Capital Markets The term capital market refers to the institutional arrangements for faciitating the borrowing and lending oflong-term funds. It is concerned with those private savings, individuals as well as corporate, that are turned into investments through new capital issues and also new public loans floated by government and semi-government bodies. A capital market may be defined as an organised mechanism for effecive and efficient transfer of money capital or financial resources from investing parties, i.e, individuals or institutional savers to the enterpreneurs engaged in industry or commerce in the business either be in the private or public sectors of an economy.

Objectives and Importance An efficient capital market is a pre-requisite of economic development. An organised and well developed capital market operating in a free market economy.

1. Ensures best possible coordination and balance between the flow of savings on the one hand and flow of investment leading to capital formation on the other.

2. Directs the flow of savings into most profitable channels and thereby ensures optimu utilisation of financial resources.

Characteristics of Capital Market The following are the important features of a developed capital market • Market for long term funds.

• Important component of financial system.

• Facilitates borrowing and lending of funds.

• Helps in raising capital. • Involves both individual and institutional investors.

• Meets demand and supply of long term capital services

• Involves intermediaries

. • Deals in marketable and non-marketable securities

. Functions of Capital Market

1. Helps in capital formation.

2. Act as a link between savers and investors.

3. Helps in increasing national income.

4. Facilitates buying and selling.

5. Channelizes funds from unproductive to productive resources.

6. Minimises speculative activities

. 7. Brings stability in value of stocks.

8. Promotes econmic growth

. 9. Play important role in underdeveloped country

structure of the Indian Capital Market

The capital market in India may be classified into categories, organised and onorganised. In organised sector of capital market demand forlong term capital comes from corporate enterprises, public sector enterprises, government and semi-government institutions. In India even the organised sector of capital market was ill developed till recently because of the following reasons;

- **Agriculture was the main occupation which did not lend itself to the floatation of securities.**
- **The foreign business houses hampered the growth of securities market.**
- **Managing agency system also accounted for ill-development of capital market as managing agents performed both activities of promotion and marketing of securities.**
- **The investment habit of individuals**
- **Restrictions imposed onthe investment pattern of various financial institutions.**

The unorganised sector of the capital market consists of Indigeneous Bankers and Private Money-lenders. Broad Constituents in the Indian Capital Markets A capital market constitutes the following

; 1. Fund Raisers: Companies that raise funds from domestic and foreign sources, both public and private

. 2. Fund Providers: The entities that invest in the capital markets.these includes subscribers to primary market issues, investors who buy in the secondary market, traders, speculators, foreign institutional investors, mutual funds, venture capital funds, NRIs, ADR/GDR investors, etc.

3. Intermediaries: Are service providers in the market, including stock brokers, sub-brokers, financiers, merchant bankers, underwriters, depository participants, registrar and transfer agents, portfolio managers, custodians, etc.

4. Organizations: Include various entities such as MCX-SX, BSE, NSE, other regional stock exchanges and the two depositories National Scurities Depository Limited(NSDL) and Central Securities Depository Limited (CSDL).

5. Market Regulators: Includes the securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI) and the Department of Company affaires (DCA).

Components of Capital Market

The Indian Capital Market is broadly divided into Gilt-Edged Market and the Industrial Securities Market.

1. **Gilt-Edged Market: Refers to the market for government and semi-government securities backed by Reserve Bank of India (RBI). Government securities are tradable debt instruments issued by the Government for meeting its financial requriments. It is also called gilt edged securities market. The term gilt-edged means " of the best quality"**
2. **. 2. Industrial Securities Market: Refers to the market whic h deals in equities and debentures of the corporate. It comprises of the most popular instruments**

RECENT DEVELOPMENTS IN INDIAN CAPITAL MARKET

1. Growth in Financial Intermediation:

The Indian capital market has grown due to innovation of the mechanism of indirect financing.This innovation has enhanced the efficiency of flow of funds from ultimate savers to ultimate users through newly established financial intermediaries like UTI, LIC and GIC. The LIC has been mobilising the savings of househollt has been deploying a part of 'life fund' to purchase the shares and debentures of the companies. Until 1991 UTI was amongst the top ten shareholders in one out of every three companies listed in the Stock Exchange in which it had a shareholding. Likewise, UTI has been mobilising savings of households through the sale of 'units' to invest in securities of 'blue-chip' companies.

In short, financial intermediaries like LIC, UTI and GIC have activated the growth process of Indian capital market. It is evident from the rising intermediation ratio. The intermediation ratio is a ratio of the volume of financial instruments issued by the financial institutions, i.e., secondary securities to the volume of primary securities issued by non-financial corporate firms rose from 0.27 during 1951-56 to 0.37 during 1979-80 to 1981-82.

2. Growth in Underwriting of Securities:

The New Issue Market as a segment of capital market can be activated through institutional arrangements for the underwriting of new issues of securities. During the pre-independence period, the volume of securities underwritten was quite minimal due to lack of an adequate institutional arrangement for the provision of underwriting. Stock brokers and banks used to perform this function.

In recent years, the volume and amount of securities underwritten have tremendously increased owing to increasing participation of specialized financial institutions like LIC and UTI and the developed banks like 1FC1,1CICI and IDBI in underwriting activities. It is evident from the fact that the amount of securities underwritten was only 55 per cent in 1960-61, whereas at present it is about 99 per cent.

3. Growth in Response to the Offer of Public Issues of Shares and Bonds:

Traditionally investors in India being risk-investors had been reluctant to invest in shares of public limited companies. Hence, industrial securities as a form of investment were not popular in India before 1951. However, since 1991 public response to corporate securities has

been improving. But equity-cult has yet to be developed in rural areas. It is important to point out that the public response to new issues of shares and bonds depends upon number of factors such as rates of return on industrial securities relative to rates of return on nonmarketable financial assets and real assets, government's monetary policy and fiscal policy and above all legal protection to investors in recent years. All the above mentioned factors have contributed to the growth of public response to new issue of corporate securities. In short, growing response to public issues has strengthened the Indian capital market. It is evident from the fact that the number of shareholders rose from 60 lakh in 1985 to 160 lakh in 1994.

4. Growth of Merchant Banking: The role of merchant banking in India's capital market can be traced back to 1969 when Grind lays Bank established a special cell called the 'Merchant Banking'. Since then all the commercial banks have set up the 'Merchant Banking Division' to play an important role in the capital market: The merchant banking division of commercial banks advises the companies about economic viability, financial viability and technical feasibility of the project. They conduct the initial 'spade work' to find out the investment climate to advise the company whether the public issue floated would be fully subscribed or under-subscribed. The merchant banks in India act as the underwriter as well as the manager of new issues of securities. The Securities and Exchange Board of India (SEBI) regulates all merchant banks as far as their operations relating to issue activity are concerned. To sum up, the emergence of merchant banking has strengthened the institutional base of Indian capital market.

5. Growth of Credit Rating Agencies: Of late, credit rating agencies have emerged in the financial sectors. This is an important development for the growth of Indian capital market. Investment Information and Credit Rating Agency of India (ICRA) rates bonds, debentures, preference shares, CDs (Corporate Debentures) and CPs (Commercial Papers). As Credit Rating Information Services of India Ltd. (CRISIL) is a pioneer in credit rating, it rates debt instruments of banks, financial institutions and corporate firms. The credit assessment of companies issuing securities helps in the growth of New Issue Market segment of the capital market.

6. Growth of Mutual Funds: Mutual funds companies are investment trust companies. Mutual funds schemes are designed to mobilise funds from individuals and institutional investors, who in exchange get units which Can be redeemed after a certain lock-in period, at their Net Asset Value (NAV). The mutual fund schemes provide tax benefits and

buy back facility. The Unit Trust of India (UTI) can be regarded as pioneer in the setting up of mutual funds in India. Of late, commercial banks have also launched in India mutual funds schemes. Can-stock scheme of the Canara bank and LIC's scheme, such as Dhanashree, Dhanaraksha and Dhanariddhi are mutual funds schemes. Since mutual funds schemes help to mobilise small savings of the relatively smaller savers to invest in industrial securities, so these schemes contribute to the growth of capital market. The total assets of mutual funds companies increased from Rs. 66,272 crore in 1993-94 to Rs. 99,248 crore in 2005 and to Rs. 4,13,365 crore in 2008. The investment of mutual funds in the secondary market influences the share prices in the stock exchange.

7. Stock Exchange Regulation Act: The growth of capital market would not have been possible had the Government of India not legislated suitable laws to protect the investors and regulate the Stock Exchanges. Under this Act, only recognized stock exchanges are allowed to function. This Act has empowered the Government of India to enquire into the affairs of a Stock Exchange and regulate it's working. The Government of India established the Securities and Exchange Board of India (SEBI) on April 12, 1988 through an extra ordinary notification in the Gazette of India. In April 1992, SEBI was granted statutory recognition by passing an Act. Since 1991, SEBI has been evolving and implementing various measures and practices to infuse greater transparency in the capital market in the interest of investing public and orderly development of the securities market.

8. Liberalisation Measures:: Foreign Institutional Investors (FII) have been allowed access to Indian capital market. Investment norms for NRIs have been liberalized, so that NRIs and Overseas Corporate Bodies can buy shares and debentures, without prior permission of RBI. This was expected to internationalize Indian capital market. To sum up, the Indian capital market has registered an impressive growth since 1951. However, it is only since the mid-1980s that new institutions, new financial instruments and new regularity measures have led to speedy growth of the capital market. The liberalisation measures under New Economic Policy (NEP) gave a further boost to the growth of Indian capital market.

DEFECTS OF INDIAN CAPITAL MARKET

1.poor liquidity
2. Delay in delivery

3. Insider trading

4. Inadequate market instrument

5. Insufficient banking and postal services

6. Stock intrest not popular

7. Existence of grey market

8. Wave prospectus

9. Stock broken system effective

10.lack transparency

11. Inadequate protection to investor

12. Defective operation of stock exchange

13. Inadequate stock exchange