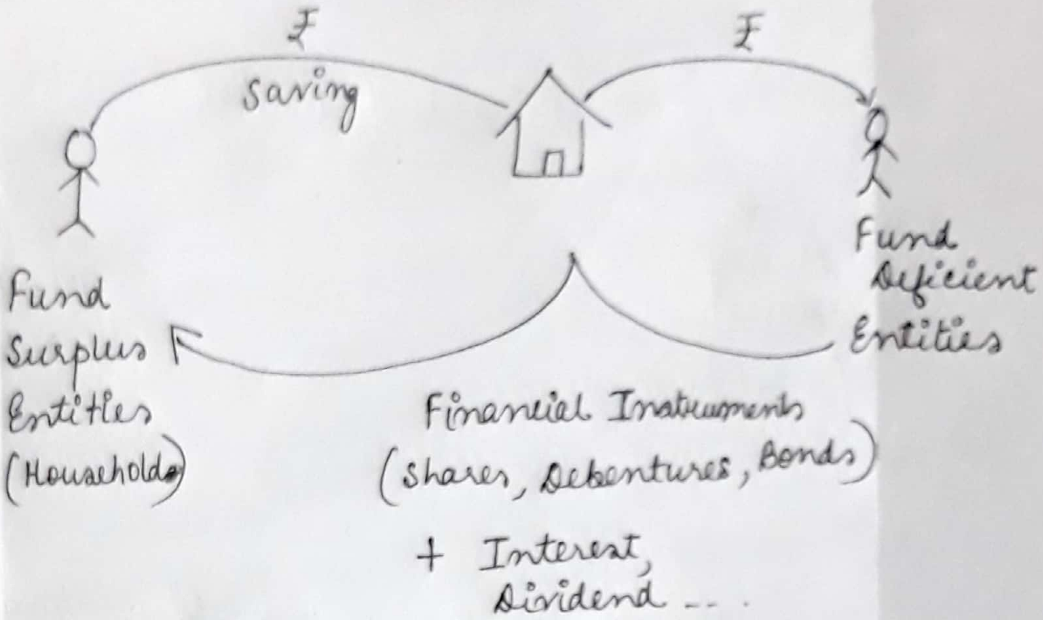
29. 11. 20

Indian Capital Markets

Financial Market

- Money Market (<1 year)
- Capital Market (≥ 1 year)

Capital market refers to a financial system which provides funds for a period of 1 year or more. (medium to long term) Capital market plays an important role in any economy as it provides or mobilizes resources from fund surplus entities like households with savings to the fund deficient entities like producers, service providers, corporates, farmers, traders etc. Such funds can be provided in the form of Debt or Equity in the form of different financial instruments such as shares, debentures, & bonds. →



Under the capital market, we have broadly 2 divisions —

i) Debt Market
ii) Equity Market.

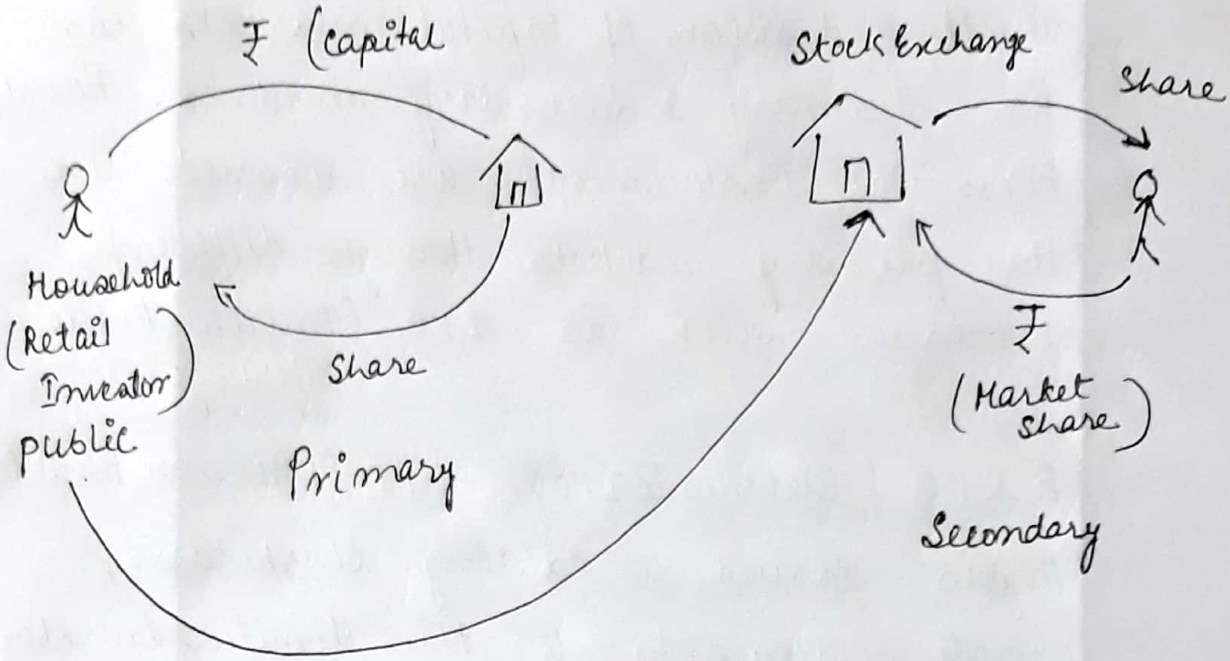
In the Debt market, Debt securities are issued by governments, banks & corporate houses & traded among different investors through sale & purchase of govt securities (G. Sec), corporate bonds, debentures etc.

In the Equity market, Equity shares & preference shares are issued & traded.

Another division of capital markets can be Primary & Secondary markets. Fresh Financial Instruments are issued in the primary markets through different processes such as IPO (Initial Public offerings)

EIPO (Electronic IPO), FPO (Follow on Public Offer), Rights issued to existing sharholders, private placements to the limited investors, & so on. In the Primary markets, there is a direct contact between the issuing company & the investors who are generally public.

Secondary markets provide a system for buying & selling of existing securities which were earlier issued in Primary markets. The Secondary markets are more popular as Stock markets or Stock Exchanges. There is no involvement of issuing companies in the Stock exchanges for the determination of market price because the demand & supply of certain securities that are traded determine their price.



Capital Markets in India

Stock markets in India started with establishing the Native Share & Stock brokers Association in 1875 in Bombay which later became the Bombay Stock Exchange. It was the 1st Asian Stock Exchange. Later, more & more Stock markets came into existence mostly in big commercial cities in India. In the early days before regulations, Indian stock markets were suffering from several shortcomings including the following —

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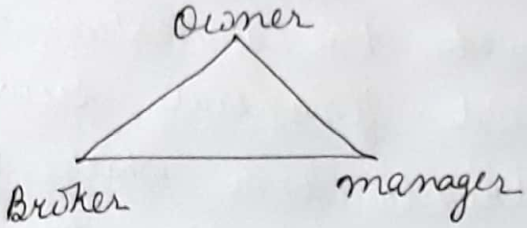
i) Private Ownership

ii) Mutualisation (of owner, broker & manager)



iii) High risk particularly for small investors / Retail

iv) Limited turnover (because of having few investors)

v) Absence of transparency in operation & accounting

vi) Lack of Regulation (

vii) Lack of technology

viii) Closed model

Stock markets Reforms in India

started with incorporation of SEBI, in 1988. It was given statutory status in 1992.

NSE → National Stock Exchange established in 1992, is another milestone reform in the history of Indian capital markets. In the same year govt. thought of allowing foreign institutional investors such as Pension Funds, Insurance Funds, Mutual Funds to participate in Indian

Stock Exchanges. NSE was the 1st National Electronic stock market which allowed the investors to buy, sell & hold financial securities in the electronic form which is popularly called "De-Mat". De-materialisation is the process of converting documentary or paper based security into an Electronic record. The way we keep money in mobile wallets.

Depositories are required to keep electronic records of these securities with the transactions of buying & selling & hence National Securities Depository Ltd. & Central (NSDL)
Depository Services Ltd. (CDSL) came into existence. As a result the entire system became paperless & quite responsive. Dematerialisation of financial securities & De-mutualisation of ownership of stock markets proved to be the turning point & as a result the volumes in the stock market increased tremendously & Indian Stock market became one of the favourite destination

for the investors from India & abroad.

Some Important terms

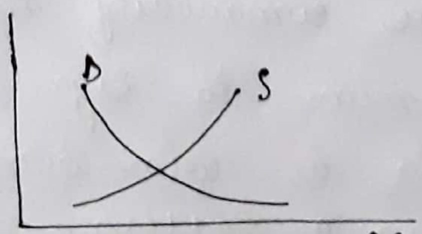
I) Security or Stock ÷ Security or stock means — Any financial Instrument such as share or bond.

ii) Bull → is a person who wants to buy shares predicting Market Price to increase.

iii) ~~Buy~~ Bear → is a person who wants to sell shares predicting Market price to fall in future.

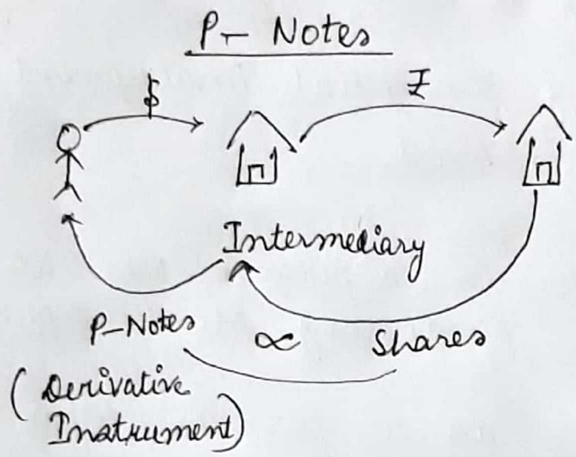
ii) Bull → An investor, trader or speculator who expects stock market prices to increase in future. (time to buy)

iii) Bear → An investor, trader or speculator who expects stock market prices to go down in future (time to sell)



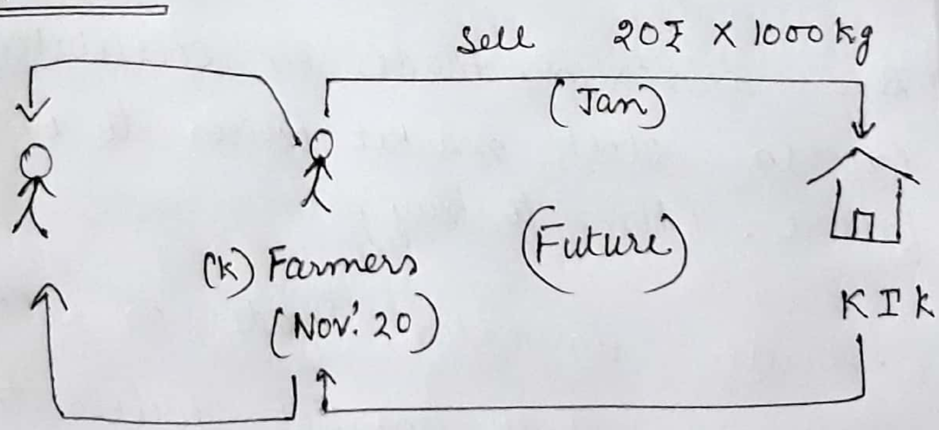
Demand → by Bull (Buy) (optimistic)
Supply → by Bear (Sell) (Pessimistic)

• <u>Derivative</u> ÷ Any asset or security whose value is derived from another asset or security e.g. futures, options, P-Notes, Contracts for difference, & so on.



(P-Notes ∝ Shares)

• <u>Future</u>



In the commodity markets it is very common to sign <u>Future</u> Contracts which is a win-win deal between the buyers & sellers.
e.g. in Agriculture markets, farmers

can write future contracts with food processing companies to supply the agricultural produce in future at the price determined at present.

Another alternative is "Option contract" in which contract can be aborted by paying a pre-decided amount called 'Option Premium'.