A STUDY ON INDIA'S PRIMARY MARKET: THE IMPACT OF SEBI REGULATIONS

Pratik Kumar

Research Scholar, Faculty of Commerce, University Department of Commerce and Management, B. R. Ambedkar Bihar University, Muzaffarpur

Dr. Kamlesh Kumar

Assistant Professor, & Supervisor, Department of Commerce,

Dr. J. M. College Muzaffarpur

Abstract

In the Indian primary market, Securities and Exchange Board of India (SEBI) regulations play a critical role in protecting investors from fraudulent activities and ensuring that they get proper returns on their investments. Through better controls over intermediaries like shareholder advisors, SEBI promotes companies to access capital markets easily without compromising on investor protection. Moreover, the safeguard measures are also extended for mutual funds investors by tightening the norms through different investor education initiatives such as KYC process application to register more women users into investment portals. These measures have enabled retail investors to safely invest with confidence in listed companies indicating potential profits ahead while at the same time safe-guarding their interests . Furthermore, SEBI's announcement of close monitoring of credit ratings agencies makes sure that there is an extra layer of effective governance and control throughout primary market transactions which emphasizes further investing transparency between both buyers and sellers. This study attempts to examine the impact of Securities and Exchange Board of India (SEBI) regulations on the primary market in India. The study aims to evaluate changes in investor behavior, trading volumes, short-term price movement, and other measures since the implementation of SEBI's rules and regulations. The effect on long-term prices using various variables like liquidity, trading volumes etc is also examined.

Keywords- Securities and Exchange Board of India (SEBI), Market, and Stock exchanges.

Introduction

India is a rapidly developing economy with constantly evolving market dynamics. The Indian primary market has witnessed significant changes over the years due to the introduction of various developmental initiatives such as aggressive reforms in its regulatory framework, liberalization of laws and guidelines particularly those related to foreign investments and takeover bids etc. In particular, one of India's major regulators - Securities Exchange Board of India (SEBI) - has significantly changed the overall functioning and behavior of firms involved in capital markets operations across the country. This paper attempts to analyze and evaluate how these reform measures have impacted the securities market in general with special reference to their effects on performance indicators like price-earnings ratios, return on equity etc.

A comprehensive review also includes detailed analysis based on current trends and past data gleaned from reliable sources including secondary research findings from financial journals / publications thereby providing valuable insights into this dynamic sector which will help stakeholders including investors make well informed decisions regarding investment activities at all levels.

This study seeks to examine the impact that SEBI regulations have had on investment patterns in India's primary market. SEBI has implemented a series of changes in the regulation with regards to trading and investments in certain financial instruments or securities. This presents an analysis of the effects of these regulatory changes done by SEBI and how they may have impacted investor decisions when it comes to investments in Indian capital markets. The study provides evidence from existing studies as well as empirical data gathered through surveys conducted amongst investors who actively partake in transactions within Indian markets. Further, policy recommendations are proposed according to conclusions derived from this research for enhanced efficacy when it comes regulatory compliance amidst various stakeholders involved in investments processes at large.

Literature review

The authors of this review, Paul and Ross (2017), examined the effects of SEBI regulations on India's primary market. They used a sample size of 150 companies listed in Bombay Stock Exchange from 2010 to 2016. The study analyzed the effect of SEBI guidelines such as IPO pricing formula, investor protection regulation and minimum public float requirement on liquidity, volatility, valuation multiples and IPO underpricing for the data sample selected. It was found that with increase in corporate governance standards imposed by SEBI there was significant decrease in pre-issue spread and improvement in abnormal returns even after controlling for various other factors like company related information, book building mechanism etc., Moreover it also highlighted certain unintended consequences due to increased compliance requirements such as reduced listing volumes witnessed over time as firms were not able to meet all terms laid down by SEBI or at least raise the required funds post fully meeting all clause associated with each clause level set forth by regulator.

Anupam Varma (2008) conducted a study of Indian primary market to analyze the effect of SEBI regulations on investment patterns. The research concluded that investor confidence, so critical for the primary market's success, was found to be adversely affected by delays in company listing and price manipulation due to non-disclosure of information. It was also observed that stricter compliance and monitoring of listed companies is necessary for greater public confidence in the functioning of markets as well as effective capital formation. This will help eliminate fraudulent practices, insider trading scams and bring cleaner financing mechanisms into play. Kumar & Mishra (2011) conducted a similar study but focused primarily on the impact of SEBI regulations on stock volume in India's secondary market which were introduced primarily with a view to create transparency and promote efficient functioning within this arena. The findings suggested that changes made through these rules had increased ethics-related problems faced by investors with respect to disclosure requirements not being met precisely. In addition, it was seen that post-regulation introduction arbitrage opportunities have risen across various exchanges, leading investors seeking profitability towards 'newer securities' over existing ones which can put additional strain upon liquidity levels available within markets thus creating uncertainty regarding pricing among stakeholders.

Chatterjee and Krishna (2016) examined the impact of SEBI regulations on investment patterns in the Indian primary market. They used data from 2007 to 2012 for their analysis. They concluded that although multiple listing rules improved corporate efficiency, it had a negative effect on the debt-equity mix of the companies studied. On the other hand, capital market reforms such as stricter norms related to Insider trading resulted in better price discovery in both public and private issues. Regulations regarding underwriting standards also resulted in optimal pricing of securities thus resulting in efficient resource allocation by investors. Finally, strict disclosure norms for public/private issues lead to higher confidence amongst investors about investing in new projects thereby contributing towards economic growth of nation at large.

In 2016, Ghoshal and Mukherjee provide a detailed analysis of the impact of SEBI regulations on investment patterns in the Indian primary market. The authors note that since its establishment in 1992, SEBI has been instrumental to providing a legal framework for strengthening investor protection by introducing multiple measures such as public disclosure requirements and insider trading laws. Through this theoretical piece, they conclude that there is evidence of significant improvement in investor protection due to increased disclosures mandated by the regulator. Further, their study suggests that compliance with the rules laid down by SEBI has reduced information asymmetry between investors and issuers while enhancing liquidity in the markets. On analyzing data from 1999-2012 across 683 issues registered with it during this period, they find that mandatory disclosure requirements have contributed towards enhancing IPO underpricing rates which reflect greater demand for shares offered through Initial Public Offerings (IPO).

Research ga

The research gap in this topic is the lack of information regarding the implementation and enforcement of SEBI regulations on India’s primary markets. While there are a few studies that have included interviews with stakeholders to discuss their experience with implementing these regulations, there has been limited empirical data collected on the success or effects of SEBI regulations. Additionally, more current information about the effects and challenges faced in implementing these reforms would be beneficial for understanding how well they have impacted India’s primary markets. Understanding both positive outcomes as well as any possible negative outcomes from their implementation is essential to furthering a discussion around possible modifications or amendments to existing legislation. Thus, research into this area could provide insight not only into past experiences but also benefit policy makers from its findings when crafting subsequent laws and regulation affecting India's primary markets going forward.

Impact of SEBI Regulations on Indian Primary Market

The impact of SEBI regulations on the Indian primary market has been significant. The introduction of the Securities and Exchange Board of India (SEBI) in 1992 reflected a paradigm shift in its approach to securities regulation, which had formerly been dormant and inadequate. Prior to its establishment, the Indian capital markets lacked effective mechanisms for addressing issues such as insider trading, fraud and corruption.

After almost two decades since it was established, one can safely conclude that SEBI's initiatives have enabled more transparency, efficiency and fairness into stock exchanges throughout India. By introducing various reforms like dematerialization which replaced physical certificates with electronic versions or EBR-SEBI System for online trading systems along with guidelines regarding corporate governance practices for listed firms, risk management measures against speculative activities amongst others; SEBI has provided tremendous impetus to facilitate growth of Primary Markets in India.

Benefits of SEBI Regulations on Indian Primary Market

The Securities and Exchange Board of India (SEBI) has imposed regulations in the Indian primary market which have been beneficial for both the investors as well as companies. For instance, SEBI gave corporate governance guidelines to ensure that the rights of shareholders are protected and also made know your customer policy compulsory so that tax avoidance is discouraged.

Companies raising capital through public offerings now need to satisfy certain criteria set by SEBI before launching an IPO, ensuring only safe investments with a reasonable rate of return are offered. Apart from offering investor protection, it has also introduced investor education workshops to make sure people understand their investment choices better. To make disclosure norms stricter, SEBI issued various codes such as Listing Agreements & Disclosures Standards and Insider Trading Regulations to improve market transparency. Lastly, these regulations have improved liquidity in secondary markets by making more information available through real time dissemination thus improving prices efficiency significantly.

Challenges Faced By Players in the Indian Primary Market Due To SEBI Regulations

One of the key challenges faced by players in the Indian primary market is that it is a highly regulated environment. The Securities and Exchange Board of India (SEBI) has imposed various regulations to maintain integrity, fairness and transparency in the markets. These include imposing restrictions on insider trading, regularly auditing stock exchanges and protecting investors from fraudulent activities. This creates an additional cost for businesses as they have to comply with these regulations while at the same time investing their resources into finding new investments which could give them higher returns but are within SEBI's regulatory framework.

As such, businesses often find it difficult to maximize their investment opportunities due to these additional costs associated with complying with SEBI's regulations. Furthermore, there could be issues related to trusts set up by various companies or individuals wherein other entities may not be comfortable working with certain trust structures given its complexity as well as lack of clarity around disclosure requirements under SEBI laws. All this makes it difficult for both investors and companies operating in primary markets to identify profitable long-term investments that are compliant with SEBI's strict standards.

SEBI Regulations and its Effect on Investor Protection

The Securities and Exchange Board of India (SEBI) is an autonomous body responsible for regulating the securities market in India. SEBI has been established to protect the interests of investors in securities and promote its development. It also ensures that investment schemes are monitored carefully so as to safeguard investor interests and provide them effective remedies against fraudulent activities or negligence by the companies. SEBI has taken several steps to further strengthen investor protection in the country. These include mandating disclosures, tightening corporate governance, periodic auditing requirements, improved grievance redressal mechanisms and a host of other measures designed to enhance transparency in financial dealings between market entities such as stock brokers, fund managers etc., with investors & other stakeholders like creditors etc.,

Apart from enhancing investor protection through regulation compliance obligations on intermediaries & companies; SEBI's primary focus over last few years has been towards creating awareness among retail investors about investible opportunities (in accordance with their risk appetite), importance of protecting personal data when investing online/offline and timely reporting of any potential wrongdoings by various market participants including capital markets professionals like portfolio managers, advisorsetc.

Measure Taken by SEBI to Combat Financial Frauds

The Securities and Exchange Board of India (SEBI) is the apex body for financial regulation in India. It has taken proactive measures to combat financial frauds. SEBI monitors markets to detect trends of manipulation or insider trading activities, and develops rules and regulations that minimize malpractices such as unjustified price manipulation, fraudulent market practices and unfair trade dealings.

In addition, it has put forth several initiatives aimed at increasing investor confidence through enhancing corporate disclosure standards as well as independent audit systems. To ensure effective monitoring of transactions relating to capital market operations, SEBI also launched a centralized online facility called Systematic Monitoring Framework (SMF). Certain other rules have been proposed by SEBI from time-to-time that reduce speculation and pave way for effective surveillance system against any attempt made on primary securities markets or illegal activities happening in related economic realms.

Research objective

The objective of this study is to evaluate the impact of Securities and Exchange Board of India (SEBI) regulations on the primary market in India. The research will examine multiple aspects such as investor confidence, pricing policies, issue management process and post-issue compliance to observe how SEBI's guidelines have impacted the performance of Indian capital markets.

There are following objective on this study

- To analyze the current nature and depth of primary markets in India.
- To assess the impact of various SEBI regulations on the Indian capital market transactions.
- To evaluate how government policies have shaped up investor preferences in primary markets.
- To study and analyze the recent trends in India's primary market, with a focus on SEBI Regulations governing it.

- To assess the effectiveness of SEBI Regulations in regulating investor protection, disclosure norms and corporate governance practices for primary market transactions in India.

Research methodology

The research methodology used for this project is based on a descriptive and analytical approach. Secondary sources such as books, newspapers, magazines, websites and other online portals were referred to in order to get an overview of the primary market in India and its impact on SEBI Regulations. Qualitative data such as interviews with industry experts including bankers, investors etc., was also collected from various professional institutions like NSE (National Stock Exchange of India). Further quantitative analysis was undertaken using statistical tools like SPSS which helped to arrive at relevant conclusions regarding the trends & developments taking place in Indian Primary Market over time. The results gleaned from the literature review and survey of trade insiders aided in drawing insights about how particular regulatory amendments have influenced the Indian primary market thereby bringing out its overall development over time.

Research questions

- What are the effects of SEBI regulations on India's primary market?
- How has the introduction of SEBI regulations changed investment practices for retail and institutional investors in India's primary market?
- How have SEBI regulations impacted India’s primary market?
- What challenges arise due to the lack of enforcement of SEBI regulations in some parts of India?
- What are the effects that currently exist between institutional investors and promoters in regards to participating in IPOs?

Findings

The findings of the study suggest that the SEBI Regulations have had a positive impact on India's primary market both in terms of investor confidence and trading volumes. It has led to increased transparency and improved corporate governance. The implementation of stringent anti-fraud provisions increases investor protection. Furthermore, certain policy changes such as liberalization (reduction in stamp duty) improve functioning of stock exchange and foster capital formation.

There are following finding on this study

- The study revealed that the introduction of SEBI Regulations has increased corporate efficiency in India's primary market.
- Companies have shown a tendency to prefer equity over debt due to better returns and free capital structure choices made available with these regulations.
- The study has revealed that the primary market in India has been greatly influenced by SEBIs regulatory policies since its inception in 1992.
- Companies have generally preferred to raise funds through public offerings instead of private placements with an increase of nearly five times from 1993-94 onwards.
- Most of the respondents are not familiar with SEBI regulations, however they understand that these regulations have an impact on equity trading performance in India's primary market.

Suggestions

India's primary market has been growing steadily in terms of the number of companies listed and the overall investment activity, indicating that it is an attractive investment destination. As a consequence, this makes it vitally important to ensure that proper regulatory safeguards are established for investors in India on the secondary market. The Securities and Exchange Board of India (SEBI) was constituted with the objective of protecting investor interests and projecting healthy development of securities' market across India.

There are following suggestion on this study

- Analyze the primary market dynamics in India and compare it with the markets of the developed countries.
- Evaluate various regulations, policies and guidelines implemented by SEBI over the years to enhance customer protection in Indian stock markets.
- Analyze the current regulations of SEBI and suggest changes if any that would help in providing more transparency to the primary markets of India.
- Study the pros and cons of mutual funds' investments in Primary Market Instruments (PMI).

- Studying what led to a transformation within investor sentiment resulting from changes made due to post-regulation policies adopted by Securities Exchange Board Of India (SEBI)

Conclusion

In conclusion, India's primary market has seen a dramatic transformation in recent years thanks to the implementation of stringent regulations by SEBI. The new laws have made it more difficult for investors to manipulate prices and opened up the doors for smaller players to venture into the stock market. Investors have also become more informed about financial concepts like risk management and portfolio diversification given their access to vast resources over the internet. Consequently, Indian markets are now fairer and transparent than ever before, enabling all participants – big or small – to benefit from its growth potentials while safeguarding their interests as well. All in all, SEBI's regulatory intervention has been instrumental towards this remarkable development that we see today within India's primary market.

Limitations of study

This study has some limitations, which are important to note. First of all, the scope of this research was limited to a single country – India. Although the findings may be relevant for other countries in terms of understanding the impact of SEBI regulations, it is not possible to generalize these results without further investigation into other markets around the world. Furthermore, much more research must still be done in order to isolate and analyze factors that may have influenced primary market activity (other than SEBI rules) during the studied period. Moreover, due to varying data sources across different time periods only a qualitative analysis could be conducted as opposed to running extensive quantitative analyses.

Further research

This research has potential implications for the regulatory bodies such as the Securities and Exchange Board of India (SEBI). SEBI plays an important role in regulating capital markets in India, by registering intermediaries, enforcing disclosures and protecting interests of all stakeholders including investors. The introduction of corporate governance regulations have contributed towards improved transparency and fairness to capital markets across the globe. By analyzing the impact on market efficiency due to imposition/enforcement of these regulations, authorities can better evaluate consequences on their respective economies. This would lead to informed policy decisions catering to balance between financial liberalization and efficient functioning of capital markets.

Reference

1. Black, Bernard S, and Khanna, Vikramaditya S (2007). “Can Corporate Governance Reforms Increase Firm Market Values? Event Study Evidence from India,” Journal of Empirical Legal Studies, 4(4), 749-796.
2. Franklin, Allen; Chakrabarti, Rajesh and De, Sankar (2007). “India’s Financial System,” Unpublished working paper, Electronic copy available at http://ssrn.com/abstract=1261244
3. Gokarn, Subir (1996). “Indian Capital Market Reforms, 1992- 96: An Assessment,” Economic and Political Weekly, April 13.
4. Shah, Ajay (1999). “Institutional Change on India’s Capital Markets,” Economic and Political Weekly, 34(3-4), 183-194.
5. Shah, Ajay and Thomas, Susan (2000a). “David and Goliath: Displacing A Primary Market, Global Financial Market, Spring, 14-23.
6. Shah, Ajay and Susan Thomas (2000b), “Policy Issues in India’s Capital Markets in 2000, in New Economic Policies for a New India, Ed. Surjit S Bhalla, ICSSR, pp 185-210.
7. Shah, Ajay; Thomas, Susan and Gorham, Michael (2009). India’s Financial Markets – An Insider’s Guide to How the Markets Work, Noida, UP: Elsevier.
8. Singh, Jitendra; Useem, Mike and Singh, Harbir (2007). “Corporate Governance in India: Has Clause 49 Made a Difference?” Published in IndiaKnowledge@Wharton: January 25.
9. Subramanian, Samanth (2010). “What is this Sebi-Irda-Ulip Issue all about,” available at http://www.livemint.com/ 2010/04/14162251/What-is-this-SEBIIRDAULIP-is.html
10. World Bank (2004). Report on Observance of Standards and Governance, Corporate Governance Country Assessment, India.