and from 978.20 to
3821.55, respectively. The BSE Sensex and S&P CNX NIFTY reached its peak point 20873.33 and 6287.85, respectively, in January 2008.

The sub-prime mortgage crisis that appeared in USA, which turns as a rolling snowball, in 2007 turned into an avalanche in 2008, taking its toll on large investment banks like Bear Stearns and Lehman Brothers. Due to enhanced international linkages, the cascading effect of the crisis was felt in India as well. Large foreign institutional investments outflow pulled down the stock indices in October 2008 and again in February 2009. The authorities in USA had to declare stimulus packages to boost growth and rejuvenate business activities.

As a result, the stock market started to grow after the year 2009. At the end of the period 2009–2010, the BSE Sensex stood at 17527.77 and the S&P CNX Nifty stood at 5249.10. In the year 2009-2010 the number of companies listed on the BSE were 4,975 and on the NSE 1,470; in the year 2010-2011 the number of companies listed on the NSE were 1574 and on the BSE 5,067; in the year 2011-12 the number of companies listed on the NSE were 1,646 and on the BSE 5,133; the number of companies listed on the NSE were 1,666 and on the BSE 5,211 for the year 2012-2013.

(v) Stock Market Capitalization and Turnover:
Indian stock market substantially increased the market capitalization of the major two exchanges of the country viz. NSE and BSE. However, the market capitalization has gone through ups and downs. In the earlier years of this decade, there was a sharp fall in the market capitalization.

Table: 1.5: Trends in market capitalization and turnover during 2001-2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Companies Traded</th>
<th>No. of Trades</th>
<th>Traded Quantity</th>
<th>Average Daily Turnover</th>
<th>Market Capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>1,019</td>
<td>175</td>
<td>27,841</td>
<td>20,776</td>
<td>6,36,861</td>
</tr>
<tr>
<td>2002-03</td>
<td>899</td>
<td>240</td>
<td>36,407</td>
<td>24,621</td>
<td>5,37,133</td>
</tr>
<tr>
<td>2003-04</td>
<td>804</td>
<td>379</td>
<td>71,330</td>
<td>43,289</td>
<td>11,20,976</td>
</tr>
</tbody>
</table>
Table 1.5 presents the data on the trends in market capitalization and turnover in Indian capital market during the period from 2001-02 to 2012-13.

It can be seen from the data that during the period 2001-2003 market capitalization fluctuated but from the period 2003–2004, the former trend was reversed and the market value of listed stocks again started increasing. The market capitalization increase trend continued up to the period 2007-2008. Except the period 2008-2009 the market capitalization of the stock markets in India has seen up and down trend till 2012-2013.

(vi) Intermediation Industry:

The quantitative transformation of the Indian securities market has happened with the help of a growing intermediation industry. On the other hand, dematerialization led to a reduction in the number of registrars and transfer agents from 242 to 74 during the past decade. The number of brokers increased from 9,192 in 2000 to 9,816 in 2010, that of sub-brokers increased by more than fourteen-fold from 5,675 to 75,744 during the same period 2000-2010 signifying the reach and expansion of the Indian securities market. Supplementing this expansion during the last decade, the number of depository participants increased from 205 to 758, the number of portfolio managers increased from 23 to 243, the number of venture capital funds increased from 22 to 160 and foreign venture capital funds emerged as a new class of participants in the market with their number increasing to 143 by 2010.
Table 1.6: Trends of intermediation industry during 2010-2013.

<table>
<thead>
<tr>
<th>Market Participants</th>
<th>2010-2011</th>
<th>2011-2012</th>
<th>2012-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>With Equities Trading</td>
<td>19</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Brokers (Cash Segment)</td>
<td>10,203</td>
<td>10,268</td>
<td>10,128</td>
</tr>
<tr>
<td>Corporate Brokers (Cash Segment)</td>
<td>4,774</td>
<td>4,877</td>
<td>5,113</td>
</tr>
<tr>
<td>Brokers (Equity Derivatives)</td>
<td>2,111</td>
<td>2,337</td>
<td>2,957</td>
</tr>
<tr>
<td>Brokers (Currency Derivatives)</td>
<td>2,008</td>
<td>2,173</td>
<td>2,330</td>
</tr>
<tr>
<td>Sub-brokers</td>
<td>83,808</td>
<td>77,141</td>
<td>70,242</td>
</tr>
<tr>
<td>FIIs</td>
<td>1,722</td>
<td>1,765</td>
<td>1,757</td>
</tr>
<tr>
<td>Portfolio Managers</td>
<td>267</td>
<td>250</td>
<td>241</td>
</tr>
<tr>
<td>Custodians</td>
<td>17</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Registrars</td>
<td>73</td>
<td>74</td>
<td>72</td>
</tr>
<tr>
<td>Merchant Bankers</td>
<td>192</td>
<td>200</td>
<td>198</td>
</tr>
<tr>
<td>Bankers to an Issue</td>
<td>55</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Underwriters</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

*Source: SEBI, NSE.*

Table 1.6 presents the data on the trend of intermediation industry during 2010 - 2013 which includes the list of brokers, sub-brokers, FIIs, registrars, merchant bankers, underwriters and custodians. It can be seen from the data that number of brokers in cash segment increased from 10,203 to 10,268 but in the financial year 2012-2013 number was decreased by 140, that is 10,128. The number of brokers in equity derivatives increased from the year 2010-2011 to 2012-13 viz. 2,111 to 2,957. The number of brokers in currency derivatives also increased in the year 2010-2011 from 2,008 to 2,330 in 2012-13. But the number of sub-brokers decreased from 83, 808 in 2010-2011 to 70,242 in 2012-13. The number of portfolio managers decreased in the year 2010-2011 from 267 to 241 in 2012-2013. The custodians number increased, registrars number decreased, merchant bankers decreased, bankers to an issue increased from 2010-2011 to 2012-2013 but the underwriters remained same during the period 2010-2011 to 2012-2013.
INDIAN STOCK MARKET TRANSFORMATION:

a. Infrastructure:

There has been a remarkable expansion and modernization of infrastructure which has supported the rapid growth of the securities market in India. The securities market has been transmitted from scream-based trading to screen-based trading since the early nineties, providing an electronic, screen based, and anonymous, order-driven trading system for dealing in securities. The stock market can be accessed from anywhere in the country through the internet. In order to further expand the reach of the stock market, stock exchanges have started enabling trading through mobile telephones. Securities are no longer dealt with in physical form – they are dematerialized and electronically recorded to facilitate smooth trading and transfer of ownership.

All trades on stock exchanges undergo the regulated trading, clearing and settlement processes. The clearing houses of the exchange or its subsidiary clearing corporations undertake post-trading activities like clearing and settlement of trades on stock exchanges. These clearing houses act as the counterparty to trades on stock exchanges and guarantee finality of settlement on the strength of the Settlement Guarantee Fund (SGF)/ Trade Guarantee Fund (TGF). The settlement system has transited from accounting period trading settlement to rolling settlement in a phased manner beginning on January 10, 2000 in selected scrips to rolling settlement in all listed scrips with effect from December 31, 2001.

The settlement cycle was reduced from the initial T+5 to T+2 rolling settlement by April 1, 2003. Several processes have been streamlined to enhance efficiency and reduce the cost of the issue process in the primary market apart from the introduction of book building mechanisms for public issues in the late nineties. One such measure introduced in recent years is the process of subscription to initial public offering through the Applications Supported by Blocked Amount (ASBA) facility. Online access redressal system has been introduced in the investor grievance redressal mechanism to encourage small investors to participate in the Indian stock market.
b. Technology:

The Indian securities markets have been at the forefront in adopting the modern technology and global best practices. The adoption of V-sat technology is made available for the stock exchanges from their trading halls to every nook and corner of the country while screen-based trading brought in transparency and fairness. The National Stock Exchange of India Limited (NSEIL) was the first to use satellite-based communication technology for establishing connectivity. The NSE and BSE now offer access from 201 and 359 cities and towns in India, respectively.

c. Dematerialization:

In previous days investors had to maintain a plethora of documents. But with the introduction of dematerialization, which means automation of share ownership records in a central database, the problems of delays, bad deliveries and theft or forgery of share certificates vanished. The depositories have set up a nation-wide network with proper infrastructure to handle the securities deposited or settled in dematerialized mode in the Indian stock markets.

Table 1.7: Trends in Dematerialization during 2001-2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>Demat Turnover</th>
<th>No. of Companies Traded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>5,12,866</td>
<td>1,019</td>
</tr>
<tr>
<td>2002-03</td>
<td>6,17,984</td>
<td>899</td>
</tr>
<tr>
<td>2003-04</td>
<td>10,99,533</td>
<td>804</td>
</tr>
<tr>
<td>2004-05</td>
<td>11,40,072</td>
<td>856</td>
</tr>
<tr>
<td>2005-06</td>
<td>15,69,557</td>
<td>928</td>
</tr>
<tr>
<td>2006-07</td>
<td>19,45,286</td>
<td>1,114</td>
</tr>
<tr>
<td>2007-08</td>
<td>35,51,038</td>
<td>1,244</td>
</tr>
<tr>
<td>2008-09</td>
<td>27,52,023</td>
<td>1,277</td>
</tr>
<tr>
<td>2009-10</td>
<td>41,38,023</td>
<td>1,359</td>
</tr>
<tr>
<td>2010-11</td>
<td>35,77,409</td>
<td>1,483</td>
</tr>
<tr>
<td>2011-12</td>
<td>28,10,893</td>
<td>1,551</td>
</tr>
<tr>
<td>2012-13</td>
<td>27,08,279</td>
<td>1,577</td>
</tr>
</tbody>
</table>

Source: SEBI, NSE.
Table 1.7 presents the data on the trends in dematerialisation during the period from 2001-02 to 2012-13. It can be seen from the data that demat turnover has increased from the year 2001-2002 to 2007-2008. As investors have felt that traditional paper documents of securities are not safe for longer period of time; and delays in transit in share documents might be the reason to shift from old traditional type of security documents to modern dematerialization. From the period 2008-2009 to 2012-2013 demat turnover fluctuated, as number of companies traded in the stock exchanges also fluctuated.

THE ROLE OF SEBI TO DEVELOP SECURITIES MARKET IN INDIA:

Starting from its inception, SEBI has been committed to develop the securities markets and to set up a benchmark in market regulation. The task of development and regulation of securities markets is an ongoing process. The work of investor protection and educating of the investor and development of stock markets needs to be put in order, in a new way periodically. Following are the achievements SEBI's in the field of stock market regulations in the past decade.

i. Streamlining of capital rising:
SEBI has introduced a number of measures aimed at enhancing efficiency and minimizing the cost of raising capital from the securities market. The transformation has happened on the primary securities market which has been on account of the introduction of the book building concept for public issues: margining and proportional allotment for all categories of investors in book-built issues, mandatory initial public offerings grading, qualified institutional placements (QIPs), fast-track issues, Applications Supported by Blocked Accounts (ASBA) etc.,

ii. Reduction in transaction costs:
The categories of investors are growing along with the growth of types of products in the stock market. Transaction costs have come down due to the reduction in rationalization of fees, commissions and market impact cost. The transaction cost being charged by depositories is the lowest in the world. Broking fees have plummeted in the past decade-and-a-half. The maximum brokerage charge by a trading member in the equity cash segment can be up to 2.5
per cent of the contract price, including statutory levies like securities transaction tax, SEBI turnover fee, service tax and stamp duty.

iii. Transparency:

SEBI is more concentrated on disclosures and transparency. To make primary markets more transparent, SEBI has introduced the book building process and made necessary mandatory disclosures in the offer documents. In the secondary market, transparency is ensured by introduction of screen-based trading system which makes the price and volume data available to an investor in the remotest corner of the country. SEBI took initiative to increase the accessibility of information and own activities, it has put all that information on the website, including the consent orders, quasi-judicial orders and board notes etc.

iv. Disclosure based regulations:

SEBI made it mandatory for the companies desiring to raise capital from the securities market through public issues disclose all the information so as to facilitate informed investment decision-making. This mandate applies to companies that propose to list their securities, listed companies and all regulated entities. SEBI has introduced legal framework to improve disclosure norms and transparency standards.

v. Stock market integrity:

SEBI has introduced comprehensive Integrated Market Surveillance System (IMSS) to enhance the efficiency of the surveillance function which generates alerts arising out of unusual market movements. IMSS is also being used to monitor the activities of stock market participants as well as to issue suitable instructions to stock exchanges and stock market participants. The supervision and enforcement not only complemented the fine-tuned legal framework but also ensured better compliance. SEBI has decided to resolve cases of violations by passing quasi-judicial orders, instituting legal proceedings or through the consent process. SEBI always keeps a vigil on the stock exchange activities to promote an effective surveillance mechanism and also carries out inspections of the surveillance department of major stock exchanges in India.
vi. **Investigation:**

SEBI initiates investigation based on reference received from stock exchanges, internal surveillance department, other government departments, information submitted by market participants and complainants. It may also initiate investigation of suo-moto, where there are reasonable grounds to believe that investors’ interests are being adversely affected or there is a suspected violation of the provisions of the securities laws.

The steps involved during investigation process include an analysis of market data and static data which are KYC documents obtained from brokers; depository participants, bank records, financial results and major corporate developments etc. The purpose of such investigation is to gather evidence and to identify persons or entities behind irregularities and violations so that appropriate action can be taken wherever required. Investigation outcome may send a clear signal to the stock market players to comply with the law and expected standards of conduct.

vii. **Trends in investigation cases:**

SEBI has undertaken 1,772 investigation cases since 1992, out of which 1,539 cases have been completed. An important benefit resulting from such investigations helps the policy changes with a view to further strengthen the regulatory and enforcement environment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases Taken up for Investigation</th>
<th>Cases Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>111</td>
<td>29</td>
</tr>
<tr>
<td>2002-03</td>
<td>125</td>
<td>106</td>
</tr>
<tr>
<td>2003-04</td>
<td>121</td>
<td>152</td>
</tr>
<tr>
<td>2004-05</td>
<td>130</td>
<td>179</td>
</tr>
<tr>
<td>2005-06</td>
<td>159</td>
<td>81</td>
</tr>
<tr>
<td>2006-07</td>
<td>120</td>
<td>102</td>
</tr>
<tr>
<td>2007-08</td>
<td>25</td>
<td>169</td>
</tr>
<tr>
<td>2008-09</td>
<td>76</td>
<td>83</td>
</tr>
<tr>
<td>2009-10</td>
<td>71</td>
<td>74</td>
</tr>
<tr>
<td>2010-11</td>
<td>104</td>
<td>82</td>
</tr>
<tr>
<td>2011-12</td>
<td>154</td>
<td>74</td>
</tr>
<tr>
<td>2012-13</td>
<td>155</td>
<td>119</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1772</strong></td>
<td><strong>1539</strong></td>
</tr>
</tbody>
</table>

*Sources: SEBI.*
Table 1.8 presents the data on the trends in investigation cases during the period from 2001-02 to 2012-13 in Indian capital market. It can be seen from the data that cases taken up for investigations have fluctuated since 2001 and cases for investigations are very few during the period 2007-2010. During 2012-13, 155 new cases were taken up for investigation and 119 cases were completed. During 2012-13, about 55 percent of the cases taken up for investigation pertaining to market manipulation and price rigging and 47 percent of such cases in the previous year 2011-12 and other cases pertaining to insider trading, takeover violations and irregularities in capital issues. During 2012-13, about 44 percent of the cases completed belong to issues related to manipulation and 34 percent of the cases completed belong to market manipulation and price rigging. Other cases in which investigation was completed belong to insider trading, takeovers etc.

viii. Investor education and campaign:

SEBI has launched a multi-media investor education and awareness campaign in December, 2012. The objective of this campaign is to give important messages, creating general awareness among the investors and prospective investors across the nation. Investor awareness programs like cautioning the investors in respect of schemes which promise unrealistic returns, grievance redressed mechanism, awareness regarding the products or opportunities available in the securities market such as mutual fund, investment through primary and secondary market etc.

Campaign is being carried in Hindi, English and 11 major regional languages, with the objective of spreading awareness among maximum number of people across the nation, including the far flung areas of the nation. SEBI’s SCORES and toll free help line have been advertised in mass media like television, radio and print during December 2012 to February 2013. Education and awareness of investors along with the grievance redressed had been the thrust areas of SEBI as a part of capacity building and to make investors confident and aware while investing in securities market.

ix. Investor awareness programs and workshops:

Securities and exchange board of India has conducted various investor awareness programs with the help of stock exchanges, depositories and various trade bodies like AMFI etc. SEBI
also reimburses the cost of the approved programs conducted by investor associations recognized by SEBI, subject to certain limits.

x. Regional Seminars:
SEBI started this initiative in 2011-12; it has been extended to reach out to more people and concentrating primarily on Tier II and Tier III cities. It has conducted 44 regional seminars in India at Sultanpur, Rourkela, Sambalpur, Rangpo, Gangtok, Satara, Dehradun, Rajkot, Varanasi, Akola, Guwahati, Durg, Rajnandgaon, Bilaspur, Corba, Thiruvananthapuram, Hyderabad, Port Blair, Jamnagar, Porbandar, Pune, Nagpur, Kolhapur, Tiruchirapalli, Aurangabad, Indore, Ranchi, Bhopal, Raipur, Ujjain, Jabalpur, Bhubaneswar, Gwalior, Thrissur, Patna, Meerut, Agra, Lucknow, Chennai, Jaipur, Amritsar, Jamshedpur, Aligarh, Bareilly, Silchar, Durgapur, Kanpur, Mysore, Mangalore, Chandigarh, Jodhpur, Kharagpur, Shillong, Salem, Agartala, Vishakapatnam as on March 31, 2013.

xi. Investors website:
SEBI maintains an updated, comprehensive website for education of investors that is www.investor.sebi.gov.in. The website has been revamped to make it more investor friendly and the educative material is being updated. The schedule of various programmes is also updated on the website.

xii. Recent regulatory developments:

a. SEBI (Alternative Investment Funds) Regulations, 2012 with effect from May 21, 2012:
The Securities and Exchange Board of India (Alternative Investment Funds) Regulations repealed the SEBI (Venture Capital Funds) Regulations, 1996. The AIF Regulations were introduced to increase market efficiency by monitoring unregulated funds, encouraging formation of new capital and consumer protection.

b. Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 with effect from June 20, 2012:The Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 were framed to provide for the ownership and governance norms for stock exchanges and clearing corporations.
c. **SEBI Investment Advisers Regulations, 2013 with effect from January 21, 2013:** The SEBI investment advisers Regulation, 2013 were framed to provide a framework for registration and regulation of investment advisers, the act of giving advice is only regulated under this regulation, whereas the regulation of selling of products, if any, would come under the purview of the product regulators like IRDA, RBI and PFRDA.

d. **SEBI (Depositories and Participants) (Amendment) Regulations 2012 with effect from September 11, 2012:** In line with the recommendation of Bimal Jalan Committee, the SEBI (Depositories and Participants) Regulations, 1996 were amended to incorporate the norms on shareholding and governance of depositories.

e. **SEBI (Issue of Capital & Disclosure Requirements) (Third Amendment) Regulations, 2012 with effect from August 24, 2012:** To align the ICDR Regulations with rule 19(2) (b) of securities contract (Regulation) Rules, 1957; and to relax the requirement of cooling off period of 12 weeks before and after offer for sale and institutional placement programme.

f. **Securities and Exchange Board of India (Mutual Funds) (Second Amendment) Regulations, 2012 with effect from September 26, 2012:** Asset Management Companies (AMCs) are required to disclose half-yearly financial results of mutual funds on their websites and an advertisement in this regard must be published in at least one national English daily newspaper and one regional news paper. To provide asset management companies flexibility to determine quantum of investment and advisory fees subject to overall capital and provide the same are fully disclosed in the offer document.

g. **Securities and Exchange Board of India (Issue and Listing of Debt Securities) (Amendment) Regulations, 2012 with effect from October 12, 2012:** The regulation introduced a standard template for disclosures on terms of the issue, financial information and legal covenants in offer documents for privately placed debt securities. Some additional disclosures that have now been introduced are details of change in capital structure over the last five years.
h. **SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) (Amendment) Regulations, 2012 with effect from December 11, 2012:** A new clause was inserted to sub regulation (2) of regulation 4 of the SEBI prohibition of fraudulent and unfair trade practices relating to securities market regulations, 2003 to bring misspelling of units of mutual fund scheme within the ambit of fraudulent or an unfair trade practice.

i. **Securities and Exchange Board of India (Self Regulatory Organisations) 2004 (Amendment) Regulations, 2013 w.e.f January 7, 2013:** These amendment regulations were brought out to enable registration of self regulatory organizations that could register and regulate distributors of mutual funds and portfolio managers.

**PROFESSIONAL INTERMEDIATION INITIATED BY SEBI:**

Intermediaries bridge the gap between investors and issuers in the Indian securities market. Therefore, the way intermediaries deal with their clients influences their trust and willingness to carry out business in the stock market. SEBI has taken several steps to ensure that intermediaries are adequately equipped with, both in terms of physical infrastructure and professionally qualified staff, to discharge their responsibilities in a professional and cost-effective manner. In this regard SEBI has taken several steps like corporatization of the brokerage, review of eligibility norms of intermediaries from time to time, certification of persons who are associated with securities markets, etc. The important measures initiated by SEBI are given below:

**(i) Trading in equity derivatives:**

To provide liquidity to the stock market and to enable the stock market to protect from larger shocks, derivatives trading were introduced. Trading was allowed in derivatives from June 2000 in index futures contracts based on the S&P CNX Nifty and BSE- 30 (Sensex) index at the NSE and the BSE, respectively. Trading in index options, stock options and futures on individual stocks commenced during June, July and November 2001, respectively.
(ii) **Internet trading:**
SEBI has introduced internet trading to provide added advantage of convenience, transparency and real time access to investors. Internet-based order entry was allowed for execution of trades on stock exchanges.

(iii) **Compulsory T+2 rolling settlement:**
To improve the efficiency of the securities market, rolling settlement was introduced on a voluntary T+5 basis in the demat segment of the stock exchanges on January 15, 1998, to expedite the trading and settlement process. In 2001–02, compulsory T+5 rolling settlements were introduced for all scrips listed and traded in any stock exchange in India. The rolling settlement cycle was shortened from T+5 to T+3 with effect from April 1, 2002. The clearing and settlement cycle time was further contracted to T+2 with effect from April 1, 2003 for quick settlement and lower settlement risk in the Indian capital market.

(iv) **Exchange traded derivatives contracts on currency and interest rate:**
To make the Indian capital market more efficient, transparent and world class, new products, namely, interest rate futures contracts in June 2003 and futures and options contracts on sectoral indices in August 2003 were introduced. Foreign institutional investments and Non-Resident Indians (NRIs) were permitted to invest in stock exchange-traded derivative contracts. Exchange-traded derivatives contracts on a notional 10-year government bond were allowed for trading.

Stock brokers were allowed to trade in commodity derivatives. The NSE commenced trading in currency futures on August 29, 2008, the BSE commenced trading on October 1, 2008 and the MCX-SX commenced trading on October 6, 2008.

(v) **Corporatisation and Demutualisation:**
SEBI envisaged corporatisation and demutualisation (C&D) of exchanges to do away with conflicts of interest existing in mutual stock exchanges where ownership, management and trading rested with the same set of people. In order to expedite this process, SEBI approved and notified the C&D schemes of 19 stock exchanges during 2005–06. The NSE and OTCEI were
already notified as corporatised and demutualised stock exchanges vide the notifications dated March 23, 2005 and September 15, 2005, respectively.

(vi) **Gold Exchange Traded Funds (GETF):**

The announcement made by the finance minister in his budget speech during 2005–06, SEBI (Mutual Funds) Regulations, 1996 was amended to permit mutual funds to introduce GETFs in India subject to certain investment restrictions.

(vii) **Dissemination of filings:**

On the direction of SEBI the BSE and the NSE jointly launched a common portal www.corpfiling.co.in on January 1, 2007 to disseminate the filings made by companies listed on these exchanges, in terms of the listing agreement.

(viii) **Permanent Account Number (PAN):**

SEBI was made permanent account number mandatory for all demat accounts pertaining to all categories including minors, trusts, foreign corporate bodies, banks, corporate, FIIs, and NRIs. SEBI stipulated that PAN would be the sole identification number for all participants in the securities market, irrespective of the amount of transaction with effect from July 2, 2007. The objective was to strengthen the Know Your Client norms through a single identification.

(ix) **Grading of IPOs:**

SEBI has made it mandatory for IPOs to obtain grading from at least one credit rating agency registered with SEBI. The grading which was given by the rating agency is required to be disclosed in the prospectus, abridged prospectus and in every advertisement for IPOs.

(x) **Short selling and Securities lending and Borrowing (SLB):**

SEBI made the broad regulatory framework for short selling by institutional investors and a full-fledged securities lending and borrowing schemes. According to that regulatory framework relevant amendments were made to SEBI (FII) Regulations, 1995 and SEBI (Mutual Funds) Regulations, 1996, which enables FIIs and mutual funds to participate in short selling and SLB.
(xi) **Introduction of direct market access:**
SEBI has introduced the facility of Direct Market Access (DMA) to increase liquidity for greater transparency and lower the impact cost for large orders and reduce the risk of error associated with manual execution of investor orders. This facility allows brokers to offer its clients direct access to the exchange trading system through the broker's infrastructure without manual intervention by the broker.

(xii) **Transition from DIP guidelines to ICDR regulations:**
SEBI (Issue of Capital and Disclosure Requirements) regulations, 2009 replaced with SEBI (Disclosure and Investor Protection) guidelines to protect the investor confidence and made to disclose the information about the company.

(xiii) **Extension of trading hour:**
Stock exchanges were allowed to set any trading hours between 9 a.m. and 5 p.m., but they should be in place a risk management system and infrastructure commensurate to the trading hours.

(xiv) **Corporate debt market:**
SEBI directed the BSE and the NSE to introduce a trade-reporting platform for corporate bonds in 2006–07. Continuing with the rationalisation of disclosure norms for listing debt issuances, the listing agreement for debt securities was further simplified. All trades in corporate bonds between specified entities, viz., mutual funds, foreign institutional investors/sub-accounts, venture capital funds, foreign venture capital investors, portfolio managers, and RBI regulated through the National Securities Clearing Corporation Limited (NSCCL) or the Indian Clearing Corporation Limited (ICCL). The provisions of this circular apply to all corporate bonds traded Over-the-Counter (OTC) or on the debt segment of stock exchanges on or after December 1, 2009.

(xv) **SEBI toll free helpline:**
To facilitate replies to various queries of the general public on matters relating to securities market, SEBI has introduced toll free helpline service number 1800 22 7575/1800 266 7575 on December 30, 2011. The toll free helpline service is available to investors from all over
India and is in fourteen languages viz. English, Hindi, Marathi, Gujarati, Tamil, Bengali, Malayalam, Telugu, Urdu, Oriya, Punjabi, Kannada, Assamese and Kashmiri. The toll free helpline service was initially available on all working days from Monday to Friday from 9:30 a.m. to 5:30 p.m. (excluding declared holidays). With effect from September 1, 2012, SEBI has extended its toll free helpline service (1800 22 7575 / 1800 266 7575) to Saturday and Sunday also. The services provided by SEBI on Saturday and Sunday are available to investors from 9:30 a.m. to 5:30 p.m. presently in four languages only viz., English, Hindi, Marathi and Gujarati only.

ECONOMIC AND CAPITAL MARKET DEVELOPMENTS IN INDIA:

(i) Investment and economy:

In our country the rate of investment has increased due to improvement in market infrastructure and greater retail participation. The gross domestic investment or gross domestic capital formation (GDCF) as a percentage of gross domestic products increased from 24.30 per cent which was in 2000–01 to 37.70 per cent in 2007–08. Due to the financial crisis, gross domestic capital formation decreased to 34.90 per cent in 2008–09. Gross domestic savings as a percentage of gross domestic products has also increased, commensurate with the investment growth. The gross domestic savings had increased from 23.74 per cent in 2000–01 to 36.41 per cent in 2007–08 which eventually decreased to 32.50 per cent in 2008–09.

In the current decade in our economy both savings and investment as a percentage of gross domestic product rose above 30 per cent, which is a positive signal for any, developing economy. The gap between investment and savings is filled up by foreign investment in India.

There has been a steady growth in gross domestic savings except for the year 2008–09 since 2000–01. All segments of savings have increased, though private domestic saving has shown a steep increase. Due to increase in financial intermediation, the widening and deepening of the financial system and the relative rates of return on assets of the household sector's portfolio also influence the distribution pattern of savings.
The absolute amount of household sector savings in shares and debentures increased from about Rs.111.48 billion in 2000–01 to Rs.894.58 billion in 2007–08. However, due to the financial crisis, savings in household segment fell to Rs.220.86 billion in 2008–09. As a percentage of the financial assets of the household sector, the share of savings in shares and debentures declined to 3.80 per cent in 2008–09 from a robust 16.18 per cent in 2007-2008. This trend is continuing with the trend in resource mobilisation by the primary market. The capital raised by the primary market declined from Rs.870.29 billion in 2007–08 to Rs.62.19 billion in 2008–09.

Indian economy got slowed down due to external factors and domestic factors in the year 2012-13. During that period Indian economy could not record even a 5% rate of economic growth. After a recovery from the global financial crisis Indian economy recorded robust growth of 8.6 percent in the year 2010 and 9.3 percent in the year 2011, respectively, the gross domestic product growth decelerated to 6.2 percent in the financial year 2012. The growth fell to a decadal low of 5 percent in financial year 2013. The deceleration in the Indian economy in financial year 2013 was on account of a slowdown in domestic demand, but more due to a gap in investments by Indian companies, in the face of high borrowing costs. Delays in mandatory government approvals also hurt company cash flows, resulting in stalled projects.

The slowdown has continued in first half of 2014. During the first quarter 2014, economic growth stood at 4.4 percent (the slowest pace since financial year 2009). The poor growth performance is attributable to a broad-based slowdown in domestic demand and private sector investments. Encouragingly, the trend appeared to be reversing in the second quarter financial year 2014, which is the most recent data on GDP growth available at present. During the period, economy showed some signs of recovery with a growth rate of 4.8 percent.

India’s financial markets—particularly the secondary securities markets—were also affected by the global slowdown. While the market-cap to GDP ratio has fallen to 62.2 percent in end-March 2013 from 67.9 percent in March 2012., the average daily market turnover in the cash segment of NSE in 2012-2013 has fallen by 4 percent from the level prevailing in 2011-2012.
Volatility has risen in the equity market as reflected in an increase in the volatility of the benchmark index CNX Nifty 50, from 0.9 in September 2012 to 1.9 in September 2013. Further, with sharp deterioration in growth prospects, resource mobilization through public and rights issues in the primary market continue to contract. The resource mobilized has fallen from about Rs.485 billion in 2011-2012 to Rs.325 billion during 2012-2013.

(ii) Primary market:

In primary market an aggregate of Rs.12.06 billion was raised by the government and the corporate sector in 2012-2013, compared to Rs.9,926 billion in 2011-2012 which is an increase of 21.5 percent. Private placement accounted for 95.9 percent of the domestic total resource mobilization by the corporate sector. Resource mobilization through euro issues dropped significantly by 63 percent to Rs.10 billion in 2012-2013.

(iii) Secondary Market

The stock exchanges offer screen-based trading system. Trading members are very important in the secondary market since they play a vital role in Indian capital market. There were about 10,128 trading members registered with SEBI at the end of March 2013. The market capitalization has grown enormously which is indicating that more companies are using the trading platform of the stock exchange. The market capitalization on BSE was around Rs. 63.87 billion at the end of March 2013.

Market capitalization is used as a measure that denotes the importance of equity markets relative to the gross domestic product. It is derived as total capitalization of stocks divided by the gross domestic product. It is of economic significance since the stock market is positively correlated with the ability to mobilize capital and diversify risk. Indian stock market capitalization ratio decreased to 63.7 percent in 2012-2013 from 69.3 percent in 2011-2012.

The trading volumes on the stock exchanges stood at Rs. 9.68 billion in 2002-2003 and there was an increase of 67.3 percent in 2003-2004 standing at Rs.16.20 billion. The trading volume continued for the next few years and in 2006-2007, the turnover showed an increase of 21.4 percent, reaching Rs. 29.01 billion from Rs.23.90 billion in 2005-2006. There was significant increase of 76.8 percent in trading volumes in 2007-2008 followed by a fall of 24.9 percent in 2008-2009.
In Indian capital market trading volume has reached peacked level at Rs.55.16 billion in 2009-2010. According to SEBI, since last three years the turnover in our country cash market of stock exchanges has plunged continuously. In 2010-2011, the cash market witnessed a fall of 15.1 percent to Rs. 46.85 billion in 2010-2011, while in 2011-2012, it dropped by 25.6 percent to Rs.34.84 billion. The downward trend in trading volume continued in 2012-2013 and fell 6.5 percent to Rs.32.57 billion.

(iv) **Household investments in India**

RBI data reveals investments in fixed income instruments accounted for 86.3 percent of the household financial savings during 2012-2013, a marginal decline in comparison to 89.3 percent in 2011-2012. During 2012-2013, the household sector invested 56.2 percent of financial savings in deposits, 31 percent in insurance/provident funds, and 3.5 percent in the securities market including government securities, units of mutual funds, and other securities. To sum up, fixed-income-bearing instruments were the preferred assets of the household sector.

(v) **Equity derivatives:**

According to SEBI the turnover in the equity derivative segment displayed an increase of 20.4 percent and reached Rs.3.87 lakh crore in 2012-13. The currency derivative segment declined by 12 percent to Rs.87.10 lakh crore in 2012-13 despite volatile rupee. The derivative segment developments have reported the biggest and broadest decline in at least a decade in the global listed derivatives market\(^\text{16}\). The total number of futures and options contracts traded on the stock exchanges the world over in the calendar year 2012 has declined by 15.3 percent. The BSE volume moved from just three million contracts in calendar year 2011 to 243.76 million contracts in calendar year 2012. NSE is ranked third among the top thirty derivative exchanges in terms of the number of contracts traded or cleared in the calendar year 2012.

Nifty options have retained their rank as the world’s second most traded option in calendar year 2012 in the category of “Foreign exchange futures & options contracts” in the U.S. Dollar/Indian Rupee and second position respectively. The foreign investments in India contributed by the foreign institutional investment and foreign direct investment owned assets under custody valued at Rs.15. 77 lakh crore for 2012-2013 which were raised from Rs.13.39 lakh crore in 2011-2012.
INTEGRATION OF INDIAN CAPITAL MARKET:

Indian capital market is important that it gets itself integrated with other segments of the financial system. Such integration would lead to reduction of speculative movements of funds that may occur due to arbitrage that market segmentation offers. This in turn ensures efficient intermediation and optimal resource allocation. The borderlines between different market segments are fast getting connected in view of the rapid and varied developments taking place in the realm of capital market. With banks being allowed greater flexibility so far as their investment activities are concerned, the traditional wall between banks and securities market is getting eliminated.

Moreover, as banks are increasingly providing long-term loans, they enter capital market to raise resources through equity capital and subordinated debts. Similarly, the development financial institutions (DFIs) are also allowed to lend in money market and borrow in the notice money market segment. The distinction between the banks and development financial institutions is getting thinner and the development financial institutions are facing increasing competition from the banks so far as long-term funding is concerned. Banks have also been permitted to diversify into capital market activities by setting up of mutual funds.

Another feature of the financial market is inter-linkages among the money market, foreign exchange market and repos market. The foreign exchange market has close integration with the call money market and certificate deposit market. The internal source of financing Indian companies include bonus shares, reserves and surplus and provisions, while the external sources of funds comprise increase in paid up capital, borrowing and trade dues etc. shows that the share of internal sources declined while the share of external sources dominated in the nineties due to sharp decline in the share of depreciation in the eighties and nineties.

The increase in the share of paid up capital was mainly due to increase in the share of premium. The share of debentures and borrowings from financial institutions declined. Thus, capital market system is dominant in India's financial system. Indian companies borrow term loans from financial institutions, short term finance from commercial banks and debentures besides, borrowing from intermediaries, banks and financial institutions. The share of bank borrowings and debentures in total sources of funds has declined while the share of long term borrowings shown an uptrend.
Capital market in India has experienced significant developments for the last three decades. The volume of transactions in the capital market increased tremendously. The new financial institutions such as merchant banks, mutual funds and venture capital companies have emerged and they are very active. The new financial instruments like fully and partially convertible debentures, like 182 days treasury bills, commercial papers have appeared. The commercial banks, which deal in the money market, are entering into the capital market through their merchant banks and mutual funds subsidiaries in addition to leasing and venture capital finance\(^\text{17}\).

According to the Narasimham committee, neither the CCI nor the SEBI should interfere in prior sanction in the case of companies whose shares are already listed in the stock exchanges. In the case of unlisted shares, the general awareness of investors on prospects and background of the promoters may not be high and with a view to prevent any misuse by promoters the stock exchanges should approve the prospects by the SEBI guidelines. The SEBI could formulate prudential guidelines to protect the interest of investors.

An important outcome of the equity market is stock market liquidity. A liquid market is one where transaction can be done with low transaction costs. Equity derivatives market has emerged as an important avenue for price discovery. In India, it has become one of the most successful derivatives markets among all countries.

The Government bond market has been highly non-transparent over the counter market. All transactions are privately negotiated. The establishment of the Clearing Corporation of India (CCIL) in 2001 was to perform clearing functions of the debt market, in line with the National Securities clearing Corporation from 1999 onwards on the equity market. The CCIL does risk management on bond and currency market transactions of its participants. In the event of default the CCIL takes the full responsibility of settlement obligations bringing greater transparency to the debt market.

Indian stock markets had undergone structural transformation during the nineties. The National stock exchange started its screen based on-line trading in 1994 followed by the Bombay stock exchange and other stock exchanges with a view to bring the participants closer. It helped in setting up of depositories reduce risks involved in settlement delay. Stock market indices are the most important tool for judging the performance of an investment portfolio.
Stock market enables the trading of shares and securities on a continuous basis and provides an effective exit medium for investors.

**REBOUND IN INDIAN CAPITAL MARKET:**

The Indian capital market started the year 2012-13 on a low note following the global economic signals of the previous year 2011-12. The reform measures undertaken by the government as well as slender improvement visible in the global economic condition have however uplifted the mood in the domestic securities market.

The Sensex which closed at 17,404 on March 30, 2012 reached 18,836 on March 28, 2013. It touched the 20,000 mark during the year, which was last seen in October 2010. Nifty, too, touched the 6,000 mark while closing at 5,683 on March 28, 2013. While the Sensex registered a growth of 8.2 percent, Nifty recorded a growth of 7.3 percent\(^{18}\). Indian markets also witnessed the establishment of a third stock exchange in the country with nationwide terminal with MCX-SX going live in equities and equities derivatives segment on February 11, 2013. The benchmark index, SX40, is however yet to be disseminated.

The factors that are responsible for rebound phenomenon in Indian Capital Market are as follows:

- Strong macro-economic aggregates.
- Active participation of retail investors with renewed vigor.
- Active FII buying.
- Active III (Indian Institutional Investor) buying.
- Favorable sovereign rating by leading credit rating agencies like S&P, Moody’s, etc.
- Strong foreign exchange reserve position.
- Strong fundamentals of basic and other industrial segments such as steel, FMCGs etc.
- Favorable monsoons fuelling adequate demand for goods and services in the economy.
- Favorable political conditions.
- Forecasts of better prospects in future.
CONCLUSION:

In this chapter the researcher has presented the introduction of the subject matter viz. reasons to invest by people, role of investment in economic development of the nation, avenues to invest by public, emergence of equity culture, why individuals invest on equity shares, promoting of equity culture, development in the Indian capital market, Indian stock market transformation, the role of SEBI to develop securities market in India, professional intermediation initiated by SEBI, economic and capital market developments in India, integration of Indian capital market, rebound in Indian capital market and conclusion.

Although 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. However, the stock trading is not a panacea for all that ails the Indian stock market if the recent experience of some of corporate and banks abroad is of any indication. It is to be noted with happiness that Government of India has successfully introduced the derivative trading in the stock exchanges. In spite of the fact that the Indian Capital Market has made a marvelous dent both in primary as well as secondary markets, there are very many issues, which require immediate and urgent attention of the planners concerned.

References:


15. SEBI website.


18. NSE Website.