

# Structural Transformation and Growth of Capital Markets in India

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**Abstract:** The Indian capital market has a long and evolving history, tracing its origins to the 18th century when securities of the East India Company were first traded. Since the 1890s, the capital market has played a significant role in supporting the sustainability and growth of the Indian economy by facilitating efficient allocation of financial resources. Acting as a bridge between savings and investment, the capital market contributes to wealth distribution, capital formation, and overall economic development.

A major transformation in the Indian capital market occurred in the New Economic Policy 1991, which introduced liberalization, privatization, and globalization. Post-reform, regulatory bodies such as the Securities and Exchange Board of India implemented various measures to improve transparency, efficiency, and investor protection. The market facilitates the mobilization of medium- and long-term funds from diverse sources, including households, financial institutions, and corporate entities.

In recent years, there has been a steady rise in household participation in financial instruments, ranging from low-risk fixed-return options to market-linked securities. However, inadequate financial literacy continues to pose challenges, emphasizing the need for greater investor awareness regarding various investment avenues. Additionally, foreign institutional investors have emerged as key drivers of market dynamics in developing economies like India.

This study examines the types and historical evolution of the Indian capital market, its role in economic development, and the impact of reforms on its growth. It also analyzes recent developments, including the effects of the COVID-19 pandemic on stock market performance, highlighting both challenges and resilience in the financial system.

**Keywords:** Capital Market Development, Economic Growth, Financial Reforms, Investor Awareness, Foreign Institutional Investment, Stock Market Performance, Financial Inclusion.

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## **Introduction**

### **Capital Market: An Overview**

Capital markets are financial markets that bring buyers and sellers together to trade stocks, bonds, currencies, and other financial assets. Capital markets include the stock market and the bond market. They help people with ideas become entrepreneurs and help small businesses grow into big companies. They also give folks like you and me opportunities to save and invest for our futures. Capital markets are composed of the suppliers and users of funds. Suppliers include households—through the savings accounts they hold with banks—as well as institutions like pension and retirement funds, life insurance companies, charitable foundations, and non-financial companies that generate excess cash. The "users" of the funds distributed on capital markets include home and motor vehicle purchasers, non-financial companies, and governments financing infrastructure investment and operating expenses.

Capital markets are used primarily to sell financial products such as equities and debt securities. Equities are stocks, which are ownership shares in a company. Debt securities, such as bonds, are interest-bearing IOUs.

### **Types of Capital Market**

Capital market can be divide in to two different categories: primary markets—where new equity stock and bond issues are sold to investors—and secondary markets, which trade existing securities. Capital markets are a crucial part of a functioning modern economy because they move money from the people who have it to those who need it for productive use.

#### **Primary Market**

When a company publicly sells new stocks or bonds for the first time—such as in an initial public offering (IPO)—it does so in the primary capital market. This market is sometimes called the new issues market. When investors purchase securities on the primary capital market, the company that offers the securities hires an underwriting firm to review it and create a prospectus outlining the price and other details of the securities to be issued. All issues on the primary market are subject to strict regulation. Companies must file statements with the Securities and Exchange Commission (SEC) and other securities agencies and must wait until their filings are approved before they can go public. Small investors are often unable to buy securities on the primary market because the company and its investment bankers want to sell all of the available securities in a short period of time to meet the required

volume, and they must focus on marketing the sale to large investors who can buy more securities at once.

### Secondary Market

The secondary market, on the other hand, includes venues overseen by a regulatory body like the SEC where these previously issued securities are traded between investors. Issuing companies do not have a part in the secondary market. The New York Stock Exchange (NYSE) and NASDAQ are examples of secondary markets. The secondary market has two different categories: the auction and the dealer markets. The auction market is home to the open outcry system where buyers and sellers congregate in one location and announce the prices at which they are willing to buy and sell their securities. The NYSE is one such example. In dealer markets, though, people trade through electronic networks. Most small investors trade through dealer markets.

### Features of Capital Market

**Link between Savers and Investment Opportunities:** Capital market is a crucial link between saving and investment process. The capital market transfers money from savers to entrepreneurial borrowers.

**Deals in Long Term Investment:** Capital market makes use of different intermediaries such as brokers, underwriters, depositories etc. These intermediaries act as working organs of capital market and are very important elements of capital market.

**Utilizes Intermediaries:** makes use of different intermediaries such as brokers, underwriters, depositories etc. These intermediaries act as working organs of capital market and are very important elements of capital market.

**Determinant of Capital Formation:** The activities of capital market determine the rate of capital formation in an economy. Capital market offers attractive opportunities to those who have surplus funds so that they invest more and more in capital market and are encouraged to save more for profitable opportunities.

**Government Rules and Regulations:** The capital market operates freely but under the guidance of government policies. These markets function within the framework of government rules and regulations, e.g., stock exchange works under the regulations of SEBI which is a government body.

### History of Capital Market in India

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading were unorganized and the main trading centers were Bombay (Mumbai) and Calcutta (Kolkata). Of the two, Bombay was the chief trading center wherein bank shares were the major trading stock. During the American Civil War (1860-61), Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for a half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was tremendous slump in share price.

In the post-independence period also, the size of the capital market remained small. During the first and second five-year plans, the government's emphasis was on the development of the agricultural sector and public sector undertakings. The public sector undertakings were healthier than the private undertakings in terms

of paid-up capital but their shares were not listed on the stock exchanges. Moreover, the Controller of Capital Issues (CCI) closely supervised and controlled the timing composition, interest rates, pricing, allotment, and floatation costs of new issues. These strict regulations demotivated many companies from going public for almost four and a half decades.

In the 1950s, Century Textiles, Tata Steel, Bombay Dyeing, National Rayon, and Kohinoor Mills were the favorite scrips of speculators. As speculation became rampant, the stock market came to be known as Satta Bazaar. Despite speculation, non-payment or defaults were not very frequent. The government enacted the Securities Contracts (Regulation) Act in 1956s was also characterized by the establishment of a network for the development of financial institutions and state financial corporations.

When in the 1970s, badla trading was resumed under the disguised form of hand-delivery contracts a group. This revived the market. However, the capital market received another severe setback on July 6, 1974, when the government promulgated the Dividend restriction ordinance, restricting the payment of dividend by companies to 12 per cent of the face value or one-third of the profits of the companies that can be distributed as computed under section 369 of the Companies Act, whichever was lower.

### Role of Capital Market in India

India's growth story has important implication for the capital market, which has grown sharply with respect to several parameters – amounts raised number of stock exchanges and other intermediaries, listed stocks, market capitalization, trading volumes and turnover, market instruments, investor population, issuer and intermediary profile.

The capital market consists primarily of the debt and equity markets. Historically, it contributed significantly to mobilizing funds to meet public and private companies' financing requirements. The introduction of exchange-traded derivative instruments such as options and futures has enabled investors to better hedge their position and reduce risks.

India's debt and equity markets raised from 75 per cent in 1995 to 130 per cent in 2005. But the growth relative to US, Malaysia and South Korea remains the low and largely skewed, indicating immense latent potential. India's debt market comprises government bonds and the corporate bond market (comprising PSUs, corporates, financial institutions and banks).

India compares well with other emerging economies in terms of sophisticated market design of equity spot and derivatives market, widespread retail participation and resilient liquidity.

SEBI's such as submission of quarterly compliance reports, and company valuation on the lines of the Sarbanes-Oxley act have enhanced corporate governance. But enforcement continues to be a problem because of limited trained staff and companies not being subjected to substantial fines or legal sanctions.

Given the booming economy, large skilled labor force, reliable business community, continued reforms and greater global integration vindicated by the investment-grade ratings of Moody's and Fitch, the net cumulative portfolio flows from 2003-06(bonds and equities) amounted to \$5 billion. Capital market also deals with all arrangements for borrowing and lending term funds (medium term and long term). The demand for long term funds comes from private business corporations, public corporations and

the Government. The supply of funds comes largely from individual and institutional investors, banks and special industrial financial institutions and Government. Capital Market consists of Primary Market and Secondary Market. Stock Exchange also plays important role in capital market. Due to speedy economic growth India still faces massive income inequalities, high unemployment, illiteracy and poverty. So there is a need to initiate some reforms for strengthening capital market.

### **Indian Capital Market: Development**

#### **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 mobilizing the savings of households to build a 'life fund'. It 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 mobilizing 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.

#### **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 IFCI, ICICI and IDBI in underwriting activities. It is evident from the fact that the number of securities underwritten was only 55 per cent in 1960-61, whereas at present it is about 99 per cent<sup>3</sup>.

#### **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 non-marketable 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

#### **Growth of Merchant Banking:**

The role of merchant banking in India's capital market can be traced back to 1969 when Grindlays 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.

#### **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.

#### **Growth of Mutual Funds:**

Mutual funds companies are investment trust companies. Mutual funds schemes are designed to mobilize 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 mobilize 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 Rs66,272 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.

#### **SEBI in Indian capital Market**

Securities Exchange Board of India (SEBI) is the regulating body of securities markets in India. It is a body established by the government of India for monitoring and controlling all matters concerned with the security market. SEBI was established on April 12, 1988, and got statutory powers on April 12, 1992, through SEBI act, 1992. It is headquartered at Mumbai with its regional offices in Kolkata, Chennai, New Delhi and Ahmedabad.

The whole working of SEBI is managed by 6 members: One person nominated by Central Government, Two officers of central

ministries, one member from RBI and remaining two nominated by Central Government. SEBI acts as a guardian for Indian capital market and monitors all its functions to safeguard the interest of its shareholder. SEBI issues guidelines for the Indian capital market and aims at removing all fraudulent and malpractices from securities trading.

SEBI strictly prohibits insider trading from the capital market. It is responsible for registration and regulation of intermediaries like Share transfer agent, Sub brokers and Stockbrokers working with capital market. It has full right to inspect the books and accounts of financial intermediaries involved in trading. SEBI is also concerned with educating of investors and training of the financial intermediaries for better functioning of the capital market. Roles of SEBI in Indian Capital Market are as follows:

### **Role of SEBI in Capital Market**

**Regulates Capital Market:** SEBI is a regulating body for the capital market in India. It is set up by the government of India and act as a watchdog for the capital market. It issues guidelines for the functioning of stock exchanges and aims at reducing all malpractices from the trading world. It avoids all speculative activities and insider trading from securities trading business.

**Educates Investors and Trains Intermediaries:** SEBI provides full detail guidelines to its investors to increase their investing knowledge. It educates them regarding all investment issues so that they can protect themselves from malpractices. It makes its investors fully aware of all affairs concerned with trading activities. SEBI also provides time to time training to financial intermediaries for better functioning and serving investors well. It aims at improving their understanding with people.

**Audit Stock Market Performance:** SEBI has full power and right to check the account and books of stock exchanges working in India. Stock exchanges are required to show their book account to SEBI whenever required by it. It aims at bringing transparency in trading.

**Control Merger, Takeover and Acquisition of Companies:** SEBI keep an eye and fully regulates all merger, acquisition and takeover activities. It aims at removing and reducing all fraud activities from the Indian capital market. With the aim of creating a monopoly in the capital market, many big companies want to buy and merge with different companies. SEBI avoids all such mergers and acquisition activities and checks whether it is done for development purposes.

**Better Relationship with ICAI:** SEBI aims at bringing the transparency in auditing work of businesses. For this, it maintains good understanding with ICAI, the authority for making auditors in India. SEBI along with ICAI investigates whether all chartered accountants are doing their job properly. Financial statements are termed as a mirror to see the real face of companies. Investors can get full detail by just analyzing these statements. SEBI thereby ensures that whether these statements are prepared correctly by keeping an eye over chartered accountant's duty.

**Management Activities:** SEBI in order to check the capital market performance evaluates report of portfolio management activities from time to time. It demands a performance report from all registered portfolio managers in India by sending a letter to them. This helps in evaluating and regulating capital market performance in India.

### **Recent developments by SEBI on Capital Market activities**

- Issuers other than unlisted Real Estate Investment Trust (REITs) and Infrastructure Investment Trusts who are in existence for less than three years have been facilitated to tap the bond market subject to certain conditions;
- The requirement to have a minimum rating of AA- for public issuance of non-convertible redeemable preference shares (NCPRS) has been done away with in requirement;
- The requirement of a minimum tenure of three years for public issuance of NCRPS has been removed, thus providing flexibility to the issuers to structure their issuance as per their resource requirement;
- The restriction of not more than four issuances of debt securities in a year through a single shelf prospectus has been done away with, to enable issuers to raise funds quickly without filing a separate prospectus each time;
- The option for call and put has been introduced in case of debt securities issued on a private placement basis. This will provide greater flexibility to the issuers and investors of debt securities and NCRPS as well;
- Furthermore, the period for the exercise of call and put option has been brought down to 12 months from 24 months in order to provide increased flexibility.

### **Review of Literature**

**2.2 Bansal, Sejal, Rastogi, Anushka- 2020:** A study concentrated on “Development of domestic capital market in emerging economies and its impact”. This report attempts to make a case for leveraging innovative sources of finance in the Indian capital market for social and economic development of the country. The initial sections of the paper are used to set context and establish the link between capital markets and GDP growth. This is done through a comparative view of capital markets in developed vs. emerging economies. The next section of the report delves into the Indian scenario, providing an overview of the Indian capital market. This section provides a comparison between Indian capital markets and those of other developing nations such as Africa, Indonesia, etc. And they also analyze the results from the framework to identify potential next steps for the government and other regulatory bodies, such as RBI, SEBI, global banks, etc.

**2.4 Nyamwero Bwire Nyamwero – 2022:** “Relationship between Capital Market Development and Economic Growth in India”. This study shows the link between capital markets development and economic growth is a thing which cannot fall apart. This paper aim to examine the effect of a well-developed capital market and regulatory framework on economic growth. On the other side of the project capital market authorities and legal frame work also investigated and examined to see as to whether they stimulate the capital market in order to serve economic growth of the country. Inter alia the primary objective of this study aims at answering the hypothesis on whether there is a relationship between capital

**2.9 D. Mythili, R. S. poorni -2020:** “Private equity Investment in India”. Private equity investments have been a part of India's growth story over the last two decades. For several reasons, the Indian private equity showcase is appealing. To begin with, it is because of its entrepreneurial status, as well as the related

simplicity and benefits of English-speaking society and thirdly, an investment base that fully comprehends the numerous Private Equity opportunities, and finally, an emerging infrastructure with solid hidden financial growth. With the above background, the current study aims to determine the effect of private equity investments on the nation's financial market movement.

## Research Methodology

The chapter consists of research objectives, source of data, types of data, tools and techniques are used for the analysis and hypothesis. The main aim of this chapter is to justify the study with the appropriate methodology.

### Objectives:

1. Development of Viable Capital Markets – The Indian Experience
2. Indian Stock Market during COVID-19 Pandemic.

### Hypothesis

H0- There is no significant difference between pre and post Covid crisis return of different sector.

H1-There is significant difference between pre and post Covid crisis return of different sector

### Source of data:

The study is entirely based on secondary data. Main sources of data are internet, books, Annual report, presentations, and article

### Type of data:

The study used panel data and time series data mainly between 2010 and 2020. The data is collected from RBI, SEBI and BSE website to analyze and interpret the data.

### Tools and Techniques:

Basic tools are used for project to draw; (a) summary statistics (b) Bar charts (c) Tables.

### Technological Tools:

The study used MS-word and MS-excel for the completion of the project.

## Data Analysis and Interpretation

Chapter-2 outlined the research methodology. The measuring instrument was discussed. In this chapter the study investigate the

inherent meaning of the research through data obtained from the empirical study.

## Development of Viable Capital Market – The Indian Experience

Capital markets play a crucial role in the economic development of a country. They provide financial resources required for the long-term sustainable development of the economy. Development of viable capital markets is therefore considered an important element in the macro-financial policy toolkit, including for objectives such as financial stability and the transmission of monetary policy.

The Committee on Global Financial System (CGFS), which meets at the Bank for International Settlements (BIS), constituted a Working Group in 2018-19 to examine global trends in capital market development, identify various factors (legal, institutional, structural and conjectural) that foster the development of robust capital markets, and consider the role of policy including prudential measures. The Working Group, co-chaired by the People's Bank of China and the Reserve Bank of India, focused on issues primarily related to the development of markets in bond and equity securities. While these issues are arguably of greater relevance to emerging market economies, they were found to be of significant interest even for advanced economies.

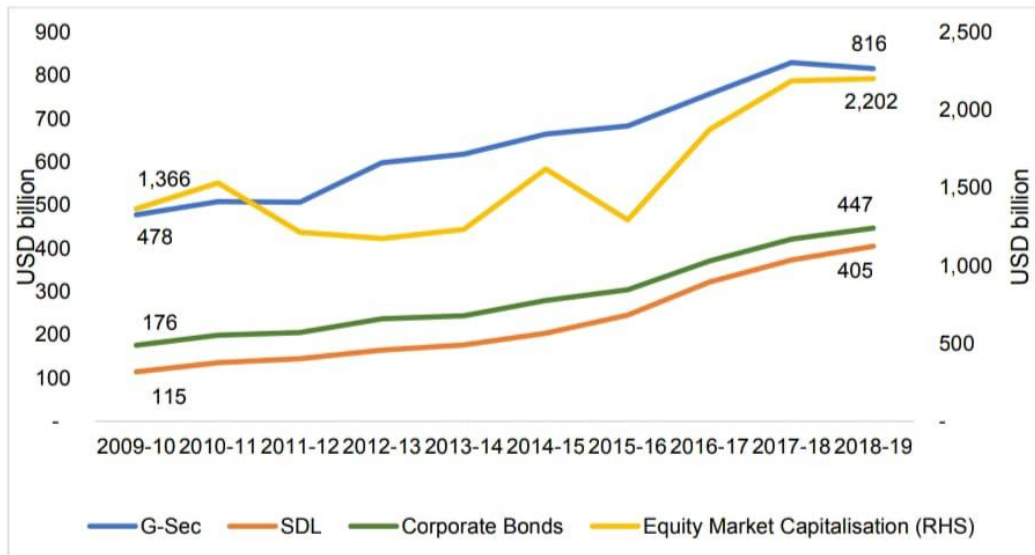
The CGF report identified the drivers of capital market development and categorized them into two types:

- (i) Drivers which create an enabling environment for financial development and,
- (ii) Drivers which are more capital market specific.

Policy initiatives in India have been largely in sync with the findings and recommendations of the CGFS Report. I shall discuss these and future policy directions after providing a brief overview of the Indian capital markets. While the scope of the CGFS Report is the entire capital market, I will largely confine this speech to the markets regulated by the Reserve Bank, viz., interest rate markets and foreign exchange markets.

In terms of size, all the major segments of the capital market, viz., Central Government securities (G-Sec) market, market for State Development Loans (SDL), corporate bond market and equity market — the so called “cash markets” — have experienced consistent growth during the past few decades in terms of primary issuance, market capitalization (for equity market) and trading volumes in the secondary market. Equity market remains the largest segment, even as G-Sec, SDL and corporate bond markets have grown steadily

Chart 1: Growth in outstanding stock of the Indian capital market



Source: Reserve bank of India (RBI) and Security and Exchange Board of India (SEBI)

**Growth of the Government Security Market:**

A streamlined, transparent and market-based primary issuance process has underpinned the development of the government securities markets, both central government securities (G-Secs) and state government securities (SDLs). In the primary G-Sec markets, issuances are made as per a half-yearly pre-announced calendar. The calendar specifies the amount, tenor and issuance dates. The tenor of the G-Secs goes up to 40 years. G-Secs are mostly fixed-coupon bonds, although instruments such as inflation-linked bonds, capital-indexed bonds, floating-rate bonds and bonds with embedded options are also issued. Currently, all issuances are done through weekly auctions. Issuances are supported by Primary Dealers (PDs) who fully underwrite the issue. Auctions are conducted through both competitive bidding [for all residents, Foreign Portfolio Investors (FPIs) and Non-Resident Indians (NRIs)], which determines the market-clearing price, and non-

competitive bidding (for retail investors, largely), which receives the allotted securities at the market-clearing price. More than 90% of the issuances are done through re-opening of existing securities which has contributed significantly to market liquidity by spreading out ownership across a large number of investors. The Reserve Bank also introduced “when issued” segment for the G-sec market since 2006.

The profile of both G-Secs and SDLs in terms of stock and flow characteristics is shown in Tables 1 and 2. The weighted average coupon on G-Secs has remained stable across. The profile of both G-Secs and SDLs in terms of rate cycles imparting stability to the debt profile as the average maturity of issuance (more than 10 years) is one of the longest globally, helping limit the rollover risk for the central government. SDL issuance has increasingly formed a much greater share of issuance relative to the G-Secs, rising from around 25% of issuance in 2013-14 around 45% in 2017-18.

Table 1: Characteristics of central government borrowings (G-sec)

Year	Issued during the Year		Outstanding stock	
	Weighted Average Yield (%)	Weighted Average Maturity (years)	Weighted Average Coupon (%)	Weighted Average Maturity (years)
2013-14	8.4	14.2	8.0	10.0
2014-15	8.5	14.7	8.1	10.2
2015-16	7.9	16.0	8.1	10.5
2016-17	7.2	14.8	8.0	10.7
2017-18	7.0	15.0	8.0	10.7
2018-19	7.8	14.7	7.8	10.4

Source: Annual report of Reserve Bank of India (2017-18) and Database of Indian economy(DBIE), Reserve Bank of India

Table 2: Issuance profile of government borrowings (In US\$ billion)

Year	Central Government (G-Secs)		State Governments (SDLs)	
	Gross issuance	Outstanding stock at (end-March)	Gross issuance	Outstanding stock at (end-March)
2013-14	90	609	31	174
2014-15	91	648	36	199
2015-16	85	674	41	243
2016-17	80	754	56	321
2017-18	91	795	63	346
2018-19	83	837	70	404

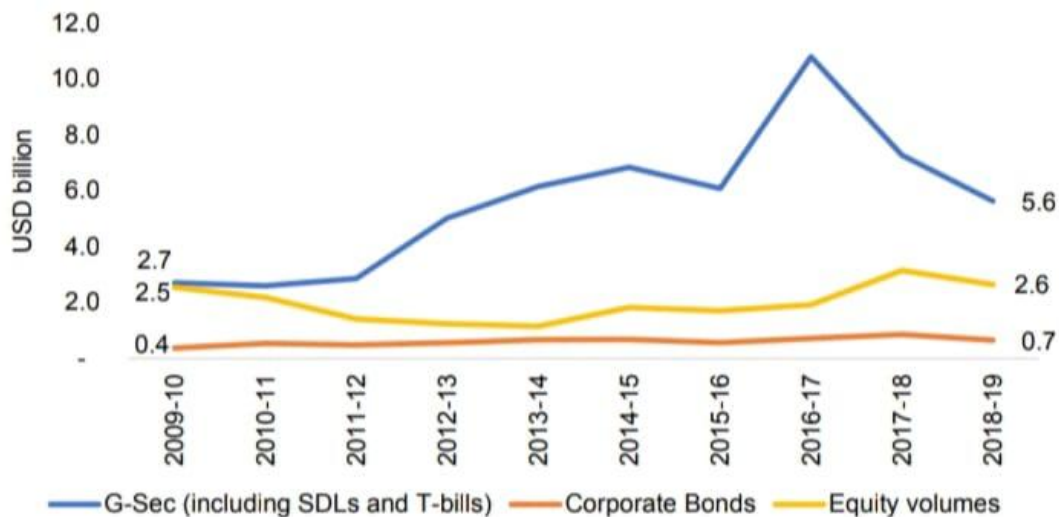
Source: Database of Indian Economy (DBIE), Reserve Bank of India

### 4.3 Liquidity of the G-Sec market:

Liquidity in the secondary market for government securities has noticeably improved over the past decade (Chart 2). The average daily volume in the G-Sec and SDL markets has remained higher than that of corporate bond and equity cash markets. The liquidity in G-Secs is, however, mainly concentrated in a few benchmark securities, particularly the 10-year benchmark, and SDLs are relatively less liquid than the G-Secs, yielding typically 50-75 basis

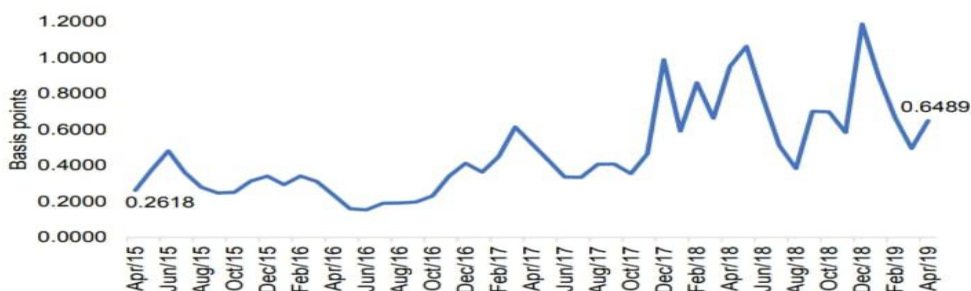
points more than the G-Secs in terms of yield at the 10-year tenor. The average bid-ask spread for liquid securities in the G-Sec market has remained less than a basis point during the last few years (Chart 3). Strikingly, bid-ask spread as well as the price impact of trade for the 10 year Indian G-Sec benchmark are comparable to or lower than those for most of the advanced economies of the world including the US, UK, France and Germany.

Chart 2: Secondary Market liquidity in terms of average daily volume



Source: Security Exchange Board of India (SEBI)

Chart 3: Average bid-ask spread for liquid government securities



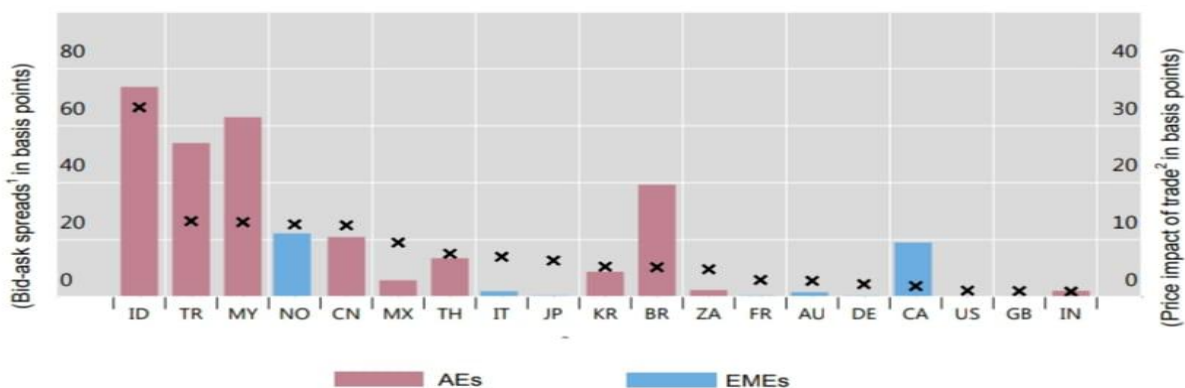
Source: Clearing corporation of India limited

**Growth and liquidity of the corporate bond market:**

The corporate bond market has grown over the years to a size of USD 447 billion of outstanding stock as at the end of March 2019, clocking an annualized growth rate of 13.5% during the last four years. Issuances are predominantly through private placement and dominated by high credit issuers. In 2018-19, 79% of the issuances

were by entities rated ‘A’ or higher. Secondary market trading has also picked up in the recent past, with trading volumes rising from USD 170 billion in FY 2014-15 to USD 267 billion in 2018-19. Trading is entirely OTC with trades settled bilaterally and reported to stock exchanges.

Chart 3 year benchmark G-Sec liquidity in different countries



Source: Establishing viable capital markets, CGFS papers No 62

**Development of financial market institutions and infrastructure**

A well-developed and reliable infrastructure is a prerequisite for safe and efficient functioning of financial markets. Acknowledging this principle, the Reserve Bank has taken several steps to put in place an effective infrastructure in the markets it regulates, the salient steps being:

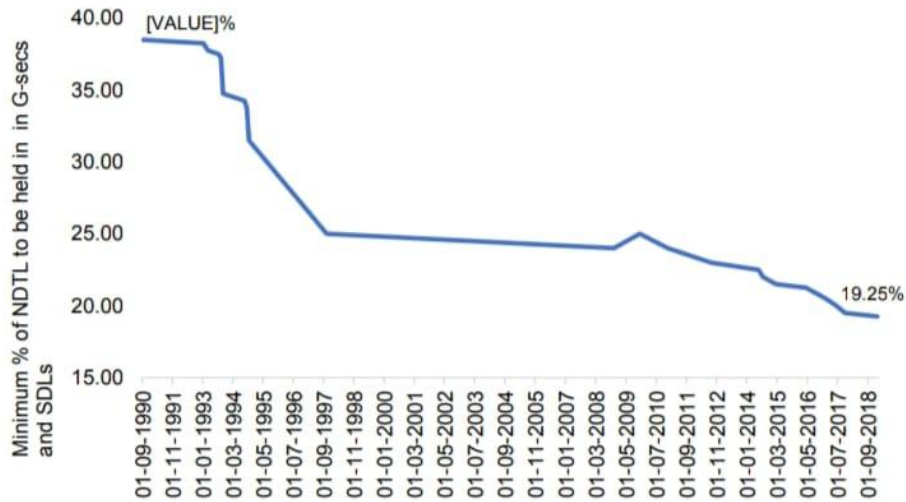
- (i) Introduction of an anonymous trading platform for G-Sec called the Negotiated Dealing System-Order Matching (NDS-OM);
- (ii) Introduction of Legal Entity Identifier code (LEI) for OTC derivatives markets as well as non-derivatives markets;
- (iii) Development of a foreign exchange trading platform aimed at bringing down transactions costs for retail users (August 2019)
- (iv) Constituting an independent financial benchmark administrator, viz., the financial benchmarks of India Ltd.

**Macro-prudential management of investment restrictions for domestic and foreign investors**

It has been a constant endeavor of the Reserve Bank to rationalize, and wherever consistent with macro-prudential objectives, to relax restrictions in the form of investment limits imposed on the market participants:

- (i) The Reserve Bank has reduced the Statutory Liquidity Requirement (SLR) stipulation on the minimum percentage of Net Demand and Time Liabilities (NDTL) to be held in G-Secs and SDLs by banks in a calibrated way (Chart 5) from close to 40% in 1990 to below 20% at present. This important relaxation has resulted in a greater flexibility for banks in their investment decisions and added to the diversity of investor base in G-Secs and SDLs (Chart 6) — which, in turn, have aided efficient pricing of these bonds.

Chart 4: Reduction in the statutory Liquidity ratio (SLR) for Banks



Source: Data base of Indian Economy, Reserve Bank of India

(ii) The Reserve Bank has been calibrating access for Foreign Portfolio Investors (FPIs) debt markets to provide them greater latitude in managing their portfolios in terms of increased FPI investment limits (Charts 6 and 7) as well as expanded eligibility of instruments and tenor for FPI investments.

(iii) Recently, the Reserve Bank has introduced the Voluntary Retention Route (VRR) scheme to relax the macro-prudential restrictions for FPIs that are willing to retain a significant portion of their investments in the country for a minimum retention period.

Chart 5: FPI investment in G-Sec

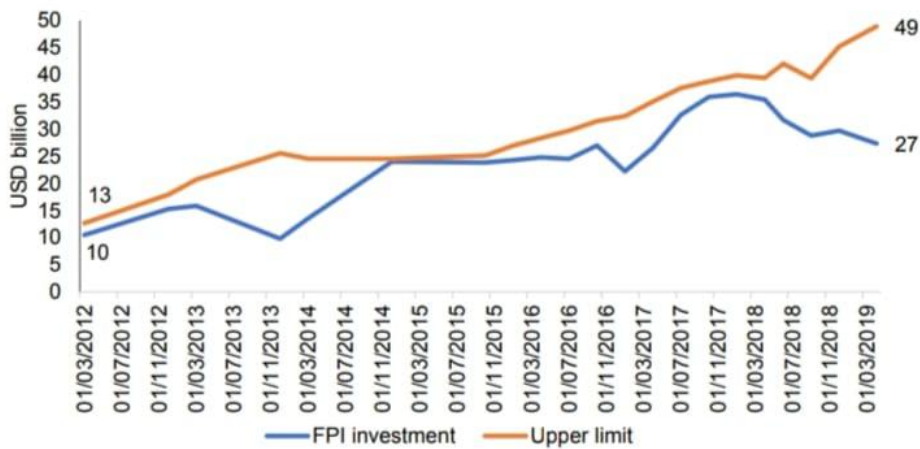
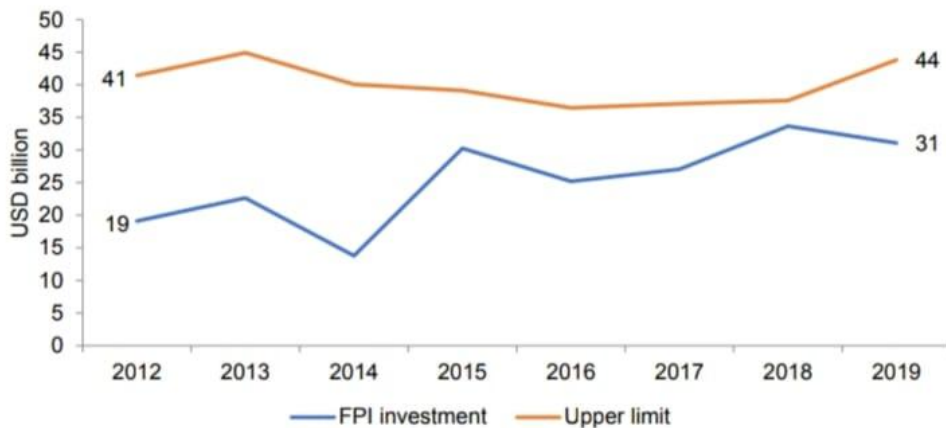


Chart 6: FPI investment in corporate debt



Source: National Securities depository limited

### Indian Stock Market during COVID-19 Pandemic

The rapid spread of the unprecedented COVID-19 pandemic has put the world in jeopardy and changed the global outlook unexpectedly. Initially, the SARS-CoV-2 virus, which caused the COVID-19 outbreak triggered in Wuhan city, Hubei province of China in December 2019, and with time it spread all over the globe. This pandemic is not only a global health emergency but also a significant global economic downturn too. As many countries adopt strict quarantine policies to fight the unseen pandemic, their economic activities are suddenly shut down. Transports being limited and even restricted among countries have slowed down global economic activities. Most importantly, consumers and firms have prevented their usual consumption patterns due to the creation of panic among them and created market abnormality. Uncertainty and risk created due to this pandemic, causing significant economic impact all over the globe affecting both advanced and emerging economies such as the United States, Spain, Italy, Brazil, and India. In this context, the financial market has responded with dramatic movement and adversely affected. Economic turmoil associated with COVID-19 has affected the financial market severely which includes both stock and bond markets. Due to this pandemic, there is a large fall in the price of oil and a large increase in the price of gold. Firzli (2020), refers to this pandemic as “the greater financial crisis.” In many countries, businesses are highly indebted, weak companies

are further destabilized, and corporate debt stands at a very high level. The global financial market risk has increased substantially in response to the pandemic (Zhang et al., 2020). Investors are suffering sufficient losses due to fear and uncertainty.

This Pandemic COVID-19 affected the economies of the world and India was also among those nations. Due to the lockdown ordered by the government of India, everything came to halt in this busiest country. The crashing of the global market economy, major drop in oil prices, and increasing unemployment are some of the impacts of the pandemic COVID-19 that affected almost all countries in the world. India was also not far behind to get the impact of COVID-19 on their economic growth, development, economy and stock market. India has a robust stock market that reacts and responds well to the global situation. The first case was reported in India on 30th January and the lockdown ordered on 24 March, 2020, that was a gap of almost 53 days that was also a matter of concern; what if the Government had ordered the lockdown earlier? It may have slowed the spreading of the virus in the population. How did the stock market respond to this nationwide lockdown? In this event study, the influence of the lockdown due to COVID-19 on the stock market is explained with the semi-strong form of market efficiency hypothesis (Fama, 1970). They are called event studies (Fama, 1991). This event study measured how rapidly security prices respond to announcements of the lockdown due to COVID-19.

### A Comparison of Pre and Post COVID view of Indian Stock Market

TABLE-3

BOURSES	Indexes-14 Jan-20	Indexes-23 Mar-20	Indexes-24 Apr 20
NIFTY-50	12,362	7,610	9,154
SENSEX	41,925	25,981	31,327

TABLE-4

Months	Pre Covid Sectorial Indices Return								
	Auto	Finance	Pharma	IT	Bank	FMCG	Metal	Reality	Average
Jan-20	-0.086	-0.072	0.0529	0.1345	-0.183	0.0934	-0.376	0.4493	0.0015
Dec-19	0.0946	0.1154	-0.0879	0.2034	0.0320	-0.133	0.309	0.2707	0.1005
Nov-19	-0.219	0.2498	0.1941%	-0.183	0.3032	-0.212	0.243	0.2369	0.0764
Oct-19	0.6006	0.1881	0.2142	0.0662	0.1628	0.1868	0.123	0.1942	0.2095
Sep-19	0.3513	0.2480	-0.2655	-0.156	0.3120	0.3273	0.334	-0.169	0.1226
Aug-19	0.1137	-0.115	0.0526	0.1234	-0.257	0.0328	-0.612	-0.004	-0.0833
Jul-19	-0.720	-0.281	-0.0421-	-0.087	-0.323	-0.072	-0.613	-0.273	-0.3015
Jun-19	-0.161	0.0298	-0.2485	-0.073	-0.045	-0.053	0.143	0.0157	-0.0494
May-19	-0.096	0.3229	-0.4828	-0.105	0.2395	-0.073	-0.287	0.4303	-0.0121
Apr-19	-0.042	0.0247	0.0160	0.2953	-0.103	0.0264	-0.024	-0.188	0.0006
Average	-0.016	0.0710	-0.0597	0.0111	0.013	0.012	-0.076	0.0962	0.0065

**TABLE-5**

Months	Post Covid Sectorial Indices Return								
	Auto	Finance	Pharma	IT	Bank	FMCG	Metal	Reality	Average
Nov-20	1.1311	1.6725	1.6725	1.4257	1.8316	0.7369	1.4511	1.5374	1.4324
Oct-20	-0.091	1.6118	1.6118	1.4538	1.8135	0.6535	1.5659	1.9314	1.3189
Sep-20	0.0391	1.3399	1.3399	1.6526	1.6251	1.1158	2.1850	2.1492	1.4308
Aug-20	0.3533	1.4133	1.4133	0.7069	1.6683	0.7572	1.4800	2.1482	1.2428
Jul-20	0.3484	1.5244	1.5244	1.5810	1.7134	0.6054	1.2943	1.3530	1.2430
Jun-20	0.3517	2.0455	2.0455	1.3401	2.2506	0.8737	1.8526	2.4726	1.6544
May-20	0.2757	3.3899	3.3899	1.7296	3.4643	1.5700	2.6798	2.7595	2.4073
Apr-20	1.2277	3.7542	3.7542	3.1701	4.0971	2.4957	3.3631	2.6060	3.0585
Mar-20	-1.799	5.9253	5.9253	4.6429	5.8170	4.2042	5.3246	4.5423	4.3228
Feb-20	-0.696	1.3342	1.3342	1.5334	1.1929	1.0152	2.4954	1.6088	1.2273
Average	0.114	2.4011	2.4011	1.9236	2.5474	1.4028	2.3692	2.3111	1.9338

Source: NSE India Sectorial Indices

The above two tables reflect the data of pre and post Covid sectorial indices returns. For the study purpose eight sectors have been choose. Averages are calculated month wise and sector wise also .On the basis of month wise analysis here we can see that Pre covid- October has highest return with 0.2095 and post covid April 2020 has highest return with 0.7638.

### Hypothesis Testing

Table-6 Sample T-Test on Pre and Post Return of Sectorial Indices

t-Test: Paired Two Sample for Means	Variables	Mean	Variance	Pearson Correlation	t Stat	P(T<=t) one-tail	t Critical one-tail	P(T<=t) two-tail	t Critical two-tail	
Auto Sector	Pre	-0.0002	0.0000	0.0470	-0.2790	0.3933	1.8331	0.7866	2.2622	Accept
	Post	0.0006	0.0001							
Finance Sector	Pre	0.0007	0.0000	-0.3906	0.2333	0.4104	1.8331	0.8207	2.2622	Accept
	Post	0.0000	0.0001							
Pharma	Pre	-0.0006	0.0000	-0.1730	-1.3964	0.0980	1.8331	0.1961	2.2622	Accept
	Post	0.0020	0.0000							
Information Technology	Pre	0.0001	0.0000	-0.2151	-0.6957	0.2521	1.8331	0.5042	2.2622	Accept
	Post	0.0013	0.0000							
Bank	Pre	0.0001	0.0000	-0.3617	0.0315	0.4878	1.8331	0.9756	2.2622	Accept
	Post	0.0000	0.0001							
FMCG	Pre	0.0001	0.0000	0.3183	-0.2192	0.4157	1.8331	0.8314	2.2622	Accept
	Post	0.0003	0.0000							
Metal	Pre	-0.0008	0.0000	0.0862	-0.6348	0.2707	1.8331	0.5414	2.2622	Accept
	Post	0.0009	0.0001							
Reality	Pre	0.0010	0.0000	-0.1537	0.5786	0.2885	1.8331	0.5770	2.2622	Accept
	Post	-0.0007	0.0001							

Degree of freedom = 9, Mean Difference = 0 and observation = 10

The above table reflects the hypothesis testing of Pre and Post Covid return of Sectorial Indices. The results reflect in all sectors the hypothesis is accepted. It means there is no significant difference between the return of sectorial indices pre and Post Covid. The criteria for acceptance and rejection is as P Two tail value is less than Critical Value. Critical value is 2.262 and Return critical value of all sector is less than 2.262. Therefore, null hypothesis is accepted.

### Conclusion

The Indian capital markets, since last few decades have emerged as one of the promising capital markets of the world. Due to the

opening of economy, there has been a sea change in the way in which the markets are functioning. The trading system which involved open outcry and physical delivery of shares is now replaced by online, screen based trading and dematerialization of securities. The emergence of NSE as a leading stock exchange of India and at the same time, emergence of SEBI as a strong regulator are two important landmarks in the history of Indian capital markets which dates back to almost one and half century. Even though there are drastic changes in the Indian capital markets since last two decades, some inherent problems also were developed during this phase. Some of these problems like insider trading, low liquidity and speculation are there since long back.

But recently, as there were innovations in trading and new technology being introduced, some problems crept into the markets. More transactions in the derivatives markets, increasing presence of Foreign Institutional Investors (FIIs), are some serious pressures which are being observed in the Indian capital markets. Though SEBI has been looking after the markets as a regulatory authority satisfactorily, there is still a need to have some more steps for further development of capital markets in India. Among the other measures, investors' education is one of the important suggestions for development of the capital market.

Though SEBI and some stock exchanges are already working on it, a lot needs to be done in this area. Investor education would help penetration of the capital markets further into semi urban and rural area. Apart from this, more attempts are needed to increase the confidence among the small and genuine investors. The roadmap consisting of various plans of five years for the next three decades may be an important step in overall development in capital market. As the markets are now becoming integrated with global markets, a cautious approach is needed for allowing or attracting more and more foreign investment in the Indian capital markets. As India remain an attractive investment destination for the global market players, the inherent strength and stronger domestic fund houses are necessary along with proper regulations for a competent, attractive and sustainable market approach to capital account convertibility has to be cautious but positive.

In sum, India's capital market witnessed a rapid growth since around 1980. It accelerated by the end of the decade. This is also significant in comparison with other emerging market economies. Increases in nominal interest rates since early last decade, incentives offered on traded securities, and changes in related policies (and procedures) seem responsible for this development.

Capital market growth has changed domestic financial saving's composition from bank deposits to 'shares and debentures', without favourably influencing domestic saving rate, or its share in financial assets. Equity capital's share in the total capital market mobilisation declined, as bulk of such mobilisation is in the form of debt securities. However, growth rate of fresh equity capital raised is substantial. Promoters' contribution to it has more than doubled. This could possibly improve financial performance as promoters have a greater stake in their firm.

Over the last two decades, the corporate sector that secured most of these resources witnessed a long-term decline in the share of internal finance in corporate physical investment. In mid-1980s, retained earnings accounted for less than 10 per cent of gross internal resources. This happened, despite a steady fall in tax burden (tax provision as proportion of gross profits). These changes are quite at variance with the developed countries' experience, where internal finance forms the largest and stable source of finance for corporate capital formation.

The history of Indian capital market goes back to the 18th century when the securities of East Indian company was traded. The

contribution of Indian capital market for the sustainability of Indian economy is considerably since the year 1890's. The capital market plays a role in terms of wealth distribution and economic development of a country like India. Capital market acts as a transformer of savings into capital investment. The capital market has witnessed a major reforms since the implementation of New Economic Policy 1991 and thereafter. The Indian government and SEBI have adopted the various reforms in order to enhance the performance of Indian stock.

From this whole study we have observed that Indian capital market is developing rapidly. Through this whole study we have come across an view that while Indian capital markets have evolved steadily to a stage of long-run viability, the potential for developing and strengthening them is limitless.

Through the study we can also see that how Covid-19 made an impact on Indian Stock market.

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