ABSTRACT

The Indian capital markets underwent substantial reforms during the 1990's. The regulatory framework strengthened under the Securities and Exchange Board of India (SEBI), clearing system improved with the setting up of the National Security Clearing corporation Ltd. (NSCCL) and National Security Depository Ltd. (NSDL) both in 1996. Market participants have become better institutionalized with the entry of Foreign Institutional Investors (FIIs) and Mutual funds (MFs).

The financial sector in any economy serves as an indicator of what is going to happen and shows the vibrancy of what is in store. If we just take a cursory view at the trends shown in capital markets within the Indian economy we see the financial sector seems to be dragging alone for quite some time now.

For years, the BSE has been the epicenter of commerce and trade. Apart from glory, the BSE has also had its share of controversies; skeptics often allege that it is an archaic organization, a coterie of factions politicking among themselves at the risk of the country.

Nevertheless, the fact remains that the BSE is a vital intermediary in the process of resource allocation whose importance cannot be shrugged off. Indications suggest that there is more in store at the BSE. The vision 2000 and the vision 2005 plan, suggest that the exchange has actually started looking into the future. The vision 2005, is supposed to be a plan to place the BSE in a position of strength and service in the year 2005.

India is the world's eight largest country with its population exceeding 900 million and in its size; the present infrastructure appears to be inadequate and will require massive incremental investment to sustain economic growth. In this context the
government sought to embark on a liberalisation plan. Capital market is an effective and efficient mechanism for allocation of capital. Capital markets provide a forum for participation of all classes of investor, which include FIIs, MFs, and retail investors. Capital markets is going to be the key driver for mobilizing investments.

It is the most active stock market in the country accounting over 70 percent of the listed capital in the country, while in terms of market capitalization its share is over 75 percent. The turnover on the Exchange accounts for nearly 1/3 of the total turnover in securities all over India. The BSE was modeled on the London Stock Exchange, which is an independent institution. It is located on Dalal Street, in downtown, Mumbai. The board of directors of the exchange is composed of 19 directors. Nine elected member brokers (One third of them retire every year by rotation) five public representatives three nominees of the SEBI One nominee of the RBI and the executive director. The president, the vice-president and the honorable treasures were elected from among member brokers. The executive director is a professional having been seconded from the State Bank of India and is responsible for day-to-day administration of the exchange. Public representatives is the apex body which regulates the Exchange and decides its polices.

The Securities & Exchange Board of India (SEBI)

SEBI was established on 12th April 1988 acquired statutory status on the 30th January 1992. The main objective of SEBI is to project the investors, regulate and promote the capital market by creating an environment that would facilitate mobilization to resources through efficient allocation and to generate confidence among the investors. It is responsible to regulate stock Exchange, other
intermediaries who may be associated with the stock market & the process of public companies raising capital by insuring instruments that will be traded on the capital market.

**Followings are the Strategic objectives of BSE.**

- To promote, develop & maintain a well-regulated market for dealing in securities.
- To safeguard the interest of members and the investing public having dealings on the exchange.
- To Promote industrial development in the country through efficient resource mobilization by way of investment in corporate securities.
- To establish & promote honorable & just practices in securities transaction.

**Opportunities available for foreign investors:**

The government of India narrowly saved from a foreign currency reserve crisis in 1991, finally decided to open, up her capital markets to foreign investors. In Sept. 1992, the Government of India through SEBI, introduced the concept of Foreign Institutional investors, (FII). FIIs upon registration with the SEBI & Reserve Bank of India (RBI) are allowed to operate in Indian Stock Exchanges subject to the guidelines issued for the purpose by SEBI.

FIIs are permitted to invest in:

i) Securities in the primary & the secondary markets, including shares debentures warrants of companies listed or unlisted on a recognized stock exchange in India (Including OTC Exchange of India).
ii) Specific Schemes floated by domestic mutual funds for institutional investors & such other securities as may be approved by the SEBI from time to time.

One of the major achievements of the new economic reforms was that it provided a big boost to the inflow of foreign investment. An analysis of foreign investment flows for the period 1991-92 and 1995-96 (Upto November, 95) reveals that the total investment flows of the order of US $ 11.744 billion were made, out of which direct investment accounted for US$ 3.694 billion i.e. 31.5 percent of total. As against it, portfolio investment accounted for US$ 8.05 billion i.e. 68.5 percent of total. Direct foreign investment is less than one-third of total foreign investment and even of this, 10.4 percent is contributed by NRI's. This implies that only 21.1 percent (nearly one fifth of the total) is contributed by foreigners.

The government’s intentions to attract FDI are earnest but inflows are falling. One step forward, two steps backward. That's what India's FDI policy has been ever since after liberalization. The government will have to do a lot more than only open up the economy in letters and announce policies for foreign inflows. It will have to ensure that the staff, including officers at every level, will have to change their mindset and work for the creation of congenial environment where paper work is minimal and norms are clear. Making the working environment more investor friendly, liberalising policies and decentralizing the approval process. Establishing a single point interface between foreign investors, their by achieving single window clearance.

Developments in the capital Markets:

The role of stock exchange has acquired significance in mobilisation of savings and channelisation into productive investment only in 70s and 80s though market was subject to
government control and regulations. In nineties, the capital markets, however, have emerged as an important source of capital mobilisation and witnessed considerable growth, following comprehensive set of reforms introduced in these areas as a part of financial sector reforms.

The extent of growth in capital markets in India can be measured by the fact that as against an amount of about $6 billion equivalent mobilised during the 10 year period up to 1990-91 the amount mobilised during six years between 1991-92 to 1997-98 increased over eleven-fold to around $68 billion. In 1990 the pre-reform period, 75% of incremental financial saving went to banks approximately 25% to capital markets. In 1996 the banking sector received 47% of the household savings and the equity market 53%. Thus there has been a marked shift towards capital markets from the traditional banking system.

Challenges facing the capital market:

Some of the challenges faced by the capital markets in India, which needs to be adequately addressed to realise the vision of an efficient market system. It is a fairly known fact that the capital markets in India are going through a very subdued phase. The total number of public Issues that hit the market in the year 1998-99 was 32, garnering about Rs. 7000 crore against 1343 issues aggregating over Rs. 13000 in the year 1994-95. Out of Rs. 7000 crore raised during 1998-99, nearly an amount of Rs. 6500 crore was accounted for debt issues by developmental financial Institutions; equity assurances aggregated a mere Rs. 500 crore. Its evident that equity offerings are no longer a favourite with Indian investors. Over the years there has been a paradigm shift towards fixed income securities and now, after the recent decision
to make incomes from mutual funds tax free, most mutual fund schemes are also drawing overwhelming response.

- The change in the investor psyche has, thus, been a result of the factors outlined above. In the primary equity market a major challenge currently is the revival of the depressed conditions of the market. The sluggishness of the primary equity market which is continuing for over two years is attributed to various factors including investors apathy which is mainly due to poor performance of large number of scrip’s floated with a high premia during 1993-95 following freeing of the pricing. The matter was compounded by irregularities noticed in the pricing of some of the issue, which imparted a considerable negative influence in the minds of investors. Further, there was a liquidity constraint in the financial system during 1995-96 and large part of 1996-97, which led to spurt in interest rates diverting investor’s preference from equity to debt issues in the primary market.

The continued subdued nature of the primary equity market has become an area of major concern, as it hampering implementation of many industrial projects causing time and cost overruns and thereby affecting the industrial growth of the country.

The secondary equity market has also remained subdued over the past few years, although it has shown some revival trends, confined to few select scrips. In a way revival of primary equity market depends crucially on the health of the secondary market. Policy reforms in the secondary market have been quite comprehensive so far as the creation of efficient and transparent infrastructure is concerned. India today had NSE and BSE, which provides screen, based automated and transparent trading. Post trading facilities have improved considerably with the setting up
of National Securities Depository Ltd. other exchanges have also now computerised their operations, settlement cycles are being rigidly followed. There is also a gradual shift towards demat form of trading. However, secondary markets have come to be dominated by the FIIs. The recent events in South-East Asia have to some extent affected their sentiments. What is required is to make the Indian financial Institute participate to a much larger extent than they are doing today. UTI and other mutual funds as well as LIC have to be much more active on the secondary markets.

In short liberalisation in capital market has resulted in many improvement in the functioning of the stock market, there are several aspect, which still needs merit attention so that capital market can play a meaningful role in industrial and economic development. The sluggish trend in primary equity market needs to be reversed by restoring investor’s confidence in the market. Secondary market trading needs to be broad based and various intermediaries, both in primary and secondary market should be strengthened to confirm to international standards. Regulatory and other aspects need to be looked into. Also Indian capital market should mature to introduce derivative products for risk management in capital market.

The recent South East Asian crisis needs to be carefully studied. A market-oriented system with appropriate regulation lead to growth with stability, otherwise there may be shocks both external and internal which might destabilise the economy.

SEBI has announced the total termination of the carry forward system/badla system. SEBI has decided to abolish the system with effect from July 2, 2001. After July 2, 2001 no fresh carry-forward transactions can be initiated on any of the Indian Stock exchanges.
A new system of trading in the cash market and forward market was placed. In cash market a compulsory rolling settlement, which was done, on daily basis. In other words each trading day was taken as if settled.

When an investor buys shares he will have to pay for them and when he sells them he will have to give delivery. Further, different exchanges in India were having settlement periods closing on different days. With this new system, all settlement days of all exchanges were brought on same day. While this is the case in the cash market there is a separate market where options and futures are permitted. An option is a right that an investor has to buy or sell a share at a future date at pre-determined price. For this there is a small premium. The great advantage with Option is that you do not have to necessarily buy or sell a particular share. In other words while it confers a right, it does not create an obligation on the investor. Options are the preferred forward derivative products in all global bourses. This epoch made decision of SEBI separated out the cash market and the futures market. While long term investor invested in the cash market and speculators in the options market without any fear that there loss would exceed a certain amount. Larger investors can hedge their positions without fear of erosion of value. In a way it is good for all concerned. After all for one who has understood the badla system, which is a complex hybrid of interest costs, the option is much easier.

There is no denying the fact that the Indian stock markets have come a long way. From the open out-cry ring trading system to comprehensive and complex network based online computerized trading. Therefore in this chapter we have noticed that a tremendous change has also taken place in trading and clearing rules and practices. Its not that now Indian stock market has fully
matured and it doesn’t need any change or alterations in its trading and clearing rules and regulation. Still our stock markets and the regulating bodies are in the learning and practicing phase. Therefore the system right now in vogue should not be taken for granted, the watchdog SEBI is always hunting for better, transparent, free and fair investors friendly trading rules and practices.

Thanks to the path of reforms and the concomitant impact of globalisation and technology, India has been able to catch up with the latest, despite being a new entrant. It earlier happened with the screen-based trading and institution of mechanisms like credit rating and regulator on the lines of Securities and Exchange Commission, USA. (SEC). While the developed markets like the US have undergone the whole cycle to evolve to the present state, India could conveniently embrace the latest framework without having to go through the same cycle. Financial markets have always been the frontrunners and foremost users of technology. With screen-based trading replacing the open out-cry system, it was only a matter of time for internet-driven trading to arrive in India. And so it did. The battleground is getting ready with players of different colors gearing up as also with the massive price wars. Internet will get inextricably intertwined with the way the business is done. This seamless integration is inevitable in the case of stock broking too. There is also room for caution. Margin trading that has thus for been confined to select few clients of brokers is likely to spread its net wider with the emergence of e-broking. Trading hours have increased as has transparency. This has lead to greater investor interest too, both among individuals and institutional investors. From a time when dabbling in stocks was the bastion for a chosen few, today things are so simple that even a common man can trade on the markets. In term of systems
too, things have changed, with international money coming in, slowly and steadily, the Indian markets are moving towards achieving international standards. Hence the urgency to have a proper hedging facility in place is heightened. The institutions require a facility to allow them to hedge against the movements in the stock markets. Players claim that a proper hedging system would help catalyze higher volumes on the Indian bourses.

Since the country's doors were opened to foreign investment, Foreign Institutional Investors have been asking for a hedge. Many claim that its non-availability is restricting their exposure to India. International experience has show that the launch of derivatives leads to a substantial improvement in market quality of the underlying equity market with a corresponding increase in liquidity and market efficiency; despite its vast benefits, it must not be forgotten that a derivative instrument is like a gun. Though a protective instrument could kill if misused unlike the cash market, trading in derivates is purely speculative and cash-based without delivery. Slowly but steadily, India is defiantly moving ahead to get aligned with the world markets. It will improve the markets ability to direct resources towards projects and industries where the rate of return in the highest. By improving the locative efficiency, a given stock of investible funds will be better used in procuring the highest GDP growth in the country. This is something that everyone has been looking for.

**Derivatives: Nature and Growth**

Derivatives are financial instruments, which are derived from equities, bounds, currencies, and commodities. Annual turnover in Derivates financial instruments including options and futures traded on international organised exchanges rose from 146 million contracts in 1986 to 453.9 million in 1992 and 1329.3 million in
1998. Further warrants, swaps, swaptions, collars, Caps, Floors, circuses, and scores of other products are collectively known as derivatives. All these constitute tools for the management of financial risk.

Derivates are used by banks, securities firms, companies, and investors to hedge risks, to gain access to cheaper money, and to make profits. Derivates are likely to grow even at a faster rate in the future. They are first of all cheaper to trade than the underlying securities, be they bonds, currencies, commodities, or equities.

Need for Options trading in India:

The Indian stock market although largely insulated from the international markets has been characterised by high price volatility. The upswing of 1000 points in the BSE sensitive index within a short span of two months followed by the "securities scam" and the associated crash by 1200 points in 1991-92 clearly reflects the highly speculative tendencies in the Indian stock markets. Stock markets need speculation since it is the driving force, which builds up activity and ensures sustained interest of investors in the market. But speculation has to be controlled and regulated as excessive speculation leads to haphazard price movements unrelated to fundamentals. Despite such high volatility in the market, still Indian investors find equity as the most viable and perhaps the most attractive form of investment.

There are several factors, which contribute to excessive volatility in the stock market. Overtrading by stockbrokers on their account, insider trading, large-scale manipulation of the market and shortage of adequate floating stock of good scrips are some of them. With good regulation, in place, listed option trading can definitely reduce the volatility. It was observed in Chicago Board Options Exchange that Options reduced price fluctuations.
An investment portfolio comprising mainly equity that exposes the investor to tremendous market and price risk. The price risk for most part can be managed by holding a diversified portfolio and limiting the volume of investment in any one of the stocks or industry. The other type of risk i.e. Market risk or systematic risk is something more difficult to contend with. The price of the stocks has an inherent tendency to move up or down together and consequently the market risk cannot be diversified away. The market offers no risk instrument that allows the investors to manage and minimise risk. Fund managers and very sophisticated investors may try to hedge market risk by offsetting long positions in one stock with short positions in others.

**STOCK MARKET INDICATOR SERIES:**

Price movements for the market as a whole are measured by market indicator series. The indicator series constitute a composite report on market performance. Market indicator series constitute a benchmark to judge the performance of an individual portfolio. Indicator series help investors develop index portfolios. It is used as proxies for the shares or debenture markets while examining the factors that influence aggregate price movements, also used to analyse the relationship among stock and bond returns of different countries and the stock price movements.

A Price index such as the stock market index is an average of changes in the price of the individual securities in the market. It reflects the overall price or return movements of a group of securities. Movements in an index are determined by sample, weighting and computation procedure.

In case of sample technique for the stock market index desired characteristics are used to select sample shares rather than by completely, random selection. Major criterion for selection are
market activity, due representation to various industrial groups and to the major stock exchanges. Three principal Weighing schemes are used. These are Price Weighed, Value Weighed and Equally Weighed Schemes.

(i) **Price weighed series:** Are calculated as an arithmetic average of the current prices of the sample securities. Dow Jones Industrial Average (DJIA) is the best known and is the oldest of that stock market indicator series. In India, the index numbers compiled by Financial Express, Economic Times, Reserve Bank of India are price weighed series.

Economic Times ordinary share price index is simple arithmetic average of the price relatives’ average of the price relatives of 72 scrips. A price relative is simply the stock price this week divided by stock price last week. If the stock price this week is Rs. 330/- and the stock price last week was Rs. 315/- the price relative is $\frac{330}{315} = 1.047619$. Price relatives for each day are obtained by dividing the daily quotations by the corresponding average price of the base year 1984-85.

RBI Compiles a index number of security prices with base year 1980-81. The index covers 338 scrips listed on Bombay, Calcutta, Madras, Delhi, and Ahmedabad stock exchanges.

Financial Express Equity Index with 1979 as the base covers 100 equity issues. Price relations are worked out by dividing the closing quotations of the day by its corresponding average daily price in 1979 and multiplying it by 100.

(ii) **Value weighed series:** It an indicator calculated as the total market value of the securities is the sample. It is based on the initial total market value of all stocks in the sample, which is assigned a base index value of 100. From trading day to trading day a new aggregate market value is computed for all securities in
the index and compared to the initial base value. The percentage change is multiplied by the beginning index value to obtain the indicator for the day. The importance of individual scrips or the weight of each scrip is the sample is proportional to the total market value of the sample. Companies with large market capitalization have a greater impact on the index than the same change for small companies. Standard and Poor (S & P) in USA was the first company to employ a market value index in U.S.A. S & P computed separate index for industrial stocks, utilities and transportation terms along with 500 stock composite index, NASDAQ series, NYSE stock Exchange indexes are computed on the basis of value weighted method.

(iii) Equally Weighed price indicator series: All stocks are equally weighed regardless of price or value. And the index is affected equally by the performances of each security in the sample. In computing percentage change, geometric average is taken rather than arithmetic average.

Bombay Stock Exchange Series:

Sensex, National Index, BSE 200 and Dollex complied by the BSE are value weighted series. They follow the methodology used by S&P in USA.

An Analytical Overview

The Indian Capital Markets underwent substantial reforms during the 1990s. The regulatory framework strengthened under the SEBI, clearing systems improved with the setting up of the NSCCL (National Securities Clearing Corporation Ltd.) and settlements improved with the setting up of the NSDL (National Securities Depository Ltd.) both in 1996. The setting up of the NSE improved transparency and amounting in trading and has led to a sharp fall in brokerage fees. Market participants have become
better institutionalized with the entry of FIIs and mutual funds. Company disclosures have increased – from annual to half yearly to quarterly performances. The Capital markets of India have experienced the most widespread reforms since 1991, compared to any other section of the Indian economy.

Ironically, securities scams have kept pace with reforms. From Harshad Mehta through Ketan Parikh, price manipulation has plagued the capital markets with irregularity. Thus the number of investors increased during the early 1990s. They have remained quite wary of the capital markets. Surveys conducted by the Society for capital Market Research and Development indicate that there were 9-10 million shareowners in 1990. These grew to 14-15 million by 1993 and 20 million by 1997. An April – June 2001 survey by the society for capital market. Research and Development shows that 31.7 percent of households were concerned about too much price manipulation and 30 percent about too much volatility.

The primary capital markets were freed from the controller of capital Issues in May 1992. The impact was immediate. In 1991-92 there were 520 capital issues that raised Rs. 14,180 crore. In the following years the number of issues nearly doubled to 1065 and the amount to Rs. 28030 crore. In 1993-94 the number of issues went up further to 1311 and then touched 2,122 in 1994-95. The amounts raised also increased to Rs. 47,438 and Rs. 55,920 crore in the two year respectively.

Many Traded Companies are Thinly Traded

Lack of trading is the worst kind of problem an investor could face in the capital markets as it effectively implies complete erosion of the capital invested. An only slightly less menacing problem is
that of thin trading. These are companies where the total trading during a month is less than 500 shares or less than Rs.5,000.

In 2001-02, a substantial 45 per cent of the stocks were traded thinly on the BSE. Less than 500 shares were traded on an average during a month, in respect of 43 per cent of the companies that were traded on the BSE during the year. And shares worth less than Rs.5,000 were traded during a month in respect of 45 per cent of the companies. Assuming that a transaction would involve about a hundred shares this implies that more than 40 percent of the companies traded on the BSE record only a handful of transactions during a month.

Most Traded Companies are Infrequently Traded

Besides being thinly traded, stocks are also infrequently traded on the Exchanges. CMIE define scrip to be frequently traded if it trades (no matter how thinly) on at least 60 per cent of the trading days. This is a fairly liberal definition of frequently traded scrip. As of March 2002, there were 2,396 companies that were traded on the BSE or the NSE. But, only 56 per cent of these were traded frequently by the above definition. A year ago, the ratio was worse at 51 per cent. And, in March 1998, the ratio was as low as 42 per cent.

Returns on Equities was Worse than on Bank Deposits

The stock markets provided poor returns during the eleven-year period April 1991 to March 2002. Rs.100 invested at the beginning of this period in the entire market would have been worth Rs.268 only, by the end. This is an investment into the CMIE Overall Share Price Index-the COSPI. Such a return would have been possible only if you quickly exited all the companies that stopped trading. The returns exclude any transaction costs during the entire period. Obviously, no individual and no single institution
would buy the entire market as is represented by the COSPI. But, the COSPI does represent the entire market that all individuals and institutions collectively were invested into during the 1990s.

Investments into the popular (narrow, but investible by institutions and now even individual; indices would have fared no better. Rs.100 invested into the BSE Sensex at the beginning of April 1991 would be worth Rs.281 by the end of March 2002: Rs.100 invested into the Nifty portfolio over a similar -period would be Rs-290. All computations are bereft of all transaction costs. Unlike in the past index compositions do undergo changes and these would entail transaction costs. Our simple computations assume no transaction costs.

All the above indices thus imply that the equities markets yielded returns of around 10 percent per annum over the eleven-year period April 1991 to March 2002. This is much lower than the 13 percent commercial deposit rate for deposits above five years prevailing in 1991. "There were (and are) no transaction costs in a bank deposit and the risk profile of a bank deposit is much lower than that in a investment on the stock market.

The equities markets have thus yielded very poor returns over a reasonably long period of eleven years.

The risk profile on investments into equity has remained bad for a better part of the 1990s. Risk as denoted by the standard deviation of daily returns was high in 1991-92 and 1992-93. It hovered around 2.6 per cent in these years. Then it declined to reach 1.05 per cent by 1994-95. But, in the late 1990s, volatility increased again. In 1998-99, volatility was up to 1.77 per cent and then to 2.03 per cent in 1999-00. During the months January to May 2000, volatility was between 2 and 3 per cent. Fiscal 2000-01 saw volatility scale up to 2.18 per cent.
The persistently high volatility of returns on the stock markets make the poor returns of 10 per cent over the long run appear much worse.

The overall liquidity in the capital markets has been no better. CMIE define liquidity as the ratio of the volume of trading during a year to the end-of-the period market capitalisation. The average liquidity was only 0.75 during 1997-98. Implicitly, the total trading during an entire year was only 75 per cent of the total market Capitalisation of the companies. The ratio has improved since 1997-98. It was 0.88 in 1998-99 and 0.83 in 1999-00. In 2000-01 liquidity shot up to 1.68 and then dropped to 1.47 in 2001-02.

Liquidity computations are of course, biased on the upper side as the computations are based on companies that are traded. Scrips that do not trade or are traded infrequently are excluded from these computations.

'MAHARASHTRAS POSITION'

Maharashtras Foreign Direct Investment (FDI) position is very clear in the survey conducted by the US embassy in 1999 where their finding prove that Maharashtra enjoys the largest share of US investment. Into the country at around $4 billion (40.5 percent) USA is likely to invest another $4.6 billion in 1999-2003 of which 56.6 percent is likely to flow into Maharashtra with the second largest chunk (17.5 percent) going to Karnataka. The Maharashtra Government is optimistic about future investments flowing into the state. It has always progressively increased its share in the FDI cake.

Ever since the India opened its gates to foreign investors, the government has approved $54 billion worth of FDI. But, policy
hurdles and administrative delays have resulted in only $6 billion actually flowing in. Of the total $54 billion approvals, Maharashtra attracted $6 billion – the highest in the country – proving that the state is still the most preferred destination. The state governments proactive stance & continuous dialogue with the investor community in its bid to know and solve their problems has helped Maharashtra to reach this top position.

State Highlights:

- Maharashtra has the largest share of US investment (40.5%)
- US Investments in Maharashtra stands at Rs 6171 Crore.
- UK is the second largest investor in Maharashtra with a total investment of Rs. 2,211 crore.
- Out of total $54 billion FDI approved, Maharashtra has attracted $6 billion.
- Of a total of Rs. 9,385 crore FDI from August 1991 to October 1999, Maharashtra share in highest at Rs. 1,428 crore.
- Maharashtra share of total FDI is at 15 percent.
- Delhi and Maharastra account for a substantial share of over 27% percent.
- Gujarat and Tamilnadu each have a share of 11 percent.
- Orissa, Andra Pradesh & Karnataka have about 8 percent each.
- Maharashtra holds the top most position in regard to signing industrial entrepreneurs memorandum.
- FDI is highest in transport, fuel, and service sectors in Maharashtra.
• Maharashtra is the only state to have single window clearance.

• Maharashtra has developed special Economic Zones and Free ports in order to attract FDI and make exports more lucratived.

• Maharashtra position strengthened due to announcement of Enrons Dhabol power project, khaparkheda power project, seven major and minor port development project, cellular BPL-US West and basic telephone project of Hughess Ispact, Tatas Indica car project and various other software park project.

• Investment is high in Maharashtra because of availability of infrastructure facilities like power, land, roads etc.

• The Maharashtra Government provides sales tax holidays, concessional power rates and concessions to firms setting up plants in economically back ward region.

Maharashtra government today has the best infrastructure and an investment friendly atmosphere which helps to retain the states prime industrial status. Maharashtra has always been the most preferred destination for investment inflow. The Government is also trying to improve its credit rating to tap cheap international funds for infrastructure development. In the decision making process the government is changing its role from being a regulator to that of a facilitor. Decentralisation of decision-making is being work out.

For Healthy long-term development of the primary Market and to ensure continuing participation by the small investors, here's a few point agenda.
* Listing Norms:

The compulsion to list on multiple Stock Exchanges under the
Companies Act should be removed. The “Z” category listing
introduced by the Stock Exchange, Mumbai is a highly innovative
alternative to delisting.

* Remove of Restriction of 25% Public Holding:

One of the conditions for listing is that at least 25% of equity
should be sold to public. This condition has lost its relevance
particularly in case of bigger companies. World over, listing
requirements normally have certain minimum number of shares to
be sold to public and minimum market capitalization of shares. On
similar lines listing agreement may be amended.

* PSU Divestment:

At least 10% of PSU shares should be divested in favor of retail
investors to infuse interest in the capital market. This will not
only help in widening the capital market but would also help
proper price discovery for shares of such PSUs.

* Public Shareholding in Multinationals:

In many cases, foreign companies listed in their own countries are
allowed to hold 100% equity stake in their Indian ventures
established by them in India. If the concern is to have absolute
control on management a maximum of 76% of holding could be
allowed.

The balance24% may be sold to public so that the retail investors
could participate in the growth and wealth created by these foreign
companies. If it is not possible for these companies to make a
public issue at the time of establishing their undertakings here, a
maximum period of two years could be allowed to them, to either
disinvest 24% of their holdings or to raise new capital so that at least 24% of the new capital is in the hands of Indian public.

* IPO Criteria:

Like the controller of capital Issues (CCIs) regulations in the past, the current SEBI criteria for initial public offerings to displays a historical approach, which does no take into account the future potential, promise or performance. Hence there is a school of thought that advocates replacing SEBIs highly centralized “yes-no” decision on IPOs with either exercise of an investor’s own judgment or by specific record of performance.

* New Issue Pricing:

Auctions and book building need to be seriously looked at as means of determining pricing of new issues. These would not only result in market oriented and realistic prices but would also help bring down the cost of raising funds. Under book building the issuer’s manager receives bids stating interest at a certain price. If the bids fail to elicit the minimum expected price, the issue is cancelled.

* Punish Vanished Companies:

A staggering 84% out of a total 3911 equity issue floated between April 1992 and March 1996 rising over Rs. 25,000 crore from retail investors are not quoted, listed or quoted far below the offer price. Not just the investor’s funds, but their confidence as well has vanished. Until promoters of such companies are taken to task and made answerable for their misdeeds no amount of pre-announcements are going to either deter future offenders or assure potential investors.

The Stock Exchange Mumbai has introduced the concept of ‘Z’ category scrips. All companies not complying with the listing
norms or not responding to investors grievances have been put in the ‘Z’ category so the investors are caution against investing in such companies.

*Monitoring Utilisation of Issue Funds:

In future, special attention should be given to the utilization of issue funds. These have been grossly misused in the past, including diversion to activities other than those stated in the prospectus.

The company's lead bank or financial institution could probably do the monitoring. Every company should be required to submit a quarterly status report on fund utilization to the stock exchange where they are listed and to SEBI, while annual report should carry a detailed disclosure for the investors benefit, duty certified by the statutory authority.

*Market Making:

It must be mandatory for a company coming out with a public issue for the first time to provide market making in its shares at least until such time they are regularly traded and quoted on the Stock Exchanges. Companies whose securities are not regularly traded should be obligated to appoint market makers to provide two-way quotes on a continued basis.

And for healthy long-term development and growth of secondary market here's a few point agenda.

# Investments by Banks:

Investment by banks in equity market should be accorded a priority status in the same manner as accorded to Agriculture, Exports and Small-scale industries. It is a well established fact that investments in equities gives higher returns than debt and it would, therefore, be in the interest of the banks to invest in
equities, specially in the present environment of low inflation and low interest rates. Banks, Financial institutions, FIIs and mutual funds should be allowed to participate in carry-forward system as vyaj Badla Financers that provides competitive returns.

# Investments by LIC:

The investible fund of Life Insurance Corporation are around Rs. 130000 crore, of which currently only around 5% (Rs. 7000 crore) is invested in equities. Worldwide life insurance companies invest between 10% and 50% in equities.

LIC should earmark at least 15% of its investible funds for the equity market. This will also result in higher bonus to policyholders and lower premium rates, assuming the returns in equity investments are higher than debt. LIC may also be asked to make public information about returns on different categories of investments.

# Investments by GIC:

GIC and its subsidiaries presently have a corpus of about Rs. 20,000 crores, of which only about 15% (Rs. 3000 crores) in invested in equities.

Worldwide equity investments by General Insurance Corporations are anywhere between 30% and 50%. Therefore there is a need for reconsideration to the proportion of investment by GIC.

# Provident Fund (PF) Deployment:

At present PFs are not allowed to be invested in equities whereas in other countries substantial portion of these funds is invested in the equity market. Employees should be given the option of investing at least 20% of their PF in the equity market through approved Mutual Funds aided by appropriate tax incentives.

# Investments by Pension Funds:
At least 5% of the retirement funds should be routed to the equity through Mutual funds. This will ensure sufficient exposure of this repository of funds to the capital market and provide them with an opportunity to earn above average returns.

# Promote Government Securities Business:

At present trading in Government securities is restricted amongst banks, institutions and selected intermediaries. The Stock Exchanges can provide greater liquidity, reach and depth and give investors access to this avenue of relatively lower risk investment.

Investor Protection:

The following changes are proposal to be brought about in Company law:

- Registrar is an externally important intermediary in the capital market. The level of their service causes either great investor comfort or discomfort; delays in transfer being a case in point. Professionalisation of registrars in a welcome development but their services need to be streamlined and subjected to time bound regulation within suitable penalties to discourage deals and defaults. Transfer of shares should be made compulsory within 21 days. Penalty should be imposed on the company in case of delay of transfer.

- If a company does not pay divided / interest in time, there should be penal interest at the rate of 2% per month payable by the company.

- Separate benches at high Courts, District Courts and Civil Courts be established to hear the complaints of the investors and any case filled in these courts should be disposed off within a maximum period of Six months.
• If the company does not attend to investor's complaints consistently over a period of six months or more, filing a winding up petition against the company should be permitted.

MACRO – ECONOMIC MEASURES:

* Foreign Direct Investment (FDI).

FDI increases the availability of investible funds and tends to reduce their cost. These also stimulate growth and free domestic capital for alternative investment. FDI needs to be encouraged both in the primary and secondary segments, with clear and easy guidelines.

* Corporate Governance (Independent Directors).

At least a third of the directors of any Company above a certain size should be non-executive, independent directors, one way of ensuring their independence would be for credit rating agencies, industry organizations and chambers to make and circulate list of prominent personalities – layers, accountants, financiers, bankers, economics, who have the competence and the integrity to be independent directors. If independent directors were to contribute conscientiously to the management process, they would have to be well compensated. The limit of Rs. 2000. On sitting fees in the present companies Act should be removed. Further, every large company should have an audit committee, on which independent directors should have a majority. Amongst other things, it should approve the annual report, ensure compliance with all financial disclosure requirements and certify that funds rose from outside were used for the designated purpose.
* Accounting Standards:

Accounting standards in India should reflect international practices. Accounts should report, amongst other things, profitability by business segment, earnings as they would be diluted by expected increases in equity, foreign exchange losses, monthly volume of production of main products and services and economic value added (the difference between the return earned and the cost of capital at a market rate of return).

Stock Exchanges' Powers:

The powers of stock exchange are limited and hence they are unable to deal effectively with companies, promoters and registries. SEBI should frame stronger rules on disclosure and levy non-discretionary, deterrent fines for infractions. One is an event that may have significance for the investors; these must be revealed immediately to the press and the stock exchanges and posted on companies' Internet site. The other is financial information the most important carrier of which is the annual report with audited accounts. SEBI should ensure that it is prepared and dispatched to all investors in time.

Disclosures should be made simultaneously to SEBI, the stock exchanges and the press. Stringent time limits should be set, and SEBI should visit failures to make the disclosures in time with fines that are high enough to act as a deterrent. SEBI and Stock Exchanges should be given broader powers to punish companies for non-disclosure, delayed disclosure or inaccurate disclosure.

Stock market have registered enormous growth, maturity and sophistication. Various scams, irregularities too have kept pace with it. The secondary market policy as far as stock exchanges are concerned should have the objective of the promotion of a stable market reflecting the growth of economy and the fundamentals of
the company, whose shares are traded on the exchanges. Indian stock markets do not seem to reflect them. Once the flows into the market are properly regulated and accounted, the stock markets would reflect fundamentals. Supervision by SEBI would be effective if monitoring systems are in place in respect of each subject or activity being supervised, such as stock brokers and sub-brokers operations, regulation of trade by stock exchanges, acquisition and take over activity and insider trading. Foolproof systems should be set up to capture all transactions of brokers into a central database maintained by the exchange. If the regulatory body and the stock exchange remain cautious various irregularities scams etc. can be averted.

Therefore in order to fasten the Resource mobilizing capacity of BSE and overall development of secondary market and economic development, of the country as a whole, the following suggestions are offered in these regards.

- **Creating environment of investment culture:** Creating an investment culture among small, untapped investors. For this procedures are to be further simplified. Intermediaries are supposed to be investor friendly. And as mentioned earlier at higher secondary and graduation level the basics of capital and stock market fundamentals are to be introduced.

- **Alignment with International standards:** Indian Stock Market trading standards practices should be aligned with international standards. It will eliminate the inconvenience to foreign investing community and thereby enhance the inflow of foreign investment.

- **Supervision of Issue fund:** Through surveillance department the utilization of Issue funds should be channelised as per the companies’ prospectus.
Motivating Indian Financial Institutions to participate actively: The role of banks financial institutions and mutual funds for investment in equity market to further enhance their ratio especially banks at presents are not so actively involved.

Augment investment by LIC and GIC in stock market: Likewise the proportion of investment in equities by LIC and GIC in India as compared to rest of the world it needs to be doubled.

Remove un-necessary protection: SEBI should remove its protective arm against those stock exchanges, which are at the verge of existence. Instead provide helping hand to BSE & NSE to expand their base.

Restrict Brokers involvement in Management and working of BSE: To reduce the influence of the brokers at BSE, Demutulisation and corporisation of the BSE is a positive step. This will eliminate many discrepancies and make the working more transparent and investor friendly.

Delegating wide range of powers to SEBI: The Joint Parliamentary Committee (JPC) probing the stock market scam has proposed wide ranging powers to market regulator SEBI, including monitoring the end use of funds raised from public.

Proper evaluation of company before Public Issue: SEBI should establish stringent guideline for evaluating the prospectus of companies entering the capital market and in case of dubious or fraudulent promoters stop the public issue.
Making the Projects viable and attractive: Investment that is flowing in is small numbers and the chunk of the cake is moving out of India. This is due to the fact that policy implementation is still a lengthy process, administration is not decentralized, there are bureaucratic delays and absence of transparent guidelines all of which leads to time and cost over runs which make the project unviable & unattractive. Therefore Government either state or central has to change its role from that of a regulator to that of a facilitator.

Lack of marketing strategies in stock exchanges particularly BSE: One thing where the stock exchanges are lacking far behind is that creating awareness among the general masses about their presence and services offered by them. It’s an era of advance technology and strife competition. No doubt BSE to some extent had aligned itself with the latest technology. In spite of this its far behind compared to other institutions like banks, mutual funds, insurance etc in mobilizing resources. BSE is lacking far behind in attracting investors towards it. The reason being absence of outlets, franchise, dealers etc. apart from this there is no proper feedback through advertisements etc therefore to mobilize resources BSE will have to adopt investor friendly policies like its competitive rivals i.e. mutual funds, banks financial institutions etc.