A Study on Capital Market

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Abstract

The capital market is the market for securities, where Companies and governments can raise long-term funds. It is a market in which money is lent for periods longer than a year. A nation's capital market includes such financial institutions as banks, insurance companies, and stock exchanges that channel long-term investment funds to commercial and industrial borrowers. Unlike the money market, on which lending is ordinarily short term, the capital market typically finances fixed investments like those in buildings and machinery.

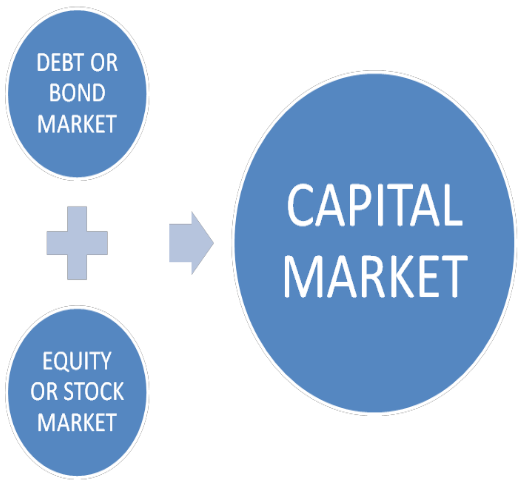
The capital market consists of number of individuals and institutions (including the government) that canalize the supply and demand for long-term capital and claims on capital. The stock exchange, commercial banks, Co-operative banks, saving banks, development banks, insurance companies, investment trust or companies, etc., are important constituents of the capital markets.

Key Words: - Role of capital market in India, Factors affecting capital market in India, Capital market efficiency, Mutual funds as a part of capital market.

Introduction:-

The capital market, like the money market, has three important Components, namely the suppliers of loanable funds, the borrowers and the Intermediaries who deal with the leaders on the one hand and the Borrowers on the other.

The demand for capital comes mostly from agriculture, industry, trade the government. The predominant form of industrial organization developed Capital Market becomes a necessary infrastructure for fast industrialization. Capital market not concerned solely with the issue of new claims on capital, But also with dealing in existing claims.



Debtor bond market:-

The bond market (also known as the debt, credit, or fixed income market) is a financial market where participants buy and sell debt securities, usually in the form of bonds. As of 2009, the size of the worldwide bond market (total debt outstanding) is an estimated $82.2 trillion [1], of which the size of the outstanding U.S. bond market debt was $31.2 trillion according to BIS (or alternatively $34.3 trillion according to SIFMA).

Nearly all of the $822 billion average daily trading volume in the U.S. bond market takes place between broker-dealers and large institutions in a decentralized, over-the-counter (OTC) market. However, a small number of bonds, primarily corporate, are listed on exchanges.

References to the "bond market" usually refer to the government bond market, because of its size, liquidity, lack of credit risk and, therefore, sensitivity to interest rates. Because of the inverse relationship between bond valuation and interest rates, the bond market is often used to indicate changes in interest rates or the shape of the yield curve.

Types of Bond Markets:-

The Securities Industry and Financial Markets Association (SIFMA) classify the broader bond market into five specific bond markets.

- Corporate
- Government & agency
- Municipal
- Mortgage backed, asset backed, and collateralized debt obligation
- Funding

Indian Stock Exchanges - An Umbrella Growth

The Second World War broke out in 1939. It gave a sharp boom which was followed by a slump. But, in 1943, the situation changed radically, when India was fully mobilized as a supply base.

On account of the restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market as the only outlet for their activities. They were anxious to join the trade and their number was swelled by numerous others. Many new associations were constituted for the purpose and Stock Exchanges in all parts of the country were floated. The Uttar Pradesh Stock Exchange Limited (1940), Nagpur Stock Exchange Limited (1940) and Hyderabad Stock Exchange Limited (1944) were incorporated.

In Delhi two stock exchanges - Delhi Stock and Share Brokers' Association Limited and the Delhi Stocks and Shares Exchange Limited - were floated and later in June 1947, amalgamated into the Delhi Stock Exchange Association Limited.

Post-independence Scenario

Most of the exchanges suffered almost a total eclipse during depression. Lahore Exchange was closed during partition of the country and later migrated to Delhi and merged with Delhi Stock Exchange.

Bangalore Stock Exchange Limited was registered in 1957 and recognized in 1963.Most of the other exchanges languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only Bombay, Calcutta, Madras, Ahmadabad, Delhi, Hyderabad and Indore, the well-established exchanges, were recognized under the Act. Some of the members of the other Associations were required to be admitted by the recognized stock exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo stock exchanges were refused recognition by the Government of India and they thereupon ceased to function.

Thus, during early sixties there were eight recognized stock exchanges in India (mentioned above). The number virtually remained unchanged, for nearly two decades. During eighties, however, many stock exchanges were established: Cochin Stock Exchange (1980), Uttar Pradesh Stock Exchange Association Limited (at Kanpur, 1982), and Pune Stock Exchange Limited (1982), Hyderabad Stock Exchange Association Limited (1983), Gauhati Stock Exchange Limited (1984), Kanara Stock Exchange Limited (at Mangalore, 1985), Magadh Stock Exchange Association (at Patna, 1986), Jaipur Stock Exchange Limited (1989), Bhubaneswar Stock Exchange Association Limited (1989), Saurashtra Kutch Stock Exchange Limited (at Rajkot, 1989), Vadodara Stock Exchange Limited (at Baroda, 1990) and recently established exchanges - Coimbatore and Meerut. Thus, at present, there are totally twenty one recognized stock exchanges in India excluding the Over The Counter Exchange of India Limited (OTCEI) and the National Stock Exchange of India Limited (NSEIL).

The Table given below portrays the overall growth pattern of Indian stock markets since independence. It is quite evident from the Table that Indian stock markets have not only grown just in number of exchanges, but also in number of listed companies and in capital of listed companies. The remarkable growth after 1985 can be clearly seen from the Table, and this was due to the favoring government policies towards security market industry.

Growth Pattern of the Indian Stock Market

Sl.No.	As on 31st December	1946	1961	1971	1975	1980	1985	1991	1995
1	No. of Stock Exchanges	7	7	8	8	9	14	20	22
2	No. of Listed Cos.	1125	1203	1599	1552	2265	4344	6229	8593
3	No. of Stock Issues of Listed Cos.	1506	2111	2838	3230	3697	6174	8967	11784
4	Capital of Listed Cos. (Cr. Rs.)	270	753	1812	2614	3973	9723	32041	59583
5	Market value of Capital of Listed Cos. (Cr. Rs.)	971	1292	2675	3273	6750	25302	110279	478121
6	Capital per Listed Cos. (4/2) (Lakh Rs.)	24	63	113	168	175	224	514	693
7	Market Value of Capital per Listed Cos. (Lakh Rs.) (5/2)	86	107	167	211	298	582	1770	5564

Mutual funds as a Part of Capital Market:-

Mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. This pool of money is invested in accordance with a stated objective. The joint ownership of the fund is thus “Mutual”, i.e. the fund belongs to all investors. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. A Mutual Fund is an investment tool that allows small investors access to a well-diversified portfolio of equities, bonds and other securities. Each shareholder participates in the gain or loss of the fund. Units are issued and can be redeemed as needed. The fund’s Net Asset value (NAV) is determined each day.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

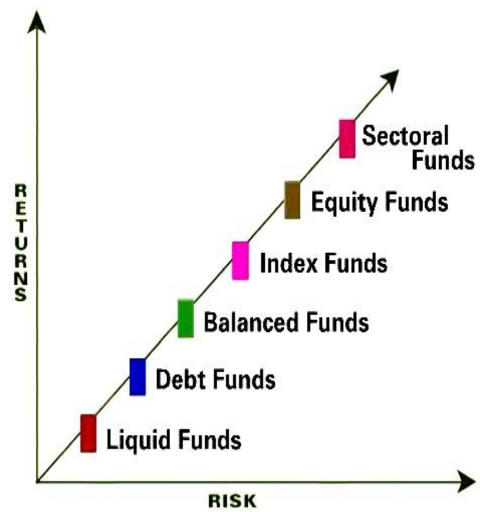
Investment Strategies:-

1. **Systematic Investment Plan:** under this a fixed sum is invested each month on a fixed date of a month. Payment is made through post dated cheques or direct debit facilities. The investor gets fewer units when the NAV is high and more units when the NAV is low. This is called as the benefit of Rupee Cost Averaging (RCA).

2. **Systematic Transfer Plan:** under this an investor invest in debt oriented fund and give instructions to transfer a fixed sum, at a fixed interval, to an equity scheme of the same mutual fund.

3. Systematic Withdrawal Plan: if someone wishes to withdraw from a mutual fund then he can withdraw a fixed amount each month.

RISKV/S.RETURN:



Research Methodology

This report is based on primary as well secondary data, however primary data collection as given more importance since it is overhearing factor in attitude studies. One of the most important users of research methodology is that it helps in identifying the problem, collecting, analyzing the required information data and providing an alternative solution to the problem .It also helps in collecting the vital information that is required by the top management to assist them for the better decision making both day to day decision and critical ones.

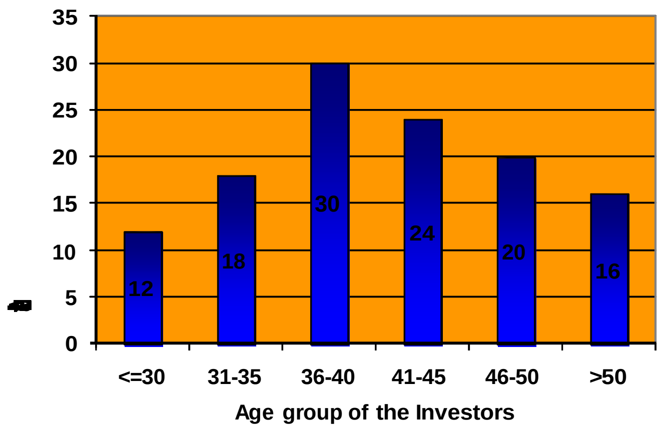
Data sources:

Research is totally based on primary data. Secondary data can be used only for the reference. Research has been done by primary data collection, and primary data has been collected by interacting with various people. The secondary data has been collected through various journals and websites.

ANALYSIS&INTERPRETATION

1. (A) Age distribution of the Investors of Hyderabad.

Age Group	<= 30	31-35	36-40	41-45	46-50	>50
No. of Investors	12	18	30	24	20	16

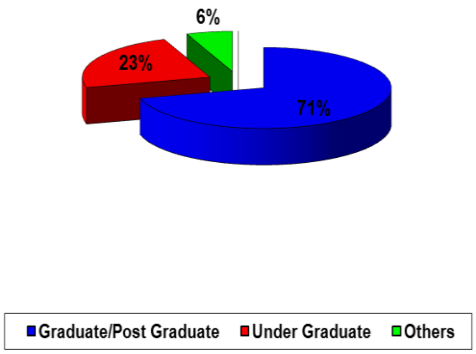


Interpretation:

According to this chart out of 120 Mutual Fund investors of Hyderabad the most are in the age group of 36-40 yrs. i.e. 25%, the second most investors are in the age group of 41-45yrs i.e. 20% and the least investors are in the age group of below 30 yrs.

(b). Educational Qualification of investors of Hyderabad.

Educational Qualification	Number of Investors
Graduate/ Post Graduate	88
Under Graduate	25
Others	7
Total	120

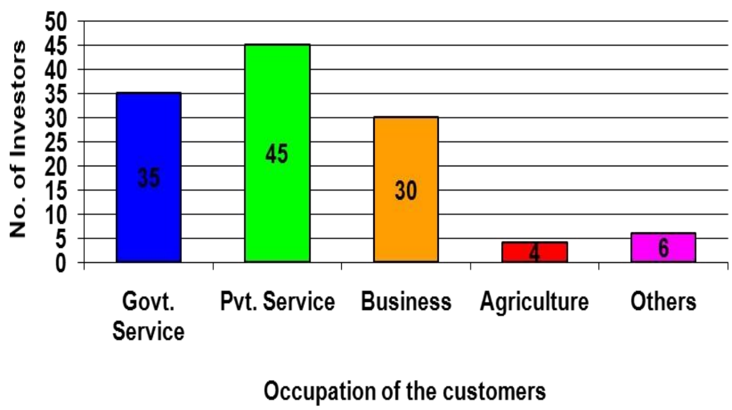


Interpretation:

Out of 120 Mutual Fund investors 71% of the investors in Hyderabad are Graduate/Post Graduate, 23% are Under Graduate and 6% are others (under HSC).

c). Occupation of the investors of Hyderabad.

Occupation	No. of Investors
Govt. Service	30
Pvt. Service	45
Business	35
Agriculture	4
Others	6

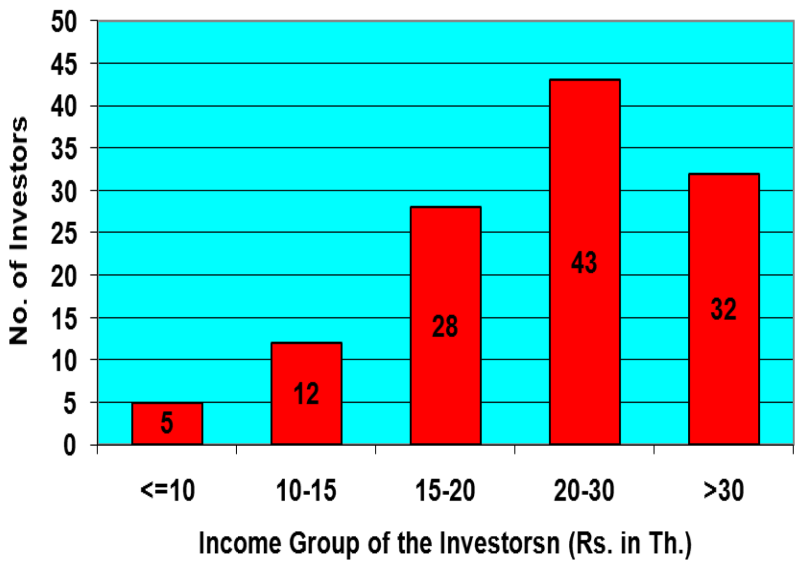


Interpretation:

In Occupation group out of 120 investors, 38% are Pvt. Employees, 25% are Businessman, 29% are Govt. Employees, 3% are in Agriculture and 5% are in others.

(d). Monthly Family Income of the Investors of Hyderabad.

Income Group	No. of Investors
<=10,000	5
10,001-15,000	12
15,001-20,000	28
20,001-30,000	43
>30,000	32

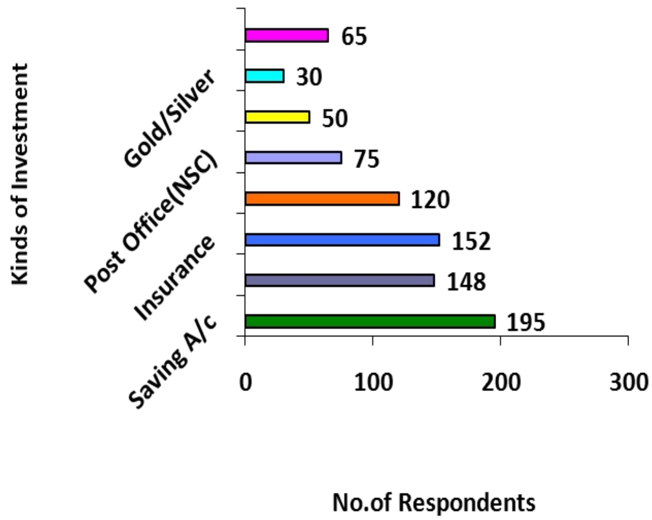


Interpretation:

In the Income Group of the investors of Hyderabad, out of 120 investors, 36% investors that is the maximum investors are in the monthly income group Rs. 20,001 to Rs. 30,000, Second one i.e. 27% investors are in the monthly income group of more than Rs. 30,000 and the minimum investors i.e. 4% are in the monthly income group of below Rs. 10,000.

(2) Investors invested in different kind of investments.

Kind of Investments	No. of Respondents
Saving A/C	195
Fixed deposits	148
Insurance	152
Mutual Fund	120
Post office (NSC)	75
Shares/Debentures	50
Gold/Silver	30
Real Estate	65

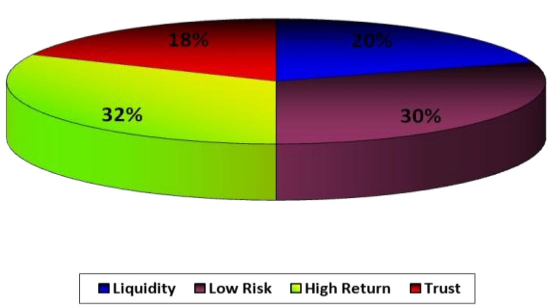


Interpretation:

From the above graph it can be inferred that out of 200 people, 97.5% people have invested in Saving A/c, 76% in Insurance, 74% in Fixed Deposits, 60% in Mutual Fund, 37.5% in Post Office, 25% in Shares or Debentures, 15% in Gold/Silver and 32.5% in Real Estate.

3. Preferenceoffactorswhileinvesting

Factors	(a) Liquidity	(b) Low Risk	(c) High Return	(d) Trust
No. of Respondents	40	60	64	36

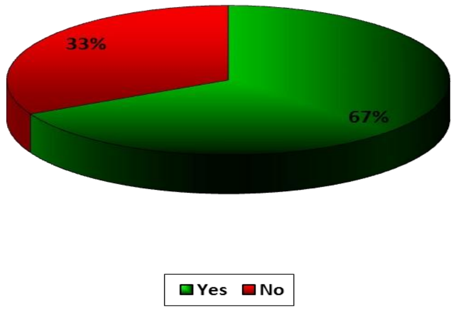


Interpretation:

Out of 200 People, 32% People prefer to invest where there is High Return, 30% prefer to invest where there is Low Risk, 20% prefer easy Liquidity and 18% prefer Trust

4. AwarenessaboutMutualFundanditsOperations

Response	Yes	No
No. of Respondents	135	65

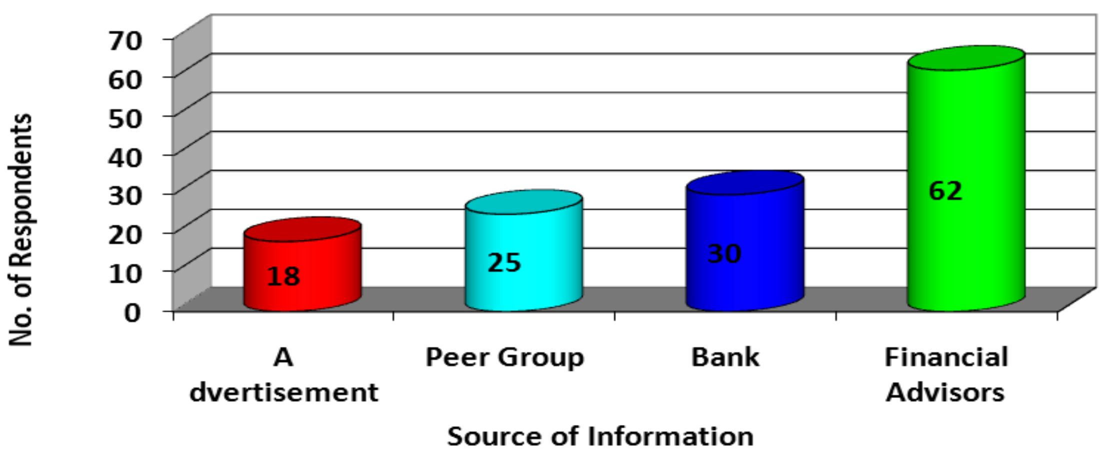


Interpretation:

From the above chart it is inferred that 67% People are aware of Mutual Fund and its operations and 33% are not aware of Mutual Fund and its operations.

5. SourceofinformationforcustomersaboutMutualFund

Source of information	No. of Respondents
Advertisement	18
Peer Group	25
Bank	30
Financial Advisors	62

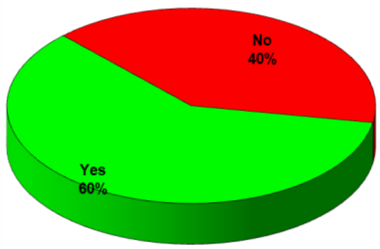


Interpretation:

From the above chart it can be inferred that the Financial Advisor is the most important source of information about Mutual Fund. Out of 135 Respondents, 46% know about Mutual fund Through Financial Advisor, 22% through Bank,19% through Peer Group and 13% through Advertisement.

6. InvestorsinvestedinMutualFund

Response	No. of Respondents
YES	120
NO	80
Total	200

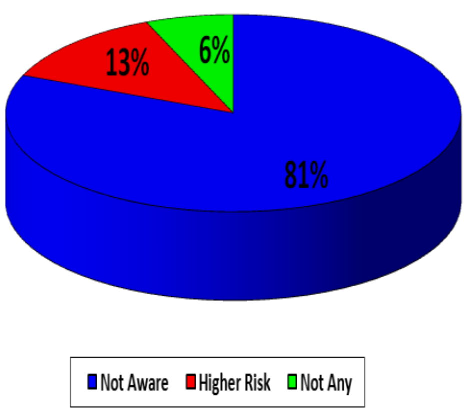


Interpretation:

Out of 200 People, 60% have invested in Mutual Fund and 40% do not have invested in Mutual Fund.

7. ReasonfornotinvestedinMutualFund

Reason	No. of Respondents
Not Aware	**65**
Higher Risk	**5**
Not any Specific Reason	**10**

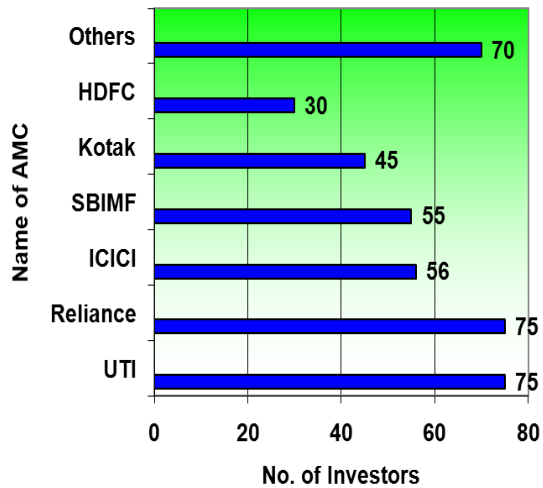


Interpretation:

Out of 80 people, who have not invested in Mutual Fund, 81% are not aware of Mutual Fund, 13% said there is likely to be higher risk and 6% do not have any specific reason.

8. InvestorsinvestedindifferentAssetsManagementCo.(AMC)

Name of AMC	No. of Investors
SBIMF	55
UTI	75
HDFC	30
Reliance	75
ICICI Prudential	56
Kotak	45
Others	70

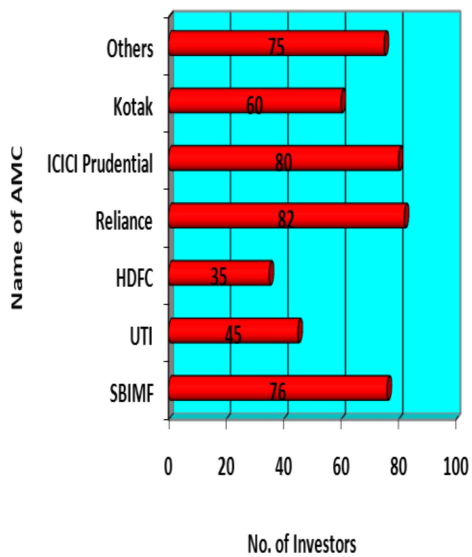


Interpretation:

In Hyderabad most of the Investors preferred UTI and Reliance Mutual Fund. Out of 120 Investors 62.5% have invested in each of them, only 46% have invested in SBIMF, 47% in ICICI Prudential, 37.5% in Kotak and 25% in HDFC.

9.PreferenceofInvestorsforfutureinvestmentinMutualFund

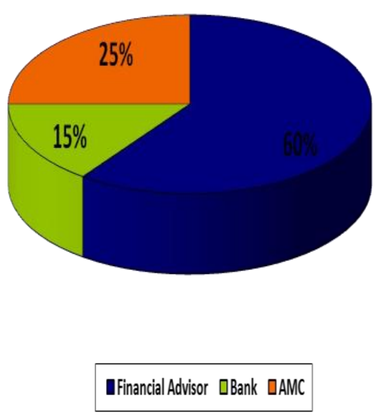
Name of AMC	No. of Investors
SBIMF	76
UTI	45
HDFC	35
Reliance	82
ICICI Prudential	80
Kotak	60
Others	75



Interpretation: Out of 120 investors, 68% prefer to invest in Reliance, 67% in ICICI Prudential, 63% in SBIMF, 62.5% in Others, 50% in Kotak, 37.5% in UTI and 29% in HDFC Mutual Fund.

10. Channel Preferred by the Investors for Mutual Fund Investment

Channel	Financial Advisor	Bank	AMC
No. of Respondents	72	18	30

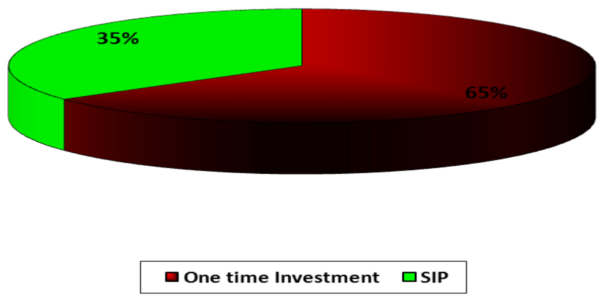


Interpretation:

Out of 120 Investors 60% preferred to invest through Financial Advisors, 25% through AMC and 15% through Bank.

11.ModeofInvestmentPreferredbytheInvestors

Mode of Investment	One time Investment	Systematic Investment Plan (SIP)
No. of Respondents	78	42

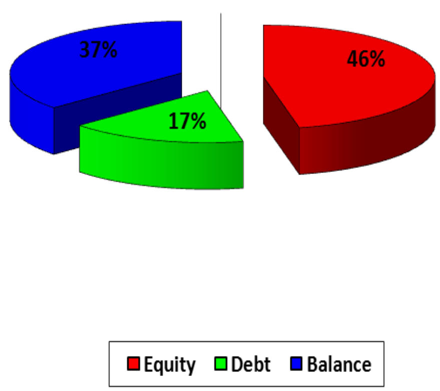


Interpretation:

Out of 120 Investors 65% preferred One time Investment and 35 % Preferred through Systematic Investment Plan.

12.PreferredPortfoliosbytheInvestors

Portfolio	No. of Investors
Equity	56
Debt	20
Balanced	44



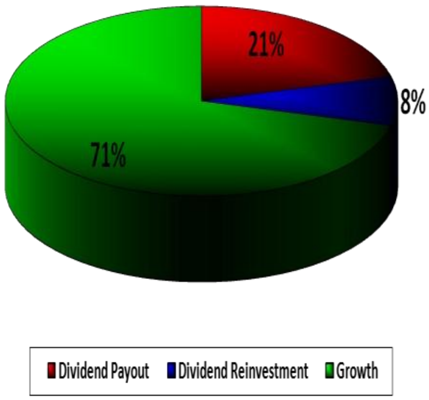
Interpretation:

From the above graph 46% preferred Equity Portfolio, 37% preferred Balance and

17% preferred Debt portfolio

13.OptionforgettingReturnPreferredbytheInvestors

Option	Dividend Payout	Dividend Reinvestment	Growth
No. of Respondents	25	10	85

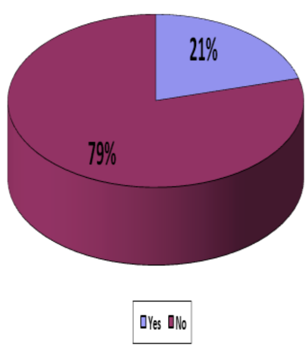


Interpretation:

From the above graph 71% preferred Growth Option, 21% preferred Dividend Payout and 8% preferred Dividend Reinvestment Option.

14.PreferenceofInvestorswhethertoinvestinSectorialFunds

Response	No. of Respondents
Yes	25
No	95



Interpretation:

Out of 120 investors, 79% investors do not prefer to invest in Sectorial Fund because there is maximum risk and 21% prefer to invest in Sectorial Fund.

CONCLUSION

Running a successful Mutual Fund requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investors. This study has made an attempt to understand the financial behavior of Mutual Fund investors in connection with the preferences of Brand (AMC), Products, and Channels etc. I observed that many of people have fear of Mutual Fund. They think their money will not be secure in Mutual Fund. They need the knowledge of Mutual Fund and its related terms. Many of people do not have invested in mutual fund due to lack of awareness although they have money to invest. As the awareness and income is growing the number of mutual fund investors are also growing.

"Brand" plays important role for the investment. People invest in those Companies where they have faith or they are well known with them. There are many AMCs in Punjab but only some are performing well due to Brand awareness. Some AMCs are not performing well although some of the schemes of them are giving good return because of not awareness about Brand.

Distribution channels are also important for the investment in mutual fund. Financial Advisors are the most preferred channel for the investment in mutual fund. They can change investors' mind from one investment option to others. Many of investors directly invest their money through AMC because they do not have to pay entry load. Only those people invest directly who know well about mutual fund and its operations and those have time.

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