



## “AN OVERVIEW OF CHANGING DYNAMICS OF CAPITAL MARKET IN INDIA”

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### ABSTRACT

*The role of the capital market is most important for the development of the nation. Capital market includes the primary market and secondary market. It also includes different investors and intermediaries. After establishment of SEBI so many changes took place which better for the investors and county also. . This Paper making the attempt to predict the likely changing dynamics of the capital market in India.*

**KEYWORDS:** SEBI, CCI, BSE, PSE, NSE, OTCEI, UTI, ROC, OTCEI, AMC.

### INTRODUCTION:

After the recent adoption of the policies of liberalization and globalization there are likely to

be substantial changes in the financial Market and capital market of India. Although Substantial changes in the financial and capital market, have been effected directly by the government, RBI and through SEBI. Also the various stock exchanges have modified their rules and regulation with a view to improve the working of the capital market in India .All these changes are likely to have an impact on the future scenario of the financial and capital market in India . The changing dynamics will lead to healthier and progressive development of the Indian capital market in the futures.

### CJ] OBJECTIVES OF THE STUDY

1. To study the changing dynamics of Indian Capital market.
- 2.To study the various

developments in the future of the capital market.

### DJ] RESEARCH METHODOLOGY

The present study is totally depends upon the secondary data. The information is obtained from the various sources. It includes such reference book, economic survey, Research Journal and websites related to changing trends of capital market.

### EJ] THE LIKELY SCENARIO IN THE COMING FUTURE WOULD COVER THE FOLLOWING ASPECTS

#### 1.THE MATURITY OF THE INDIVIDUALS INVESTORS IN THE PRIMARY MARKET

The individuals investors in India gone through ups and down initiated by the rules carried out by SEBI and stock exchanges the individuals investors today has become very selective in investing both the primary and secondary selective in investing in both the primary and secondary markets in the last few years a large number of companies have come up with less than the issue price the result of the share was much less than the price. The result of this was that the investors suffered to a great extent

Today, they have matured and they will continue to avoid all new

issue which are having unjustified high premium or which are promoted by unknown promoters.

In the coming future, the investors will prefer to invest only in those companies having

- a. Established track record and dividend paying capacity.
- b. Established brand name.
- c. Public sector companies which are disadvantages government stake.
- d. Foreign managed companies which are subsidiaries of multinational companies.
- e. Promoted by well known groups.

Although the investors are already in favor of investing in such above mentioned companies the future trends will be more so and the companies promote by unknown promoters and having unjustified premium and not having a good track record will suffer such companies will find it difficult to raise capital through public equity issue.

## 2.CHANGING TRENDS OF INVESTMENT IN THE SECONDARY MARKET

a. Although there are more than 7800 companies, listed on the various stock exchanges only a limited few are actively traded and have liquidity a large number of companies which got their securities listed are not actually traded and many of them have been delisted.

Thus the future trends of the investment in the secondary market would be that only a limited number of securities would be actively traded. In case of many companies the promoted have totally mismanaged the funds vanished in to thin air.

b. Another likely trends in the secondary market in the coming future is that even in the limited number of securities activities traded, only selective few will have more demand the boom period, all the listed shares had an attraction for investments but now all the investors including individuals investors are able to distinguish and potentially good securities for capital appreciation and the bad ones.

thus even when the index goes up, it could not be a true indicator for all the securities buy would only be an indicators for the selective and limited number of securities presently, the individuals investors are still not having full information on the securities in which they invest but in the coming future, with up to date information available the individuals investors in the secondary market will become very selective only the good and well managed companies will attract the investments in the secondary market

## 3. REDUCTION IN SHARE CAPITAL THROUGH BUY BACK OF SHARES

The amendments to the companies act, which is likely to be passed in the second half of 1997, will allow companies to buy back their own shares and thus reduce the shares capital to that extent many of the cash rich companies have already passed enabling resolution for buy back of shares however, the extent to which such buy back of shares will be carried out will depends on

- a. The cash available with company
- b. The price at which companies will be required to buy back their shares and the .
- c. Exact modalities for extinguishing the shares which are bought by the companies.

## 4. DIVERSE VARIETY OF SECURITIES

Until now, most of the securities listed included equity shares debenture and mutual funds units .However, in the coming future, with the liberalization and globalization process there would be a large variety of securities listed on stock exchanges in India this would include different types of mutual funds units bonds foreign currency bonds gold bonds index bonds convertible preference shares nonvoting share other derivatives etc.

Thus in the coming future, the relative importance of the equity would reduce.

## 5. INCREASED USE OF THE BOOK BUILDING PROCESS

Book building process is a procedure where a company would continuously keep on issuing securities till they would continuously keep on issuing securities, till the required amount is collected for example, if a company wants to collect Rs. 1000 crores initially it may issue 50000000 shares at Rs. 20 each

supposing a demand is there and it is possible for the company to sell more its share in this case the company may further issue 250000 equity shares at Rs. 20 each thus the collected total amount will be Rs. 1 cores instead of directly collecting Rs. 1 cores by issuing 10,00,000 equity shares at Rs. 10 each the company with the help of book building process has managed to raise Rs. 1 cores by issuing only 7,50,000 equity shares .Such a book building process will also be increasingly used in the debt markets since SEBI has been allowed FIIs to invest in debt of the Indian companies the demand for such debt instrument would be large and the book building process will help the Indian companies to raise the finance by issue of debt at a minimum cost .

#### **6. CONTINUED IMPORTANCE OF FIIs**

Currently, the FIIs are dominating the stock exchanges with their huge resources .They are in position to dominate the share prices of different companies.

In the coming future these FIIs will continue to dominate the stock exchanges. This is likely because of following reasons:-

- a. Currently ,only a limited number of FIIs are registered and operating in India , but gradually as the Indian economy become more integrated with the world economy, more FIIs will be attracted towards India
- b. The government has increased the maximum ceiling limit of investment form 24 percent to 30 percent in any particular company this will attract the FIIs to invest specially in good and professionally run Indian companies
- c. In the future scenario, after full convertibility comes to India, more FIIs will be attracted towards investing in India.

#### **7. ACTIVISM OF FIIs**

In recent times the FIIs with their huge resources are playing an activity role on the stock markets they have been participating in both the primary and secondary markets .

However, in the coming future the role of these FIIs will have more activism with their substantial shareholdings they are likely to play an influencing role in the decision making of the various companies. The directors where FIIs have a substantial shareholding will have to give due weightage and importance to the advice given by these FIIs.

After the upward revision of ceiling limit for the FIIs and other from 24 percent to 30 percent the activism of these FIIs is bound to increase.

#### **8. INCREASING TRANSPARENCY IN TRADING**

With various rules and regulation laid down by SEBI already there is substantial transparency in both the working there is substantial transparency in both working of primary and as well as the secondary market. With increased implementation enforcement of SEBI regulations and with increased process of computerization there will be more transference in the capital market this will lead to reduce cost of transaction and increased benefits to the investors, especially the small and individuals investors transparency will also bring more disclosure and proper corporate governance which may reduce insider trading and manipulation of share price.

#### **9. FUNCTIONING OF SELF REGULATORY ORGANIZATION (SROs)**

SEBI has undertaken the process of regulation of various intermediaries in the capital market. The intermediaries issue registers to the issue sub broker's transfers agents, underwriters advertisement agencies etc.

SEBI is also insisting that these intermediaries should have their own self regulatory organization (SROs) most of the intermediaries have formed their own association for example, the merchant banker have formed the association of merchant banker in India [AMBI] or the registrars to issue have formed the registrars association in India. (RAIN)

Thus in the coming future, these self regulatory organization will monitor that the members follow the rules and regulations laid down by the association so that the work of intermediaries is conducted in a professional manner which will be beneficial to the capital market in general and to the individuals investors in particular .

#### 10. INCREASING ROLE OF THE INVESTORS ASSOCIATIONS

Various investors association have been formed in India with a view to safeguard and protect the interest of the investors specially the small and individuals investors .Many of the investors associations role would expand and it is likely that, they would become more professionalized in their working in the future,. It is likely that most of the problems relating to individuals investors will be redressed with the help of such investors associations in such a scenario SEBI will become the last resort for redressal of the investor's grievances.

#### 11. INTRODUCTION IF INDEX BONDS TRADING AND FUTURE AND OPTIONS

In the coming future , with the supports of SEBI, THE CONCEPT OF FUTURE AND OPTION will be introduced on the stock exchanges future and option are types of speculative transactions there will be different indices for different types of industry/ companies

Similarly index bonds trading will also be introduce and will be actively traded by the investors on the stock exchanges currently , the indices which are there are used as a barometer to show the share price movements but in the coming future more share indices security the example an index may be composed of share of companies involved in the infrastructure or an index composed of shares of companies involved in pharmaceutical manufacturing .

Thus in the future the tools of future and options and index based trading will help in hedging the risk of the investors and it will provide more stability to the stock markets.

#### 12. STRUCTURAL CHANGES IN THE INVESTMENT PATTERN

Until recently, the small and individuals investors were substantial participating in the equity investments however in the last five years due to lack of proper knowledge and guidance the small investors have suffered heavily by investing in equity .

In the coming future , the individuals and small investors will be more attracted towards debt instrument and mutual funds unit where the risk are minimized and to some extent returns are assured .

Thus trading in investment in equity will be restricted to the institutional investors which include company's financial institutional banks FIIS etc. and the individual's investors having a high network.

#### F] CONCLUSION

The Channing dynamics of capital market or likely scenario given above is based on the liberalization process and changes taking place in India and the reforms initiated by SEBI in particular. Most important part is that dominance of FI,FII, OCB in the capital market. And there will be maturity to Indian individual investors.

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