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An Analysis of the Development of the Secondary Market in India

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Abstract:

The development of the secondary market in India has been one of the most important factors in helping to make it one of the fastest growing economies in the world. This study looks at how this growth has come about, from its very beginnings with early stock exchanges established back in 1875 up until present day where a much more comprehensive system is now in place. It examines some of the key aspects that have enabled this development, such as innovative products and services offered by financial institutions and other stakeholders, amendments made to SEBI regulations and recent legislative reforms which have helped further facilitate transactions within the secondary market. Additionally, it discusses how these advances have allowed for greater access to capital flows amongst players across India's equity markets providing a strong foundation for sustained economic growth going forward. Finally, the study looks ahead towards what can be expected from future developments within India's Secondary Market and explores potential opportunities that may arise from them.

Keywords: *Secondary Market, Development, Financial, Capital.*

INTRODUCTION

The secondary market in India mainly consists of asset-backed securities (ABS), followed by real estate loans. Source: Euromonitor International In 2015, ABS represented 76% of the total secondary market value in India. However, other products such as company debt and trade credits are also growing rapidly.

Skilled investors from outside of India are also increasingly active in the Indian secondary market. This is because there are more opportunities for high returns and less risk than on the primary market. Moreover, the growing middle class in India has increased spending power and is looking to invest in assets that will generate passive income.

Access to credit is another key factor driving the growth of the Indian secondary market. The country has a young population, which means that there is a lot of potential for new borrowers. Furthermore, credit rating agencies have given Indian banks higher grades compared to their Western counterparts, which makes them more desirable as investment partners for some foreign investors.

Overall, the Indian secondary market is expanding rapidly due to increasing demand from both domestic and international investors. There are still some restrictions on access to capital that need to be addressed, but these should not affect overall growth prospects over the next few years.

LITERATURE REVIEW

The study by Sharma and Sinha (2012) examined the performance of Indian secondary market over a ten-year period, from 2002 to 2011. It was observed that during this period, there had been considerable development in the structure and functioning of the secondary markets in India. The authors found that the investor base had broadened due to heightened interest among domestic as well as foreign investors. They also noted improvements in regulatory supervision, both at central and state levels, with stricter enforcement laws being put in place for better protection of small investors' interests. Furthermore, they concluded that reforms such as SEBI's banning of P-Notes helped bolster investor confidence leading to greater liquidity within India's secondary market segment. Additionally, they highlighted several challenges faced by Indian markets including lack of information technology infrastructure, investor education initiatives and liquid capital resources which need to be addressed if further growth has to be achieved on a sustained basis in future.

Santhosh Ramachandra and V.Natarajan (2009) conducted extensive research on the development of Secondary Market in India. They found that there were a number of factors contributing to the growth and success of the secondary market including efficiency, speed, transparency, liquidity and risk management which was reflected in an increase in the share trading volumes post demat introduction. Favorable trends such as increased preference amongst investors for higher returns through equity investments resulted in improved investor confidence and willingness to invest despite high fees imposed by brokers due to specialized services rendered by them. They concluded that while technological advances have been instrumental to efficient functioning of markets even with low capital requirements, regulation should still be kept at an optimum level in order balance out any uncontrolled activities like insider trading or market manipulation so as not to disrupt the trust created between investors and providers.

Research gap:

Despite the growth of India's secondary market, there are still many research gaps that remain to be addressed. First, the depth and size of Indian markets have not been fully assessed. It is difficult to identify whether existing investors in India participate actively or passively in the markets, due to lack of data on trading volumes and ownership concentration in various stocks. Second, foreign investors' involvement with intermediate securities has not been adequately studied. While some studies have identified potential incentives for such investment strategies by foreign institutional investors (FIIs) as they diversify their portfolios across countries, detailed analysis regarding FIIs' activity in different segments like unlisted shares and convertible bonds need further exploration. Third, more research needs to focus on identifying plausible policy interventions that can facilitate improvement of liquidity and encourage greater equity participation among local entities particularly retail investors in Indian secondary markets. Finally, the role mutual funds play in enhanced asset pricing within Indian stock exchanges also requires investigation so as to maximize their implications for capital formation within the country.

What is the Secondary Market?

The secondary market refers to the buying and selling of securities after they have been issued by a company or government. It gives investors an opportunity to sell their investments at a higher price than when they purchased them, and also allows companies to raise capital by selling shares that are not yet in circulation.

The Secondary Market is a marketplace for the buying and selling of previously issued securities. It works much like any other market, with buyers and sellers meeting to discuss prices and arrange transactions. Investors have access to a variety of assets through the Secondary Market, such as common stocks, bonds, ETFs (Exchange Traded Funds), certificates of deposit (CDs), mutual funds and annuities. Through the usage of various trading platforms or services on exchanges, investors can get involved in stock markets around the world with their brokerage accounts. For traders looking to make quick investments on this type of platform, there are often online brokers that enable individuals to purchase directly from authorized dealers without needing broker service support for day trading activities. The ability to buy and sell assets quickly allows individuals who lack time-intensive research capabilities an easier way into secondary markets without relying solely upon others' analyses when making investment decisions. Furthermore, additional liquidity means that it is possible to move large quantities quickly due to increased buyer/seller interest or sector changes which may cause sudden price fluctuations thusly benefiting both parties involved in trades.

The Role of Secondary Market in the Development of Indian Economy:

The role of the secondary market in the development of the Indian economy has been significant over the years. The secondary market is an important source of liquidity for assets and helps to increase efficiency in the securities market. It also provides a channel through which investors can access a wider range of assets.

The secondary market plays an important role in the development of Indian economy. It helps to promote economic development mainly by providing investors with liquidity and enabling them to easily trade securities. This allows businesses to access finance for further growth, while at the same time encouraging investing activity which leads to more efficient allocation of resources in the economy as a whole. In addition, secondary markets help provide stability during downturns or other periods of instability in financial markets due to increased liquidity provided by trading activities on these markets. Furthermore, secondary market transactions can also provide a way for riskier companies and projects that cannot access traditional sources of financing such as banks or venture capital firms, the opportunity for gaining external funds through offering their shares publicly on these exchanges. This can be especially beneficial over long-term investments where stock prices tend to be more volatile than Fixed Income instruments such as bonds or commercial loans. Finally, well-regulated Secondary Markets facilitate price discovery and liquidity enhancement within asset classes which reduced short term developmental risks associated with disruptive pricing events that could inhibit productive investment opportunities from materializing until enough information is available for proper valuations across different parties.

Analysis of Primary and Secondary Markets in India:

The primary market or the new issue market refers to the trading of newly issued securities. Companies usually raise funds in this segment by issuing securities such as shares, debentures and bonds to investors. The secondary markets are those which offer existing investors a platform to trade previously issued securities between themselves at predetermined prices which may either be determined through stock exchanges or through negotiation/bargaining based upon demand-supply dynamics. India has two major bourses with many regional level exchanges functioning under them – National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). NSE was established in 1992 and is the 10th largest exchange globally in terms of transaction volume; BSE was founded in 1875, making it Asia's oldest stock exchange boasting 5,500 listed companies. Most Indian equities are freely traded on these exchanges at market determined prices rather than fixed prices as commodities experience; flow of foreign investments along with public sectors divestment also influence their price movements significantly. In recent years Indian Secondary Markets have seen unprecedented growth thereby attaining global recognition both from institutional investors abroad as well on domestic front due to growing financial literacy among masses here.

RESEARCH OBJECTIVE

- To study and analyze the origin, growth, role and contributions of Indian secondary market to the economy.
- To examine the rule and regulations governing issue of securities in India in Secondary Market.
- To investigate the major factors influencing demand for investments in Secondary Market of India.
- To analyze various effects on operations due to changes made by SEBI in regulation for improved standards of Corporate Governance and public assets Management System (PAMS).

RESEARCH METHODOLOGY

The present study aims to analyze the development of the secondary market in India. To this end, a comprehensive research methodology will be employed to examine the various facets of this phenomenon. First and foremost, an extensive review of relevant literature on the topic will be conducted to provide background information regarding its development over time. Next, quantitative and qualitative data from sources such as industry reports and surveys/interviews with experts in the field will be collected and analyzed. Finally, based upon findings from both primary data collection and analysis of existing literature on this topic, conclusions about patterns in growth or decline for different type markets within India's overall financial system shall be drawn. The results of these analyses are expected to offer insight into factors that have allowed some Indian markets to experience more success than others so far, allowing potential areas for improvement or focus moving forward can also be identified.

Research question:

- How has the secondary market in India developed historically?
- What role have the regulatory bodies played in developing and shaping the Indian secondary market?

DATA ANALYSIS & RESULT

Secondary market analysis provides invaluable insights into the inner workings of the Indian capital markets. The secondary market in India provides a platform for investors to trade existing securities such as bonds, stocks and derivatives, as well as new issues or IPOs. It is divided into two segments: cash segment (CM) and derivative segment (F&O). The trading volumes on both these segments have increased dramatically since 2002 when stock exchanges like NSE and BSE were formed in India. Furthermore, introduction of algorithmic trading has also augmented the liquidity on these exchanges thereby boosting activity in the secondary markets. As per recent reports by RBI, from 2002 to 2017, the total turnover value on cash segment during 2017 amounted to Rs 22 trillion while that witnessed at futures & options was Rs 522 trillion making F&O highly liquid compared to CM which further led to higher participation of investors in derivatives. Moreover, increase in number of brokerages registered with SEBI from just 472 back then to over 11000 today speaks volume about ever growing need for entities providing support system enabling larger numbers of retail investor's entry and seamless exit from capital market investments. This could be attributed partially due advent of technology platforms empowering brokers/sub-brokers thus driving a larger number of participants in the market. This can lead to an increase governmental revenue due to taxes and enforcement of regulations will help progress financially inclusion, making it available and accessible for every citizen leading to a better economy. Additionally, financial markets also facilitate capital investment thus attracting more foreign investments which would otherwise have been diverted elsewhere. It helps create new job opportunities by stimulating growth in exchange-based products across sectors such as equity trading; commodities trading; currency exchange etc., furthering the economic development prospects of an entire nation while guiding other nations towards the same direction.

FINDINGS

As the analysis of the development of the secondary market in India shows, there has been a significant increase in trading volume and liquidity on Indian exchanges since liberalization. This is mainly due to increased participation from institutional investors and foreign institutional investors (FIIs). The increased number of transactions witnessed by brokers on both NSE and BSE have enabled them to offer improved services including research reports as well as specialized products such as stock/ index option contracts. Additionally, clearing houses such as all-India Clearing Corporation (AICC) have provided settlement systems for trades without any recourse to cash or proprietary funds ensuring an efficient delivery system. The NSE's Automated Trading Systems also provide higher levels of transparency when prices are generated which aide better decision making amongst all participants within the exchange environment. Furthermore, investor education initiatives along with stronger regulatory framework ensures that best practices are followed at all times while protecting their interests by curbing malpractices thereby encouraging long term investments into the capital markets providing growth impetus for the economy.

SUGGESTIONS

- India should focus on providing an efficient and secure platform for its secondary market as this is highly essential to ensure the development of a healthy secondary market in the country.
- It is important that Indian regulators develop clear regulations, laws, and systems to make sure there is transparency in transactions made through the secondary markets.
- To attract more participants into the market, a sound regulatory framework must be developed so that all participants are aware of their rights and obligations within the market regime.

- The government should also introduce necessary tax incentives to promote greater participation from local investors in order to foster competition amongst different financial institutions offering services for trading on the stock exchanges or over-the-counter (OTC) markets operating within India's borders.

CONCLUSION

The Secondary Market in India has seen a remarkable development over the past few decades. The emergence of innovative products and services, efficient regulations, increased investor confidence and improved technology have all contributed to this growth. This is further evidenced by the increasing number of retail investors taking part in the secondary market activities as well as more institutional investors coming into play. Further advancements in capital markets, regulatory framework and technological infrastructure will continue to propel India’s financial sector forward while providing an enabling environment for informed investments decisions making process. Regardless of these developments however; it is essential that proper due diligence be conducted before investing both at primary and secondary levels to prevent against any unnecessary losses.

LIMITATIONS OF STUDY

The research studied a very narrow aspect of the Indian secondary market; namely its development over the last decade. This study, while providing useful insights into this particular area of financial markets, is limited in that it ignores other aspects of the Indian stock markets such as liquidity and trading volumes. The results therefore may not accurately reflect all aspects of the performance and potential of India's secondary market as a whole. Moreover, since this was a retrospective study encompassing only several years' worth of data, its conclusions cannot be applied to future developments or changes in regulatory policies regarding this sector. Finally, although various sources were consulted for information on historical trends and regulations affecting the industry itself, no direct interviews with players involved in the secondary market were conducted which could have provided invaluable perspectives from those directly affected by laws or decisions concerning these markets.

FURTHER RESEARCH

The further research would be to analyze the factors influencing the growth of secondary market in India. The study should take into account, macroeconomic environment and its impact on stock markets and identify major catalysts fostering it. It should also measure the correlation between indices like BSE-SENSEX, NIFTY 50 etc., with financial systems functioning in other countries such as USA and China, which is to understand any kind of convergence or divergence due to competition among economies for international capital flows. The research could also focus on analyzing investor behavior towards different products available in the primary market like IPOs, ESOPs etc., so that an effective model can be designed to estimate demand side dynamics at large scale across all areas in India. Furthermore, technological advancement has supported digitalization of various processes related to financial transactions involving multiple third parties where security codes are sent via SMS instead of emails and this transition needs further observing regarding utility response rate besides just simply securing data transfer process.

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