CHAPTER 1

STATEMENT OF THE PROBLEM

1.1 Introduction :-
Capital market provides the resources needed by medium and large scale industries for investment purposes. Unlike the money market which deals with short term sources of funds or which provides working capital resources, capital market deals in long term sources of funds. The long term sources, in this context mean the sources of funds the term for which is more than one year. Thus, capital market functions as an institution which channelizes the savings into investment. It serves as medium to bring together entrepreneurs, initiating activity involving huge financial resources on the one hand and savers, individuals or institutions, seeking outlets for investments, on the other.

The capital market consists of the primary markets and the secondary markets with a close link between them. The primary market creates long term instruments through which corporate entities borrow from the capital market, but the secondary market is the one, which provides liquidity to these instruments. These (primary and secondary) markets interact with each other, if secondary market is active and/or buoyant. The term capital market also includes, apart from the primary and secondary market, term lending institutions, banks and investors. It also includes everybody and anybody who is engaged in providing long term capital to various sectors.

1.2 Reason for Selection of the Topic :

In India, the history of capital markets dates back to more than 130 years. The inception of capital markets in India was caused by the establishment of the Stock Exchange, Mumbai (Popularly known as BSE) in 1875. For more than 100 years of its inception, the capital market was considered as a place for elite group only. It was not seen as a factor, which can mobilize the saving into investment till recent decades. But, the increasing capital requirements of the economic system have
induced common man to be aware of the development and working of capital markets.

Firstly, it is now being emphasized that capital market is not meant only for private corporate entities to raise their funds, but it can mobilize the household savings and such small savings, collectively can be put to use more efficiently, through the capital market. Now even the governments have also realized that in the area of public sector, capital market may act as the key factor in raising finance from various sources. Keeping all these considerations in mind, this topic has been chosen for the present study.

Secondly, the capital market has, from research point of view so far remained less touched. The common man has also a fear about the capital market in his mind. Hence, the present study is an attempt to remove the myths and misconceptions about the capital market and this would, in turn facilitate a better understanding about the markets for the common man.

Indian capital market has grossly remained ignored from the academic research. Samir K Barua, V. Raghunathan and Jayanth R. Varma have observed this fact in the following words

“Considering the size, vintage and the extent of development of the Indian Capital market, the total volume of research on it appears to be woefully modest. The total number of research works (book, dissertation or research paper) for 118 potential research institutions is only about 0.1 unit of work per institution per year! If one applies a strict definition of research, half of these works have to be excluded from the list.”

Arup Choudhari says “A major reason for the paucity of capital market-based studies in emerging capital markets is the difficulty of obtaining data regarding the public release of information in these markets and share price/value changes over a sufficiently long period of time.”
Harvey\textsuperscript{3} comments that “another major inhibiting factor is weakness in the research capability of local brokers and financial institutions. Shortages of qualified personnel, absence of effective competition among brokers, and a weak financial press often combine to retard the flow of financial and other information to investors.”

The possible causes of this fact may be the lack of availability of data base and computing resources. But now, with increasing foreign institutional investment in the Indian capital market, it is expected that some really rigorous and empirical studies may come out in the near future. The present study is a small attempt in this direction.

1.3 Objectives of the Study:

Capital market is a key factor in raising finance for the different corporate entities. The capital market is a channel which transforms the savings into investment. The present study is undertaken to throw light upon various dimensions of capital market. In order to find the frequently asked questions about the capital markets, broadly, the following objectives were set for the study.

1. To review the process of growth of capital markets, their evolving structure and their functioning through stock exchanges in India.
2. To examine and assess characteristics of trading system presently employed in the capital market.
3. To examine existing technical analysis for investment decision making and to suggest modifications, if any, with special emphasize on recent development after the implementation of New Economic Policy.
4. To examine the evolution of regulatory mechanism for capital market in India.
5. To find out constraints in smooth functioning of capital market.
6. To identify prospects or potential areas of improvement.
1.4 Research Methodology:

The present study is largely based on the available secondary data. The statistical data regarding growth of the capital markets was available from various websites. Majority of the information was collected from the following sources.

1. Barr. Balasaheb Khardekar Library, Shivaji University, Kolhapur
5. Database available with IDBI Bank’s Late Shri R. N. Godbole Chair and Bank of India Chair, Shivaji University, Kolhapur

The following eminent personalities in the field were personally contacted by the researcher particularly with a view to ascertaining the appropriateness and relevance of the topic of study.

1. Dr. M. Y. Khan (Former Economic Advisor, SEBI, Mumbai)
2. Mr Hari K (Manager, N.S.E. Mumbai.)
3. Mr. V. Shankar (M.D. Interconnected Stock Exchange of India Ltd., Navi Mumbai)
4. Mr. P. K. Shelatkar (Asst. Vice President, UTI Securities Ltd., Mumbai)
5. Mr. C. B. Have (Former Chairman, SEBI, Former President, NSDL)
6. Mr. Rohit Singh (SEBI, Mumbai.)

The review of literature consisting of books, articles published in the journals, M. Phil. and Ph.D. dissertations, working papers by reputed institutes has also been an important source of information for the present study.

Apart from the above, interview and discussions with experts in the field, available records of various government offices have also been significant in the study of the evolution, regulatory mechanism and problems of Indian Capital Market.
1.5 Hypotheses:

To understand the historical developments in the capital market, following hypotheses were set.

1. The Indian capital markets were unable to contribute to the development of the economy in pre-independence era.
2. Public sector development has worked as a major constraint on capital market growth.
3. The rural economy is not well connected with the capital market.
4. Capital markets have helped industrial sector, but ignored agriculture.
5. Foreign investment in Indian capital market may create substantial instability in financial markets.

1.6 Scope of the Study:

The broad areas covered under the present study are as follows:

1. Background, function and growth of Indian capital market.
2. Vocabulary explanations regarding terms used in the capital market.
3. Analysis of investment pattern adopting technical analysis (e.g. ratio analysis, balance sheet analysis) vis-a-vis various sectors of the economy.
4. Examination of the present trading system with a view to pinpoint potential improvements.
5. Study of the problems faced by capital markets and suggest suitable remedies.

1.7 Limitations of the Study:

Though the researcher has tried to get all the relevant facts about the evolution of capital markets in India, the study has, still some inherent limitations as mentioned below:

1. The geographical scope of the study is India and topical scope is the capital market but there are various factors: both indigenous as well as out of the
country, having impact on the markets. All of such factors have not been fully considered, though some of the global factors are studied.

2. The capital market includes primary market, secondary market, term-lending institutions, banks and investors. But the stock markets which constitute the major portion of capital market have been significantly studied. However, the other institutions involved in the market have been given relatively lesser attention and coverage.

3. There are 19 stock exchanges in India. But the most popular stock exchange: The Stock Exchange, Mumbai (BSE) and National Stock Exchange (the stock exchange having the highest turnover) only have been studied with more vigour as they collectively constitute 90% of the turnover the stock exchanges. Other regional stock exchanges have been briefly overviewed.

1.8 Chapter Scheme:

Chapter 1 Statement of the Problem

This introductory chapter opens with introduction of the topic. A brief account of significance of the present study, motive behind the study has been discussed in this chapter. Similarly, this chapter also clarifies some methodological explanations about the research study.

Chapter 2 Evolution of Capital Markets in India – A Historical Review

This chapter concentrates on the core area of the present study. It gives a brief outline of the historical developments of the Indian capital market. This chapter, in itself, is divided into four parts: In the first part, the span from inception of capital markets to the First World War (1875-1919) considered. The second part concentrates on the period from the First World War to the independence of India i.e. (1920-1947). The third part studies the post independence developments of the capital markets in India. (1947-1990). The fourth and the last part throws light on the impact of the New Economic policy on Indian Capital Markets (1991 onwards)
Chapter 3 The Terminology, Concepts and Characteristics of Indian Capital Market

This chapter gives a theoretical perspective of the study area. Explanation about the terms and concepts used in the capital market has been discussed in the third chapter. It also emphasizes on major characteristic features of the Indian capital markets.

Chapter 4 Review of Literature

The present study is based, to a large extent, on the secondary data and library work. A lot of books, documents, journals, research studies, working papers and reports have been critically studied to identify the landmarks in the history of Indian capital market. This literature has been collected from various libraries, regulatory authorities and institutions. This has provided the basis for the entire study. The research already done in the area and the areas for further study are indicated with the review of literature which is provided in this fourth chapter.

Chapter 5 Changing Investment Pattern (Post-Independence Period)

The emergence of various stock exchanges in India and their role in transforming savings into investment has been discussed in this chapter. The chapter brings out the phase wise development of Indian Capital markets. Specifically, the changes which have taken place in the trading and investment pattern have been studied in this fifth chapter.

Chapter 6 Problems and Constraints in the Functioning of Indian Capital Market

The findings and observations drawn from the study made in the foregoing chapters, have been presented in this chapter. While presenting the observation, an emphasize is given on the major threats to the smooth functioning of the capital markets in India. The chapter also identifies the socio-economic, political and administrative barriers which are working as hindrances in the process of development of capital markets in India.
Chapter 7 Indian Capital Markets and the Regulatory Authorities

The Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have been successfully regulating the functioning of the capital markets in India. Particularly, SEBI has been more significant as a regulatory authority. This chapter focuses on emergence of SEBI and RBI as regulatory authorities and throws light on the role of regulatory authorities in the development of the Indian Capital Markets.

Chapter 8 Major areas of improvements and specific Policy Programmes and Suggestions

This is the concluding chapter which gives a synthesis of the whole study. The genesis of which has been given on the introductory chapter. After going through the genesis (objectives) and thesis (historical landmarks), it would be proper to suggest the constructive suggestions based on the problems and constraints being faced in the functioning of capital market. The regulatory authorities have also brought some programmers and announced some policies to promote and develop the capital market. This chapter examines such programmers and policies and also tries to provide some meaningful and practical suggestions for capital market development which, in turn, will facilitate transforming the savings into investments. Finally, the chapter is annexed with a bibliography to acknowledge the contribution of researchers in this field.
