REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 2 | NOVEMBER - 2018

ROLE OF CAPITAL MARKET IN INDIA

Dr. Roshankumar M. Bhigania

ABSTRACT

Shares provide ownership in companies and they are bought for trading purposes, while bonds carry the fixed interest payable every year by the company. Companies raising money for the first time by the issuance of shares are known as initial public offering (IPO) and those coming out subsequently again are known as follow on public offer (FPO). All IPOs, FPOs, bond issued by the companies are known as primary market operations. The preferred modes of investment continue to be the traditional areas of gold, land and bank deposits for the masses in India. It may still take some time for capital markets becoming alternates to the traditional forms of investment in India. Mutual fund operators are specialized institutions who pool money from the public and then invest in the stock markets based on the research, past trends, company performance, so as to maximize the value to investors. There are various options available to an investor of reinvestment of the profits earned or taking back the profits at the discretion of the investor. As part of the efforts of both the mutual funds as well as the insurance companies to expand their base, ULIP was seen as a way to attract a larger number of the untapped vast potential of the country. The logic followed by the people for insurance products was that they should also give reasonable assured return besides the life cover to them.

KEYWORDS: *Disintermediation- SEBI- Mutual Funds – Unit-Linked Insurance Plans (ULIPs)- Market Capitalization.*

DISINTERMIEDIATION:-

It is easy to recall that bank as financial intermediary between the people and the economy. What will happen when this intermediary is removed and the companies are allowed to directly raise money from the public? It is known as 'disintermediation' facilitated by the capital market which mean companies can raise money directly from the public through issuance of shares and bonds.

Shares provide ownership in companies and they are bought for trading purposes, while bonds carry the fixed interest payable every year by the company. Companies raising money for the first time by the issuance of shares are known as initial public offering (IPO) and those coming out subsequently again are known as follow on public offer (FPO). All IPOs, FPOs, bond issued by the companies are known as primary market operations.

ROLE OF SECURITIES EXCHANGE BOARD OF INDIA (SEBI):-

All such issuances in terms of quantum to be raised, pricing is left to the company, however, regulated by the Securities Exchange Board of India (SEBI) which has the following objectives:

(1) To ensure that all companies accessing the primary market are making complete disclosures about their company and their functioning.

(2) Pricing has been determined through the book-building process (price-discovery mechanism by the markets).
(3) Reservation of shares for bulk buyers like qualified institutional buyers (QISBs) is in terms of norms that are laid down by SEBI.
(4) Issues are not bunched together and there is a gap between offerings being made by companies.
(5) There is an adequate participation of retail or small buyers in the offering.
(6) Interest of the small investor is completely protected in terms of allotment being made to them and in case of excess applied than the allotted then refunds by the company performed promptly within the prescribed time frame of SEBI.

An approval of an offering SEBI should not be seen as a recommendation to subscribe but merely that the company has complied with all the stipulations of SEBI. Any investment decision in a particular offering of an individual or an institution is purely their own wisdom.

Once the process of issuance is complete, company received the money, refunds completed, it has to get their share/bonds listed at any of the stock exchanges which will allow for trading or sale purchase of shares of the company at the stock exchanges.

This is known as secondary market operations where shares are traded i.e. bought and sold at prices decided by the sellers and buyers of shares of a particular company. The two most important stock exchanges of the country are the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

Even though there is a larger trading at the NSE, BSE is said to be the nerve centre of the Indian capital market, one being the oldest and the later located in the financial capital of the country. As it is difficult to track down trading of all the listed companies, an index is used to comment on the general-trading trend of a particular day. This index is known as SENSEX at BSE which is an index of trading of tope thirty companies in terms of their volume of trade and their share prices.

Similarly, NIFTY is the index of the NSE which has fifty companies. There is also NIFTY JUNIOR which is next fifty companies in terms of volume of trade and those which have the potential to become a part of NIFTY in future.

Further trading at the stock exchange have been made simple and easy with computerization and issuance of shares and their trading is performed in the electronic form (dematerializing which is conversion into electronic form of all physical shares). Even with the capital reforms, greater transparency in allotment of shares and also trading of shares, there is a great degree of ignorance about the capital market and thus a little participation of the public, confined to a select middle class, and finance is understood more as banking.

The preferred modes of investment continue to be the traditional areas of gold, land and bank deposits for the masses in India. It may still take some time for capital markets becoming alternates to the traditional forms of investment in India.

MARKET CAITALIZATION AND WEALTH:-

Market capitalization is the number of shares of company multiplied by their share price at the stock market. The same way, wealth is also the number of shares held by a person multiplied by the share prices at the stock market.

Recently, SEBI has introduced the concept of 'free-float market capitalization' which is the number of shares of the company available for trading at the stock market. This excludes the shares of the promoters of a company.

Capital market in India is emerging and trading community investment and trading in the capital market is by less than 1 per cent of the population. However it still attracts a lot of media attention, making headlines with the movements at the stock markets. It may not be a concern for the common man. But still it allows government to gauge reactions to various policy announcements. Adverse movement at the stock market can also allow a government to take remedial measure.

When stock prices are going up it is seen as a good for an economy of BULLISH and when stock prices are going down, it is knows as negative sentiments in the economy (BEARISH). Thus, the terms of BULLs and BEARS are used in the stock market. Some of the well-known global stock markets are National Association of Security Dealers Automated Quotations 9NASDAQ), Dow Jones (US) and Nikkei (Japan).

MUTUAL FUNDS AND UNIT-LINKED INSURANCE PLANS (ULIPS):-

Dealing in shares and their trading at the stock exchange has risks of sharp volatility in prices of shares (also known as equity shares or scrips). Mutual funds allow for sharing of risk or minimizing the risk in terms of risk appetite.

Mutual fund operators are specialized institutions who pool money from the public and then invest in the stock markets based on the research, past trends, company performance, so as to maximize the value to investors. There are various options available to an investor of reinvestment of the profits earned or taking back the profits at the discretion of the investor.

It should, however, be clearly understood that mutual funds do not 'eliminate' risk but 'minimize' the risk in terms of risk appetite. Mutual fund operators are in the public sector such as the Unit Trust of India and also in the private sector and foreign companies. It is gradually emerging in India with a large number of middle class preferring to invest in mutual funds in India.

UNIT-LINKED INSURANCE PLANS (ULIPs):-

In recent times, there has been an increased preference of mutual fund companies as well as insurance companies to combine the investments in stock markets with life insurance plans, known as ULIPs. This need has arisen as there is very low penetration of life insurance in India or lack of awareness of the need for such policies, compared to other countries.

The insurance sector till recently was government-controlled with the LIC acting as the sole institutions for selling of life insurance products, till recently, based on the recommendations made by R. N. Malhotra committee, of opening the insurance sector to private players.

Even though insurance sector has been opened for both private as well as foreign companies, the equity cap for foreign equity is 26 per cent, i.e., foreign players can come in solely as a joint venture with an Indian company. Despite the opening of the insurance sector, life insurance penetration is fairly low in India.

As part of the efforts of both the mutual funds as well as the insurance companies to expand their base, ULIP was seen as a way to attract a larger number of the untapped vast potential of the country. The logic followed by the people for insurance products was that they should also give reasonable assured return besides the life cover to them.

There is a fundamental flaw in the perception of not being able to understand that investments for life cover and investments in mutual funds are with different objectives. A life insurance cover cannot be seen as maximizing returns. It is a protection to the family in case of untimely demise and for uncertainty of life. Protection has to come first before looking at maximizing returns.

All insurance companies have such policies known as endowment policies, with fairly low levels of premium, but have no returns, except the life cover for the amount insured. The other aspect not understood is the fact that 'lower the age, lower is the premium; and higher the age, higher is the premium' for the same amount of sum assured. At young age, the endowment policies have very low levels of premium

The insurance companies rather than educating the people of these fundamental issues choose the option of combining the returns with life covers resulting in higher premium and denying the benefits of maximizing returns or a decent sum assured as life insurance cover.

This has also led to regulatory conflicts as the insurance companies as pure insurance companies are controlled by the insurance regulatory development authority (IRDA) while mutual funds come under SEBI. As a larger number of insurance companies while investing in mutual funds were outside the purview of SEBI and IRDA with only responsibility of insurance business had no role in their investment in mutual funds.

While the investment by the insurance companies in mutual funds had no regulators making it difficult for SEBI to protect the interests of the investors.

However, more than this conflict is to spread awareness amongst the people or setting aside some money for life cover and not as an investment but as a protection measure, merely as one saves for a rainy day without bothering for returns.

CONCLUSION :-

Depending on income levels and family requirements, a certain portion may be invested with the sole objective of maximizing returns for the people. This would be a judicious decision achieving both the objectives rather than combining the two as an ULIP, as a better option.

REFERENCES:-

1) " Indian Economy " by Rudar Dutt and Sundaram.
2) " Indian Economy " by Mishra and Poori
3) " The Economic Times of India " Mumbai.
4) " Economic Political Weekly"
5) " The Times of India", Mumbai
6) " Indian Economy" by Uma Kapila.
7) " Reserve Bank of India's Bulletins
8) Economic Survey 2014-15 by Government of India.
9) Economic Survey 2015-16 by Government of India.
10) Economic Survey 2016-17 by Government of India.

Dr. Roshankumar M. Bhigania