



## **THE SIGNIFICANCE OF CAPITAL MARKETS IN INDIA'S FINANCIAL STABILITY AND ECONOMIC GROWTH**

**Dr. ARIF ARAFAT, Associate Professor & HOD,**

**Department of MBA,**

**TRINITY COLLEGE OF ENGINEERING AND TECHNOLOGY, PEDDAPALLI, TELANGANA.**

**ABSTRACT:** The capital market is a critical component of the financial system. The capital market is what keeps capitalism running. The Indian stock market has changed its structure since it was opened up. The Indian capital market, particularly the secondary market, has been constantly altering, resulting in a stock market revolution. These innovations have enabled modern technology and internet commerce. When the financial system is solid, it is possible to accumulate enough cash through investments, loans, and deposits. Consider this system to be a collection of interconnected, dependent subsystems made up of various pieces. The purpose of this research is to determine what the capital market does and how significant it is for capital production and the smooth operation of the Indian financial system.

**Keywords:** *Capital market, Capital formation process, Investments.*

### **1. INTRODUCTION**

Since the Indian economy was opened up, the Indian stock market has received a lot of interest. As a result, several scholars have investigated various issues concerning the Indian stock market. The capital market is a critical component of the financial system. The capital market is what keeps capitalism running. The government's economic changes have had an impact on how the capital market is administered and governed. The Indian stock market has changed its structure since it was opened up. The primary purpose of the adjustment is to improve market efficiency. The stock market has also altered significantly as a result of changes in the Indian capital market, particularly in the secondary market. These innovations have enabled modern technology and internet commerce.

The capital market trades long-term debt, government bonds, and business securities. The long-term loan market is managed by the capital market. It provides funds for both the short and long term. The corporation trades securities such as bonds, debentures, and shares. People only buy and sell long-term assets in the capital markets. It allows savers, individuals in need of money, and savers to conduct money-making trades. The

capital market contributes to economic growth by shifting funds away from the economy and into more profitable areas. They assist businesses in paying for operations and infrastructure modifications. Investors make money on the stock market. Investors profit as the value of stocks and other financial assets rises. The majority of the time, they use this extra cash to increase sales and help the economy thrive. India's economy has grown rapidly since it was reformed, becoming more global and technological. Even though there is a lot of uncertainty and negativity right now, India's rising market economy is expected to grow quicker. India's robust financial foundation makes it extremely resilient.

### **2. LITERATURE REVIEW OF CAPITAL MARKETS**

Subir Gokarn's 1996 study paper, "Indian Capital Market Reforms, 1992-96: An Evaluation," stated that he used a framework of ideas that covered both the concept of laws and the new political monetary system.

In his 2003 dissertation, "Effectiveness of the Indian Stock Market," Anand Pandey examined three key inventory indices to determine whether

the Indian stock market was a level and random walk.

M. Selvam M. states that a well-developed capital market is a key component of the infrastructure that allows capital to be produced. (2008), while enrolled in a course titled "Effectiveness of the Indian Capital Market to React Safely to the Announcement of Quarterly Gains: A Study in Capital Goods Business."

According to Jumba Shelly's 2010 report, "A Mission on Capital Market," one of the most important factors that directly influences a country's capital market is how well its firms are performing.

"Indian Capital Market: a Summary with Its Development," a study paper by Ahuja Juhi (2012), looked at the likelihood of a paradigm shift in the Indian capital market.

The 2016 book "Assessing the Role of the Indian Capital Market" by Pankaj Tiwari, a research scholar at Uttarakhand Technological University, has received a lot of attention from capital market participants.

The assessment by Samir K. Barua, V. Raghunathan, and Jayhunath R. Varma is an excellent resource for understanding the Indian capital market.

Muhammad Rubani of Kalinga University conducted the study titled "The Study of Structure and Function of Capital Market in India." It provides essential information regarding the Indian financial markets.

## Objective of research

- Discover the function of capital markets in India's capital generation.
- To understand what the capital market contributes to the Indian economy.

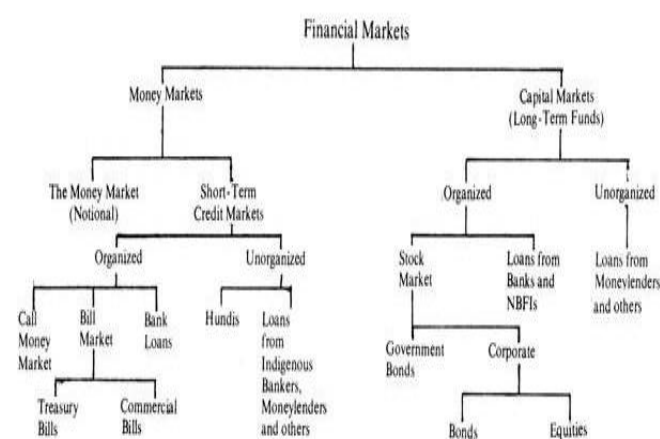
## 3. RESEARCH METHODOLOGY

To overcome this challenge, I attempted to collect secondary data from a variety of sources. Sources should always be treated with caution, especially if the information was collected for a different

objective. Furthermore, many secondary sources do not clearly clarify topics like the study's purpose or how the data was acquired, evaluated, and interpreted, making it difficult for the researcher to assess their usefulness.

To assess the "Role and Importance of Capital Market in the Indian Financial System," we examined the most recent data. To stay up to date on the newest advancements in this field, I've read a number of papers from academic and business periodicals. We also used non-our data from online discussion groups. The Internet, scholarly journals, business periodicals, and bank annual reports are all sources of information regarding this subject.

## 4. STRUCTURE OF INDIAN FINANCIAL SYSTEM



### Structure of Capital markets

The Indian capital market is made up of the gilt-edged market and the industrial securities market. These are the markets for long-term investments in financial assets. The Reserve Bank of India supports the gilt-edged market, where government and semi-government assets are traded. Securities traded on this market have a stable value and are highly sought after by banks and other institutions.



## 5. CAPITALMARKETPARTICIPANTS

This market obtains its reserves from a variety of economic sectors. The following factors contributed to these cost savings:

- Individuals.
- Corporate.
- Governments.
- Foreign countries.
- Banks.
- Provident Funds.
- Financial Institutions.

All of these groups contribute to the economy by saving money, and part of that money winds up in the capital markets. Individuals can invest in these markets directly through mutual funds, company shares or debentures, and government bonds. There are also businesses that have more money than they need to be in business.

### Capital Market Instruments

Capital Market Instruments TM are financial instruments used to make money on the stock market. The following are some examples of capital market tools used by businesses to raise funds:

- Preference shares
- Equity shares
- Non-voting equity shares
- Cumulative convertible preference shares
- Company fixed deposits
- Warrants
- Debentures
- Bonds
- Mutual fund
- Derivatives
- Commodities
- Currency exchange

### Types of capital market

The capital market is divided into two parts: primary and secondary capital markets.

#### Primary Capital Market

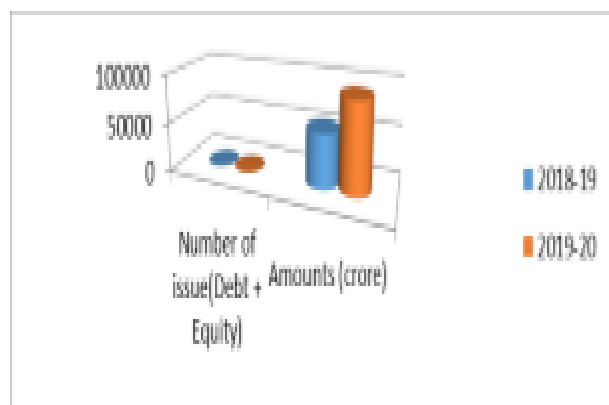
The primary market for buying and selling stocks is the new issue market, which includes "supply and demand" or "sources and uses" for fresh capital funds. The primary capital market is where unreleased securities can be bought and sold. Its fundamental purpose is to gradually shift money from the private to the public and business sectors. This is done by utilizing primary and secondary issues with banks and non-bank financial intermediaries. Capital is created as a result of problems that are most significant to enterprises. A follow-on public offering or additional issue occurs when a company that is already publicly traded sells fresh securities to the public or makes an offer to sell shares to the public via an offer document.

Figure 1:

Money from a primary market public auction

Year	Number of issue (Debt + Equity)	Amounts (crore)
2018-19	158	54,903
2019-20	109	91,366

Source: SEBI



## Secondary Capital Market

The secondary market is where previously sold privately or publically issued items can be found. Secondary markets include stock exchanges. The term "secondary market" can also refer to any location where discarded products are sold. The second market is often known as the stock exchange. People buy and sell securities that have been listed and sold on the main market on the stock market. Members of the exchange can conduct any type of share market trade because they follow SEBI laws. The Indian secondary capital market is divided into two categories:

A secondary market can provide funds to businesses and banks.

The secondary capital market is where government and public sector bonds are bought and traded.

A regional stock exchange is the next sort of market.

A brief examination of the Indian stock market.

- Bombay Stock Exchange
- National Stock Exchange
- Over The Counter Stock Exchange
- Kolkata Stock Exchange
- Uttar Pradesh Stock Exchange
- Ahmadabad Stock Exchange
- Delhi Stock Exchange
- Pune Stock Exchange
- Ludhiana Stock Exchange
- Bangalore Stock Exchange
- Hyderabad Stock Exchange
- Saurashtra and Kachchh Stock Exchange

- Chennai Stock Exchange
- Madhya Pradesh Stock Exchange
- Vadodara Stock Exchange
- Guwahati Stock Exchange
- Bhubaneswar Stock Exchange
- Cochin Stock Exchange
- Magadha Stock Exchange
- Coimbatore Stock Exchange
- Jaipur Stock Exchange
- Mangalore Stock Exchange

Table2

Snapshot of Indian Capital Market

Description	March 2020
<i>Index in Equity Market</i>	
Sensex	29,468
Nifty 50	8,598
Nifty 500	6,997
BSE 500	11,098
Nifty IT	19,144
Nifty Bank	12,764
BSE Healthcare	12,149
BSE FMCG	10,255
<i>Market Capitalisation (in crore)</i>	
BSE	1,13,48,757
NSE	1,12,43,112
<i>P/E Ratio</i>	
BSE	17.8
NSE	19.4
<i>No of Listed Companies</i>	
BSE	5,377
NSE	1,734
<i>Gross turn over in Equity Segment (crore)</i>	
BSE	81,972
NSE	10,06,249
<i>Gross turn over in Equity Derivatives Segment (crore)</i>	
BSE	1,09,021
NSE	2,47,46,498
<i>Gross Turnover in Currency Derivatives Segment (crore)</i>	
BSE	4,71,806
NSE	12,31,222
MSEI	6,404
<i>Gross Turnover in Interest Rate Derivatives Segment (crore)</i>	
BSE	11,043
NSE	33,798

Sources: SEBI, NSE, BSE, MSEI

## Role of Capital market

The capital market has a significant impact on a country's prosperity and stability. The Nexus is a significant and effective means to direct and distribute funds to companies, in addition to being a reliable place to invest money. It is critical to get money to spend on productive assets in order to improve a country's long-term growth prospects.

## Capital Arrangement





The stock market assists people in investing in firms. The capital creation rate is determined by the national savings rate. Banks encourage consumers to save money, but this is insufficient to meet the needs of the business sector.

### **Encouragement to Saving and Investments**

Because the capital market has expanded, the services provided by banks and other financial institutions encourage people to save more. The capital market facilitates and supports investment by making it easier for firms and governments to raise funds. It provides services through banks and other non-bank financial institutions.

### **Economic growth**

The capital market promotes the growth of the manufacturing sector and other sectors of the economy. The stock market's primary function is to transfer money from the public to the private sector. Loans for a wide range of public and private initiatives are possible thanks to the capital market.

### **Development of Backward Areas**

Capital markets are where projects in underdeveloped areas acquire their funding. This assists areas whose economies are struggling to thrive.

### **Generates Employment**

- The stock market employs people all around the country:
- Directly hire people to work in capital markets such as stock exchanges and banks.
- Individuals and corporations in every field benefit from funding development programs.

### **Long Term Capital to Industrial Sector**

The capital market can provide businesses with reliable, long-term funding. The corporation maintains the money after issuing a bond and receiving payment for it.

### **Generation of Foreign Capital**

The capital market facilitates the accumulation of foreign money. Bonds and other securities can be purchased on the overseas market by Indian enterprises.

### **Developing Role of Financial Institutions**

In India, there are numerous banks that conduct business in various sectors. The Industrial Development Bank of India (IDBI), the State Finance Corporations (SFC), and the Industrial Credit and Investment Corporation of India (ICICI) are a few examples.

### **Investment Opportunities**

Everyone has excellent investment opportunities in the capital markets. Other avenues for consumers to spend their money include debentures, stocks, and bonds.

### **Regulations of the Capital Market**

The Securities and Exchange Board of India (SEBI) was established in 1988 to manage the government. The SEBI Act of 1992 established SEBI as a formal institution. SEBI is in charge of two things: keeping buyers safe by keeping the stock market under control, and assisting the sector in growing. The Securities Contract Regulation (SCR) Act placed stock markets, their members, and contracts in securities that might be traded under the Ministry of Finance's control. This gave SEBI the majority of its functions and powers. It also has special powers under the Companies Act. SEBI is in charge of registering and overseeing takeovers, mutual funds, CIPs, venture capital funds, and service providers. They can also provide advice to individuals and businesses in the securities market on capital issues, securities transactions, and disclosures. It can also cancel registrations, suspend listed businesses, and inspect books and records.

### **Depository System of India**

According to one definition, a Depository Participant (DP) works for the depository. They serve as a liaison between clients and the depository. The Depositories Act of 1996 requires DPs and depository to sign an agreement while working together. A DP is a legal entity that has registered with SEBI in accordance with the SEBI Act. A depository is a bank that facilitates the transfer of shares to various parties. The Act states that a DP cannot provide depository-related services until it obtains a certificate of registration

from SEBI.

### **National Securities Depository LTD.(NSDL)**

The NSDL was the country's first bank. It has the support of three of the country's top colleges. The NSE, UTI, and the Indian Industrial Development Bank. On November 8, 1996, the NSDL was born. NSDL is a public limited corporation under the Companies Act of 1956. It was founded with a paid-up capital of Rs. 105 crore.

### **Central Depository Services LTD (CDSL)**

The Bombay Stock Exchange Limited (BSE) backed CDSL, along with prominent institutions such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India, and Centurion Bank. CDSL was created so that everyone in the market might have access to dependable, safe, and affordable banking services. It first opened its doors on March 22, 1999. The BSE owns 45% of the company, while the bank owns the remaining 55%.

### **The Bulls**

A robust economy, rapid job growth, rising GDP, and rising stock prices are all signs of a bull market. Everything is really stunning! Choosing equities during a bull market is simple because everything is rising. However, bull markets do not last forever, and stock prices that rise too quickly can occasionally lead to devastating outcomes. A bull is someone who is optimistic and believes that stock values will rise. Their outlook is considered optimistic.

### **The Bears**

A bear market occurs when the economy is bad, a slump is on the way, and stock prices are falling. During weak markets, it can be difficult for buyers to discover stocks that will make them money. When stock prices fall, investors can profit by using a practice known as "short selling." You might alternatively remain neutral until you believe the bear market has ended. At that point, you should begin purchasing to prepare for a bull market. Someone who believes that stock prices will fall is known as a bear, and they are thought

to have a pessimistic outlook.

## **6. CONCLUSION**

India is currently regarded as having one of the world's fastest-growing economies, owing in great part to its robust capital market. Because of financial reforms, the country's financial industry has recently undergone significant changes. Many novel paths have been developed in the financial subsystem. As a result, the economy has gained more capital, and India has received investment from both within and beyond the country. India boasts the world's best economy, yet it is facing challenges such as the global crisis, trade wars, unemployment, and other issues. The market is frequently extremely volatile. Concerns about corporate governance make it difficult to persuade serious investors to trust a company again. Ultimately, the leadership of a firm either develops or destroys its image, and investors lose faith in it. The Indian stock market, without a question, has a bright and hopeful future ahead of it. The performance of the global stock market, foreign investments, government and political factors all have an impact on the Indian capital market.

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