Indian capital market
a retrospect

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The authors argue that despite allround development in terms of volume of funds mobilized in primary market mutual fund sector and increase in trading volume, growth in mobilization of savings in shares and debentures has not improved.

The Capital Market is a medium through which small and scattered savings of investors are directed into productive activities of corporate entities. It also provides the essential attributes of liquidity, marketability and safety of investments to the investors. A well organised and well regulated capital market facilitates sustainable development of the economy by providing long-term funds in exchange for financial assets to investors. Hence every government strives to develop and grow their capital market through various legislative and regulatory measures.

Indian capital market is one of the oldest and largest capital markets of the world. Its history can be traced back to the 19th century. The first instance of organised trading in corporate securities in India is related to the trading in securities of East India Company. The concept of limited liability introduced with the enactment of companies Act, 1850 helped in commencing an era of joint-stock companies which in turn paved the way for the development of the capital market. In due course, brokers used to assemble at some common places to conduct trade. By 1874, Dalal Street in Mumbai became a prominent place of meeting of the brokers. Bombay Stock Exchange (BSE) the first organised stock exchange in the country, was started functioning in 1875. However, it was in 1887 that BSE was formally established as a society named Native Share and Stock Brokers Association.

The effects of industrial revolution began to be felt in India by the dawn of 20th century. This period was also marked by the Swadeshi Movement which created much industrial enthusiasm in the country. During the period of the first and Second World Wars, industrial sector as well as capital market exhibited much dynamism. After Independence, the Indian Government gave priority to infrastructure development, considering the urgency of proceeding with large-scale industrial development. Accordingly many financial institutions like IFC, ICICI, LIC, UTI and IDBI were established to accelerate the pace of industrialisation in India. The promulgation of the companies Act, 1956 based on the recommendations of the company law committee was another important event. This was the largest statute ever passed by the parliament. The passing of Foreign Exchange Regulation Act, 1973 limited the shareholding of foreign firms to 40 per cent, if they were to be recognised as Indian companies. For diluting their shareholdings, many multinational companies offered shares to the public at attractive rates. Encouraged by the good response to these issues, many domestic companies also came out with public issues. Individual investors were enthusiastic to invest in the capital market as they found equity investments to be a hedge against inflation and a source of higher earnings compared to other investments. The process of broadening the capital market is said to have begun during this period.

During 1980s, debentures emerged as a powerful device for mobilising

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funds in the capital market. Also, many public sector undertakings came out with bonds. There was also an impressive growth in the secondary market as ten stock exchanges were established in mid-eighties. Moreover, several instruments like convertible debentures and mutual fund schemes were offered to meet the expectations of emerging investors. In the meantime a number of committees and working groups were constituted to go into the functioning of capital market and suggest ways and means to improve its functioning. Various steps were taken to streamline operation of the capital market based on the recommendation of these committees. A number of financial intermediaries like merchant bankers, underwriters, mutual funds, custodial service, etc., were also came into existence during this period.

In 1991, Government of India launched a policy of liberalisation and globalisation of Indian economy in general and of financial sector in particular. It covered measures like abolition of industrial licensing except for a short list of industries, reduced reservation for public sector, abolition of assets ceiling for companies under Monopolies and Restrictive Trade Practices Act, 51 per cent foreign ownership of equity, permission for Foreign Institutional Investors to invest in securities in primary and secondary markets and permission for Indian companies to raise capital abroad through the issue of Global Depository Receipts or American Depository Receipts. These reforms, particularly the deregulation of financial sector, fuelled the growth of equity cult in India. Besides, boom market conditions and heavy speculative activities led stock market prices to sky-rocketing levels. Subsequently, the securities scam was unearthed in June 1992. The scam had a paralysing effect on the operations of the stock exchange and it shattered the confidence of investors. It brought to light the pathetic condition of capital market and underscored the urgency of providing sufficient legal and administrative safeguards to protect the small and inexperienced investors from unscrupulous market participants. This necessitated a vigilant regulatory body. Consequently SEBI which was formed in 1988 as a non- statutory body was endowed with statutory powers for regulating the capital market through the enactinent of SEBI Act, 1992.

Capital Market Operations

Capital market operations consist mainly of primary market operations and secondary market operations. Primary market or new issue market deals with the issue of new securities to the investors and facilitates the corporate sector in raising funds. The primary market is made up of two components: where firms go public for the first time through initial public offerings and where firms which are already traded raise additional capital through seasoned equity offerings. Initial capital is raised by issuing only ordinary and preference shares whereas further capital can be raised by selling debentures as well.

In order to effectively control the activities in the new issue market and to ensure that investments in the country are made in a planned manner and in accordance with the priorities laid down in the plans, the government has instituted the Controller of Capital Issues (CCI) under the Capital Issues (Control) Act, 1947. CCI laid stringent controls on pubic and right issues and in their pricing. As a result capital issues were generally under priced. But when Capital Issues (Control) Act was repealed and free pricing was introduced by SEBI in 1992 the market saw a plethora of issues. Hefty premiums were charged by the issuing companies as there was no restriction on fixing of premiums. Many fly-by-night companies also accessed capital market. But in many cases investors lost heavily as the post issue listings were quoted far below issue prices. It is estimated that around 1000 companies which came out with issues and collected about Rs. 3000 crores in 1995 and 1996 have disappeared completely[1].

With a view to protect the interest of investors Malegam Committee recommended the introduction of Book-Building as an alternative device to the existing system of fixed pricing and it was adopted by SEBI in 1996. Book-Building helps to find a better price for an issue to be made. Under this method, the issuing company will mention an indicative price at which securities will be offered and gives the investors an opportunity to bid collectively. Then a consensus price will be arrived at and allotment will be finalised at the agreed price.

Buy-back of shares is a device which facilitates capital restructuring of a company. It helps in arresting wide fluctuation in share prices and paves the way for efficient allocation of resources. Earlier, buy-back of shares was prohibited in India by the Companies Act, 1956. However buy- back was allowed in India through an amendment ordinance in 1998. Now Indian companies are free to buy its own shares and other securities up to 25 per cent of their net worth out of its free reserves, or securities premium account, or proceeds of an earlier issue other than a fresh issue made specifically for buy- back purposes. In another development, companies are given the option to issue shares of any denomination without a uniform par value.

Trend of Development of Primary Market

Resources are mobilised from the primary market by various agencies like public sector undertakings, public limited companies, banks and financial institutions through the issue of various financial securities. Also large organisations mobilise funds from International capital market. When liberalisation measures were started in 1992, Government realised that corporate sector would require large amounts of funds which could not be mobilised from domestic markets alone. Hence Indian companies were permitted to raise funds from global market through the issue of Global Depository Receipts or American Depository Receipts. The overall picture of resource mobilisation in the primary market is shown in Table 1.

It can be seen from Table 1 that aggregate mobilisation in the primary market amounted to Rs. 44498 crores in 1993-94. Even though it increased to Rs. 48084 crores in the following year, the next two years witnessed a decline. The amount of mobilisation in 1999-00 stood at Rs. 72450 crores. Issues of corporate securities include domestic issues and euro issues. The trend of euro issues was not uniform during the period under reference. In 1993-94 it amounted to Rs. 7454 crores, touched a low of Rs. 496 crores in1995-96 and rose to Rs. 3487 crores in 1999-2000. Total domestic issues aggregated Rs. 37044 crores in 1993-94 which rose to Rs. 68963 crores in 1999-2000. Issues made by non-government public limited companies comprised major part of domestic capital issues. In 1993-94 it amounted to Rs. 19330 crores which further increased to an all time high of Rs. 26417 crores in 1994-95. However it declined gradually and reached Rs. 5153 crores in 1999-2000. At the same time share of private placement in total domestic issues registered a marked increase. In aggregate terms, it rose from Rs. 7466 crores in 1993-94 to Rs. 61259 crores in 1999-2000.

Table 1

Resource Mobilisation from the Primary Market

(Rupees Crores)

Issues	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Non-government public limited companies	19330 (43.4)	26417 (54.9)	16075 (43.8)	10410 (28.0)	3138 (7.4)	5013 (8.3)	5153 (7.1)
PSU bonds	5586 (12.6)	3070 (6.4)	2292 (6.2)	3394 (9.1)	2982 (7.1)	–	–
Government companies	819 (1.8)	888 (1.8)	1000 (2.7)	650 (1.7)	43 (0.1)	–	–
Banks and financial institutions	3843 (8.6)	425 (0.9)	3465 (9.4)	4352 (11.7)	1476 (3.5)	4352 (7.2)	2551 (3.5)
Private placement	7466 (16.8)	11174 (23.2)	13361 (36.4)	15066 (40.6)	30099 (71.4)	49679 (82.5)	61259 (84.5)
Total domestic issues	37044 (83.2)	41974 (87.3)	36193 (98.6)	33872 (91.2)	37738 (89.6)	59044 (98.1)	68963 (95.2)
Euro issues	7454 (16.8)	6110 (12.7)	496 (1.4)	3275 (8.8)	4387 (10.4)	1148 (1.9)	3487 (4.8)
Total capital issues	44498 (100.0)	48084 (100.0)	36689 (100.0)	37147 (100.0)	42125 (100.0)	60192 (100.0)	72450 (100.0)

Note: Figures in parentheses are percentage of total.

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy, 2000.

Non-government public companies depend on capital market for major part of their financial requirements. The major instruments issued include equity shares, preference shares, debentures, bonds, etc. The composition of new capital issues is shown in Table 2.

Major part of the issues composed of equity shares. As per Table 2 Rs. 9960 crores was mobilised in 1993-94 through the issue of 983 Equity issues. It rose to Rs. 17414 crores in 1994-95 through 1548 capital issues. However it declined thereafter in terms of number and volume. Mobilisation through this route in 1999-2000 amounted to Rs. 2753 crores through 69 equity issues. The issue of debentures also exhibited a similar trend. In 1993-94, Rs. 9370 crores was raised through 149 debenture issues whereas only Rs, 2401 crores was mobilised in 1999-2000 from just 10 debenture issues. The amount mobilised through the issue of preference shares was insignificant during the period under reference. The overall trend of capital issues made by non-government public companies showed an increasing trend up to 1994-95, both in volume and number, and a declining trend thereafter. The vast expanse of Indian Financial Market reveals that there is ample potential to mobilise funds through the issue of new and existing financial instruments. Imaginative use of such instruments make fund mobilisation cheaper and new

Table 2

New Capital Issues by Non-Government Public Limited Companies

(Rupees crores)

	Ordinary shares		Preference shares		Debentures		Total	
Year	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
1993-94	983 (86.8)	9959.7 (51.5)	1 (0.1)	0.3 (0.0)	149 (13.1)	9370.3 (48.5)	1133 (100.0)	19330.3 (100.0)
1994-95	1548 (92.3)	17414.4 (65.9)	9 (0.5)	131.4 (0.5)	121 (7.2)	8870.9 (33.6)	1678 (100.0)	26416.7 (100.0)
1995-96	1592 (95.7)	11954.5 (74.4)	9 (0.5)	150.1 (0.9)	63 (3.8)	3970.1 (24.7)	1664 (100.0)	16074.7 (100.0)
1996-97	801 (95.6)	6101.4 (58.6)	5 (0.6)	74.9 (0.7)	32 (3.8)	4233.2 (40.7)	838 (100.0)	10409.5 (100.0)
1997-98	89 (87.3)	1162.4 (37.1)	1 (1.0)	4.3 (0.1)	12 (11.7)	1971.6 (62.8)	102 (100.0)	3138.3 (100.0)
1998-99	33 (68.7)	2562.7 (51.1)	3 (6.3)	59.7 (1.2)	12 (25.0)	2390.7 (47.7)	48 (100.0)	5013.1 (100.0)
1999-00	69 (87.3)	2752.5 (53.4)	–	–	10 (12.7)	2400.8 (46.6)	79 (100.0)	5153.3 (100.0)

Note: Figures in parentheses are percentage to total.

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy, 2000

issue market more competitive and globalised.

The capital market is becoming more and more risky and complex in nature so that ordinary investors are unable to keep track of its movement and direction. Hence mutual funds have become the investment vehicle of individual investors who want to reap the benefits of buoyant stock markets without risking their investment. It offers the small investors an alternative way to invest in capital markets.

Table 3 depicts the trend in resources mobilised by mutual funds. As per the table, total resources mobilised by mutual funds amounted to Rs. 11243 crores in 1993-94. During the initial years of review, the share of Unit Trust of India in total mobilisation was more than three fourths. But their dominance gradually declined. During 1995-96 and 1996-97 they accounted for negative mobilisation. Hence aggregate mobilisation also turned negative during that period. Share of private sector was not significant up to 1997-98. However, during the last two years they accounted for majority of resources mobilised. During 1999-2000, resource mobilisation aggregated an all time high of Rs. 21971.4 crores of which 78.1 per cent was contributed by private sector mutual funds.

Trend of Development of Secondary Market

The securities which are floated and subscribed in the primary market, are traded in the secondary market or stock exchange. The primary function of stock exchanges is to provide liquidity of capital and continuous market for outstanding securities. Without stock exchanges, savings of the community are used much less completely and much more wastefully. The stock exchanges bring about a correct evaluation of securities and set prices of securities close to their investment worth. It directs and allocates the savings of investors into the most productive channels.

In India, stock exchanges were originated in a rudimentary form in 1800. But the first organised stock exchange, the Bombay Stock Exchange came into existence in 1875. Another Stock Exchange was formed in Ahmedabad in 1894 and a third in 1908 at Calcutta. At the time of Independence, seven stock exchanges were functioning in the major cities of the country. On 26th January 1950 the new Constitution of India came into force and under item 48 of the Union list the 'stock exchange and future markets' became exclusively a central subject[2]. The government enacted Securities Contract (Regulation) Act, 1956,based on the recommendations of Gorwala Committee. The stock markets in India are presently regulated under this Act.

Indian Stock Market is one of the largest and oldest stock markets in the world. At present there are 23 stock exchanges in the country of which Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are conferred the status of national exchanges. The entire stock exchanges in the country have adopted on-line screen based trading. Presently there are around 10,000 trading terminals for these exchanges spread allover the country.

Stock Markets in India have grown exponentially as measured in terms of the number of listed companies, market capitalisation, turnover

Table 3
Resources Mobilised by Mutual Funds

(Rupees Crores)

Year	Unit Trust of India	Bank sponsored mutual funds	Financial institution sponsored mutual funds	Private sector mutual funds	Total
1993-94	9297.0 (82.7)	148.1 (1.3)	238.6 (2.1)	1559.5 (13.9)	11243.2 (100.0)
1994-95	8611.0 (76.4)	765.5 (6.8)	576.3 (5.1)	1321.8 (11.7)	11274.6 (100.0)
1995-96	-6314.0 (-108.2)	113.3 (1.9)	234.8 (4.0)	133.0 (2.3)	-5832.9 (100.0)
1996-97	-3043.0 (-.149.4)	5.9 (0.3)	136.9 (6.7)	863.6 (42.4)	-2036.7 (100.0)
1997-98	2875.0 (70.8)	236.9 (5.8)	203.4 (5.0)	748.6 (18.4)	4063.9 (100.0)
1998-99	170.0 (4.7)	231.5 (6.4)	690.5 (19.1)	2518.7 (69.8)	3610.7 (100.0)
1999-00	4548.0 (20.7)	-141.0 (-0.6)	393.6 (1.8)	17170.8 (78.1)	21971.4 (100.0)

Note: Figures in parentheses are percentage to total.

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy, 2000.

Table 4
Stock Market Development in India

Year	Number of listed companies	Market capita1isation of listed companies (Rs. crores)	Market turnover (Rs. Crores)
1993-94	7811	400077	203703
1994-95	9077 (16.2)	473349 (18.3)	162905 (-20.0)
1995-96	9100 (0.3)	572257 (20.9)	227368 (39.6)
1996-97	9890 (8.7)	488332 (-14.7)	646116 (184.2)
1997-98	9833 (-0.6)	589816 (-20.8)	908681 (40.6)
1998-99	9877 (0.4)	574064 (-2.7)	1023382 (12.6)
1999-2000	9871 (0.06)	1192630 (107.8)	2067031 (102.0)

Note: Figures in parentheses are percentage variation over the previous year

Source: Reserve Bank of India, Report on Currency and Finance - various issues

on stock exchanges, price indices, etc. Table 4 exhibits the trend of major indicators of stock market development in India. From the table it is evident that there were 7811 companies listed in all the stock exchanges in India during 1993-94. It rose to 9871 in 1999-2000. The all India market capitalisation of listed companies amounted to Rs. 400077 crores in 1993-94. There was no significant increase in it till 1998-99. However, during 1999-2000, it doubled to Rs. 1192630 crores. Turnover on various stock exchanges in India was Rs. 203703 crores in 1993-94. Even though it declined in 1994-95 by 20 per cent, it rose steadily thereafter. During 1996-97 and 1999-2000 there was sharp increase in the turnover. The volume of market turnover amounted to Rs. 2067031 crores in 1999-2000.

Even though there are 23 Stock Exchanges in India, increase in turnover took place mostly at the large exchanges at the expense of smaller ones. Presently 6 top exchanges account for 99 per cent of turnover with BSE and NSE taking the leading role of stock market operations in the country. Table 5 depicts the trend in major indicators of Bombay Stock Exchange.

As per Table 5 there were 3585 listed companies in BSE in 1993-94. The number of listed companies showed an upward trend until 1996-97. In 1999-2000, the number of listed companies in Bombay Stock Exchange was 5889. As regards the market capitalisation of listed stock in the exchange, it amounted to Rs. 368071 crores in 1993-94. As in the case of All India Market Capitalisation, it remained idle up to 1998-99 but went up by 67.4 per cent in a single years to Rs. 912842 crores in 1999-2000. Market turnover of the exchange during the period under review showed a mixed trend. It amounted to Rs. 84536 crores in 1993-

Table 5

Trend of Development in Bombay Stock Exchange

Year	Number of listed companies	Market capitalisation of listed companies (Rs. crores)	Market turnover (Rs. crores)	Level of BSE sensex
1993-94	3585	368071	84536	3778.99
1994-95	4802 (33.9)	435481 (18.1)	67748 (-19.9)	3260.96 (-13.7)
1995-96	5603 (16.7)	526476 (20.9)	50064 (-26.1)	3366.21 (3.2)
1996-97	5832 (4.1)	463915 (-11.9)	124284 (148.3)	3360.89 (-0.2)
1997-98	5853 (0.4)	560325 (20.8)	207383 (66.9)	3892.75 (15.8)
1998-99	5848 (-0.1)	542942 (-2.7)	311999 (50.4)	3739.96 (-3.9)
1999-2000	5889 (0.7)	912842 (67.4)	685028 (119.6)	5001.28 (33.7)

Note: Figures in parentheses are percentage variations over the previous year.

Source: Reserve Bank of India, Report on Currency and Finance- various issues

Table 6

Movement of Sensex During Major Events

Major events	Date	Level of BSE sensex
Low Index of 1993	26-4-93	2036.81
SEB[bansbadla	13-12-93	3346.06
First all time high	12-9-94	4630.54
Low index of 1995	29-11-95	2922.16
High Index of 1996	14-6-96	4039.32
S & P upgrades outlook to positive	1-1.0-96	3226.80
Low Index of 1.996	4-12-96	2745.06
P. Chidambaram's dream budget	28-2-97	3651.91.
High Index 1997	05-8-97	4548.02
Moody wamsrating downgrade	08-01-98	3598.16
High index 1998	21-4-98	4280;96
US 64 scare	5-10-98	2878.07
Air attack on Kargil begin	26-5-99	3973.30
High of 1999	14-10-99	5075.39
Newall time high	14-12-00	6150.69
Sensex touches its year's low	19-10-00	3491.55

Source: The Economic Times Knowledge Series, Investors year book, 2000-01

94. Volume of turnover declined during two successive years. However from 1996-97 it rose sharply and amounted to Rs. 685028 crores in 1999-2000.

Market returns on equity shares as well as volatility in prices are measured through share price indices. In India, Bombay Stock Exchange 30 Share Sensitive Index (BSE Sensex) is one of the popular benchmarks of share prices. As per Table 5 Sensex stood at 3779 points in 1993-94. It hovered around this level up to 1998-99 but rose by one third to 5001 points in 1999-2000. On a review of the trend of indices from the table there will be a misleading impression that the index remained stable between 1993-94 and 1998-99 and that the level of volatility was comparatively low in Bombay Stock Exchange. But this is not true. The Indian market is probably more volatile than developed country markets, which is probably why a much higher proportion of saving in developed countries go into equities[3]. This is evident frorn Table 6 which looks more closely at movement of Sensex.

As per Table 6, Sensex stood at 2037 points towards the end of April 1993 and rose to 3492 points during the middle of October 2000. However, Sensex moved erratically during the intervening period.

The National Stock Exchange was set up in 1992 based on the recommendations of the Pherwani Committee with the main objective of providing nationwide equal access to a fair, efficient, and transparent trading system to investors by using suitable communication network. It is a demutualised stock exchange where brokers do not own the shares and its management is free from broker control. As regards the operations side, it has two wings namely wholesale debt market segment and the capital market segment which deals in equities, convertible debentures, etc. The capital market segment provides true nationwide market through V -SAT driven screen based trading system. It has a network with more than 6000 trading terminals offering trading facilities in 370 cities. The trend in the major indicators of the exchange is exhibited in Table 7.

Table 7

Trend of Development in National Stock Exchange

Year	No. of listed companies	Market capitalisation (Rs. crores)	Market turnover (Rs. crores)	Level of S&P CNX Nifty
1995-96	422	217721	67287	985.3
1996-97	550 30.3	252894 16.2	294504 (337.7)	968.9 -1.7
1997-98	612 11.3	308520 22.0	370193 25.7	1116.7 15.3
1998-99	645 (5.4)	335209 8.7	414474 12.0	1078.1 -3.5
1999-2000	673 (4.3)	850880 (153.8)	839051 102.4)	1528.5 41.8

Note: Figures in parentheses are percentage variation over previous year

Source: Reserve Bank of India, Report on Currency and Finance - various. issues.

As depicted by Table 7 there were only 422 listed companies in 1995-96 whose market capitalisation amounted to Rs. 217721 crores. There was no significant rise in the number of listed companies during the period under reference. However in the case of market capitalisation, there was a sudden spurt during 1999-2000 to Rs. 850880 marking an increase of more than 150 per cent in a single year.

This is reflected in the market turnover and market index. While the turnover rose by more than one hundred per cent during 1999-2000, the NSE benchmark S& P CNX Nifty rose by more than 40 per cent. The phenomenal rise in information technology scrips coupled with signs of overall improvement in economic performance appear to have significantly contributed to the stock market buoyancy. However growth in market turnover from Rs. 67287 crores, in 1995-96 to Rs. 839051 crores in 1999-2000 is an indicator of the growth the exchange has achieved within such a short span of time.

Recent Developments in Indian Stock Market

The decade of the nineties has been a period of vast reforms in India's stock market. Innovative initiatives like screen based trading and establishment of IT backed National Stock Exchange took place in the first half of this decade. Such developments continued in the later half of the decade also which placed the stock market at the forefront of modern capital markets of the world. Recent developments in Indian Stock market include;

Depository services

Rolling settlement

Internet trading

Derivatives trading

Depository Services

Investors have been facing a lot of problems by physically holding the corporate securities. The settlement system adopted by stock exchanges called for physical movement of share certificates in recording ownership changes in the company books. Serious risks associated with paper based settlement system were bad deliveries, delay in transfer and registration, mutilation loss, forgery and theft of certificates. All these added to costs and delays in settlements, restricted liquidity and made investor grievance redress time consuming and at times intractable. With a view to obviating these problems, the Government of India enacted the Depositories Act, 1996, to ensure free transferability of securities with speed, accuracy and security. The depository system leads the capital market towards scripless trading through dematerialisation of such share certificates.

National Securities Depository Limited, the first depository in India, was jointly promoted by Industrial Development Bank of India, Unit Trust of India and National Stock Exchange in 1996 to ease the process of dematerialisation. In December 1996 trading in dematerialised shares was started in the National Stock Exchange. Ten stock exchanges established connectivity with NSDL for offering trade in demat securities as at the end of march 2000. The market value of securities dematerialised with NSDL amounted to Rs. 463385 crores as at the same date. 918 companies signed up with NSDL to get their securities admitted for dematerialisation. The market capitalisation of these companies amounted to Rs. 765875 crores. The number of beneficial owners who had opened accounts with depository participants reached 2414306 as on March 31, 2000[4].

Central Depository Services Limited, was formed by Bombay Stock

Exchange, Bank of India and Bank of Baroda. It commenced operations on March 22, 1999. As at March end, 2000, the market value of dematerialised securities amounted to Rs. 8188 crores. Five stock exchanges established connectivity with CDSL for offering trade in demat securities and 765 companies signed up with it to get their securities admitted for dematerialisation. The market capitalisation of these companies stood at Rs. 700000 crores. Number of beneficial owners having accounts with DPs of CDSL stood at Rs. 28545 crores as at the end of March 2000[5].

Introduction of Rolling Settlement

In Indian stock exchanges weekly settlement system was followed wherein brokers were allowed to accumulate long or short positions and settlement of individual securities are made at the end of each settlement period. This system has given scope for speculative activities and other manipulations resulting in higher incidence of default by brokers. In order to curb such malpractices in the stock exchanges in India, it was necessary to take measures for introducing rolling settlement. Accordingly SEBI decided to introduce rolling settlement on Indian stock exchanges in a phased manner. The rolling settlement on a T+5 basis was introduced in India in ten select scrips from January 2000. Subsequently as on May 8, 2000, 153 more scrips were brought under the system[6].

Internet Trading

Worldwide on-line stock trading has been a big blessing to individual investors. It enables investors to buy and sell shares on-line through the Internet. There are approximately 15 million cyber-investors in the United States[7] internet trading is gaining popularity in countries like Germany, South Korea and Taiwan. In India, stock trading on the Internet was introduced in February 2000. At present there are 40,000 registered internet trading clients and these together trade about Rs. 40 crores of stock daily[8]. Recently, NSE launched the world's first internet trading plaza, Dotex, which allow brokers to avail themselves of a common internet trading platform.

Derivatives Trading

Derivatives are instruments which derive their value from the underlying asset, which could be a commodity, foreign exchange, treasury bills, debt instruments, equity shares or index. Some of the common financial derivative instruments are: forward rate agreements, options, swaps and futures.

Derivatives in the form of index futures made their appearance on the Indian stock market in June 2000, when trading in Nifty and Sensex futures was started in NSE and BSE respectively. Index futures are future contracts where the underlying asset is the index. Introduction of derivatives is the first step to hedge the risk of unfavorable movement in the market. This will also lower transaction cost and provide depth and liquidity to the market.

India and World Stock Markets

In India, capital market came into being as early as in the 19th century. Bombay Stock Exchange is more than 125 years old and this is the oldest stock exchange in Asia. Indian Capital Market is considered the second largest capital market in the world next to the United States. There are about 35 countries in the world that have emerging capital markets and India is one with the largest number of listed companies. In terms of number of transactions, India's two leading Stock Exchanges, National Stock Exchange and Bombay Stock Exchange stood fifth and seventh respectively among the stock exchanges in the world in 1999. An estimated 19 million individual investors were in India at the end of 1998-99[9].

India's comparative position in the world stock markets can be ascertained from Table 8

According to Table 8 there were 9871 listed companies in India at the end of March 2000 followed by USA with 7651 listed companies. As regards market capitalisation, the USA stands first with $ 16335114 million followed by Japan with $4546937 million. Market capitalisation of Indian companies came to $280619 million. The largest market turnover was also in the U.S.A. with $ 18574100 million and Japan stood second with $1849228 million. Market turnover in Indian stock markets amounted $ 486360 million. However, India stood first in turnover ratio at 245 per cent followed by China with 134 per cent. It is evident from the analysis that India has attained a notable position among international capital markets and that there is tremendous potential for further growth.

Investor Population

The growth of Indian capital market had its impact on the number of investors in the country. The number of investors was very small in India in the seventies. But there was tremendous growth in the number of investors in the eighties and nineties. The number of share owning individuals and households estimated in various survey reports like SEBI-NCAER survey of Indian investors, survey made by Society for Capital Market Research and Development, etc., are compiled and presented in Table 9

As per Table 9 (given in next page) the number of share owning households increased from 0.6 million in 1975 to 12.8 million in 1999.

Table 8
Stock Market Development: International Comparison

(As on March 2000)

Particulars	USA	UK	Japan	Germany	Singapore	Hongkong	China	India
No. of listed companies	7651	1945	2470	933	355	695	950	9871
Market capitalisation ($mn)	16335114	2933280	4546937	1432190	198407	609090	330703	280619
Market capitalisation ratio (%)	210	232	111	66	208	385	36	85
Turnover ($mn)	18574100	1377859	1849228	1357841	97985	244886	377099	486360
Turnover ratio (%)	124	52	53	108	67	51	134.2	245

Source: National Stock Exchange, Indian Securities Market - A Review, 2000.

Table 9
Growth of Shareowning Population in India

Years	Estimated number of shareowning households	Estimated number of shareowning individuals
1975	0.6	1.2
1980	1.05	2.4
1985	2.6	6.0
1990	3.9	9.0
1997	N.A	20
1999	12.8	19
Compound Growth Rate (%)	13.6	12.2

Note: N.A- Not Available

Source:

1. Gupta, L.C. {1991) Indian share owners a survey. New Delhi: society for capital market research and development.
2. Gupta, L.C. (1999). India's Financial Markets. New Delhi: society for capital market research and development.
3. Pratip Kar et al. (2000)SEBI-NCAER Survey of Indian Investors. Mumbai: SEBI.

The number of share owning individuals increased from 1.2 million in 1975 to 20 million in 1997. However, the number of investors declined to 19 million in 1999. The investor households have increased at a compound growth rate of 13.6 per cent between 1975 and 1999 whereas a corresponding growth in share owning individuals came to 12.2 per cent during the same period.

Geographical Distribution of Investors

The investor population may not be uniformly spread throughout the country. They may be lying concentrated in certain geographical areas. Study of geographical distribution of investors among various places in the country provides a factual description of its distribution and analyses the trend of changes in this regard. An earlier study made in India reveals that geographical distribution of investors is not evenly spread in the country[10]. More than half (55.3 per cent) of individual shareowners in India belonged to just five cities. The top ten cities ranked by their percentage share of the total account for nearly two-thirds (65.3 per cent) of India's total number of shareholders. The distribution of share ownership by States and Union Territories show that just five States accounted for 74.7 per cent of the country's share ownership population and 71.7 per cent of the aggregate value of the shareholdings of individuals in India. Among the five States Maharastra tops the list with Gujarat as a distant second followed by West Bengal, Delhi and Tamil Nadu[11].

Trend in Domestic Savings and Investment

The economic development of the country requires huge financial resources, which necessitates the mobilisation of domestic savings. Domestic savings originate from

Table 10
Composition of Gross Household sector Saving in India

(Rupees Crores)

Year	Gross financia1 savings	Gross physical savings	Gross household sector savings
1993-94	94738 (59.8)	63572 (40.2)	158310 (100.0)
1994-95	120733 (60.6)	78625 (39.4)	199358 (100.0)
1995-96	105166 (48.8)	110422 (51.2)	215588 (100.0)
1996-97	141128 (60.6)	91786 (39.4)	232914 (100.0)
1997-98	150198 (55.3)	121185 (44.7)	271383 (100.0)
1998-99	192511 (57.2)	143958 (42.8)	336469 (100.0)
1999-2000	205898 (53.2)	181015 (46.8)	386913 (100.0)
Compound growth rate (%)	14	19	16

Note: figures in parentheses are percentage to total.

Source: Government of India, National Accounts Statistics 2001.

public sector savings, private corporate sector savings and household sector savings. In India, household sector savings constitute a major component of the aggregate savings. It alone contributes more than two-third of gross domestic savings.

Therefore mobilisation of savings of this sector is important. Household sector saving is held in the form of physical assets like land, buildings, gold, etc. and financial assets like bank deposits, shares, insurance policies. The growth in financial savings is vital, as it is available for investment in the development of the economy. The composition of household sector savings during the period 1993-94 to 1999-2000 is shown is Table 10.

As per Table 10 the gross household sector savings increased significantly from Rs. 158310 crores in 1993-94 to Rs. 386913 crores in 1999-2000. The financial sayings dominated over physical savings during the period under reference except in 1995-96. Financial savings in absolute measure amounted to Rs. 205898 crores in 1999-2000 as against Rs. 94738 crores; The corresponding figures of physica1 savings were Rs. 181015 crores and Rs. 63572 crores respectively. Gross household sector savings registered a compound growth rate of 16 per cent, while it was 14 per cent in the case of gross financial savings and 19 per cent in the case of gross physical savings. Even though financial savings outstripped physical savings there was a marked shift in favour of physical assets.

Composition of Savings in Financial Assets

Financial assets consist of currency, bank deposits, shares and debentures, life insurance provident and pension funds etc. The gross savings of the household sector in financial assets during the period 1993-94 to 1999-2000 are given in Table 11

From Table 11 it can be seen that gross financial savings in absolute measure increased from Rs. 94738 crores in 1993-94 to Rs. 205898 crores in 1999-2000. Net deposit constituted the major component of financial savings. It rose from Rs. 32846 crores in 1993-94 to an interim high of Rs. 66965 crores in 1998-99 but declined to Rs. 58478 crores in 1999-2000.

Investment in shares and debentures amounted to Rs. 14772 crores in 1993-94. Even though it registered an increase in 1994-95, it started declining since then and touched a low of Rs. 5044 crores in 1997'-98. The position started improving once again and in 1999-2000 it amounted to Rs. 15873 crores. The relative share of shares and debentures increased from 10.5 per cent in 1993-94 to 14.4 per cent in 1994-95. But it declined thereafter to a low of 3.4 per cent in 1997-98. Then it improved to 7.4 per cent in 1999-2000. The review of trend reveals that. the stock market reforms introduced in the nineties like dematerialisation, on-line trading etc., made stock market investment much simpler, safer and transparent.. However investors view capital market with skepticism. People no longer invest money in equities as they have become disenchanted with their experience as shareowners. Many of the investors are interested in reducing their exposure to equity even in absolute terms rather than

Table 11

Composition of Gross Savings of the Household Sector in Financial Assets

Year	Currency	Net deposits	Shares and debentures	Net claims on government	Life insurance funds	Provident and pension funds	Gross financial Savings
1993-94	13367 (14.0)	32846 (34.4)	14772 (10.5)	6233 (6.5)	9197 (9.6)	18328 (19.2)	94738 (100.0)
1994-95	15916 (13.2)	42225 (35.0)	17381 (14.4)	12781 (10.6)	11016 (9.1)	21414 (17.7)	120733 (100.0)
1995-96	16525 (15.7)	34327 (32.6)	9101 (8.7)	9346 (8.9)	13523 (12.9)	22344 (21.2)	105166 (100.0)
1996-97	13643 (9.7)	59533 (42.2)	10407 (7.4)	11582 (8.2)	15574 (11)	30389 (21.5)	141128 (100.0)
1997-98	12780 (8.5)	59878 (39.9)	5044 (3.4)	21675 (14.5)	18554 (12.4)	32267 (21.5)	150198 (100.0)
1998-99	21846 (11.2)	66965 (34.8)	7412 (3.8)	27352 (14.2)	22586 (11.7)	46350 (24.1)	192511 (100.0)
1999-00	21056 (10.2)	58478 (28.4)	15873 (7.7)	27901 (13.5)	27828 (13.5)	54762 (26.6)	205898 (100.0)
Compound growth rate(%)	8	10	1	28	20	20	14

Note: Figures in parentheses are percentage to total.

Source: Government of India, National Accounts Statistics, 2001

increasing it[12].

Conclusion

The above analysis reveals that there was all round development in the capital market operations in terms of the volume of funds moblised in the primary market and mutual fund sector, increase in trading volume in stock market, growth in investor population etc. But growth in mobilisation of savings through shares and debentures have not improved. While the financial savings registered a compound growth rate of 14 per cent per annum between 1993-94 and 1999-2000 the corresponding growth in shares and debentures is only one per cent. This may be due to the bitter experience of investors in both primary and secondary market and mutual fund sector. Many of the investors are interested in reducing their exposure to equity even in absolute terms rather than increasing it. Therefore governmental and other organisations responsible for its mode of functioning have to bear in mind that commercial organizations can no longer function as islands warding off competitions and challenges from well-managed counterparts in the global village. While Indian Capital Market has many sustaining elements, its major flaws cannot be ignored. Corporate sector survive primarily on investors' trust and satisfaction. If these two vital aspects are not ensured at their optimum levels at the earliest, tomorrow will be a too late hour to regret. Every agency involved in the capital market, including stock brokers, should plan their strategies for profit on a long time basis; slow and steady accumulation of profit; not a comparative big lump by depriving the investors of his due. They have to keep in mind always that it is the investor's hard earned savings that are staked at the capital market. The gullibility of the ill-informed investors is not the strength, but the weakness of the capital market. The potential investor must be properly educated and guided so that more money kept idle or invested in other fields will flow to the capital market. If and when it happens, the Indian capital market will be on a par with developed capital markets elsewhere in the world.

Foot Notes :

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