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A Comprehensive Review of The Indian Capital Market

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Abstract - The capital market serves as a platform for security transactions and acts as an effective catalyst for economic growth. It provides a mechanism for long-term public investment, channeling funds into productive economic sectors. When making investment decisions, investors primarily evaluate two factors: expected return and investment risk. Rational investors consistently seek out information and perform comprehensive analyses to mitigate uncertainty and minimize potential risks. This study examines the capital market's role in capital formation and its contribution to India's financial system functioning.

Keywords-- Financial Market, Indian Capital Market, India's Economy, SEBI, Shares.

I. INTRODUCTION

The capital market is a reality in any modern economy. It's a market that's really needed, and it's very dynamic and innovative. It's always changing to fit the economic environment and influences it too, creating opportunities and risks for everyone involved in economic activity. It's like a small version of a national economy, but very representative. Depending on how it formed and grew, the capital market has different meanings. The European idea includes the money market, mortgage market, and financial market. The Anglo-Saxon idea, used in our country, says the capital market is part of the financial market, along with the money market and insurance market. The capital market is a key part of India's economy, helping to allocate financial resources well. This part explains the capital market's role in India's economy. We'll look at the capital market - what it does, its history, and its impact. This helps us understand how it affects economic growth, investment, and financial stability. We also highlight why studying the capital market in India matters, given its unique features, challenges, and opportunities. This intro sets up a way to explore how the capital market interacts with India's economic growth. The Indian capital market has emerged as a key driver of the country's economic growth, providing a platform for mobilizing savings and channeling them into productive investments. With a growing investor base, increasing market capitalization, and diverse product offerings, the market has witnessed significant transformations in recent years. Regulated by the Securities and Exchange Board of India (SEBI), the market comprises primary and secondary segments, catering to various stakeholders.

This paper examines the Indian capital market's evolution, structure, and significance, highlighting its challenges and opportunities in the context of India's economic development.

II. REFORM IN INDIAN CAPITAL MARKET

Establishment of SEBI - The Securities and Exchange Board of India (SEBI) was set up in 1992 to regulate the market and protect investors.

Demutualization and Corporatization of Stock Exchanges - Many Indian stock exchanges have been corporatized and demutualized to improve governance.

Introduction of Electronic Trading - Electronic trading has replaced traditional floor-based trading, increasing efficiency and reducing transaction costs.

Development of Derivatives Market - Derivatives trading was introduced in 2000, providing investors with risk management tools.

Investor Protection Measures - Initiatives like the Investors Education and Protection Fund (IEPF) have been established to safeguard investor interests.

Simplification of Disclosure Requirements - SEBI has simplified disclosure requirements for companies, making it easier for them to raise capital.

III. CLASSIFICATION

The capital market comprises of two markets, viz., the Primary market and the Secondary market.

The Primary Market

The primary market consists of new issues of capital (equity, debentures, bonds, etc.), by new/existing companies. In this case, the corporate body invites applications to its issue of equity or debentures by filling a prospectus or letter of offer. The application forms can be obtained from the bankers/merchant bankers of the issues, brokers, etc. Investors subscribe to these issues by filling in the application forms and remitting the requisite amount to the designated banks (listed on the reverse of the application) within the time period for which the subscription list is open. The subscription list is generally kept open for three days. The company in consultation with its merchant bankers and the Stock Exchange authorities is expected to finalize the list of successful applications within 10 weeks.



Thereafter, the share/debenture certificates are dispatched to the successful application while refund orders are posted to others.

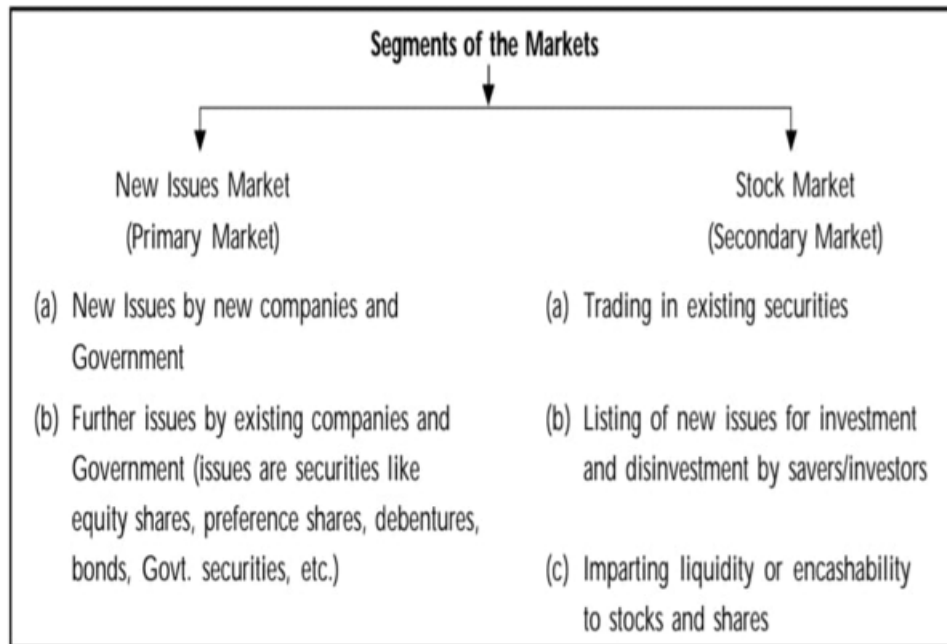
The Secondary Market

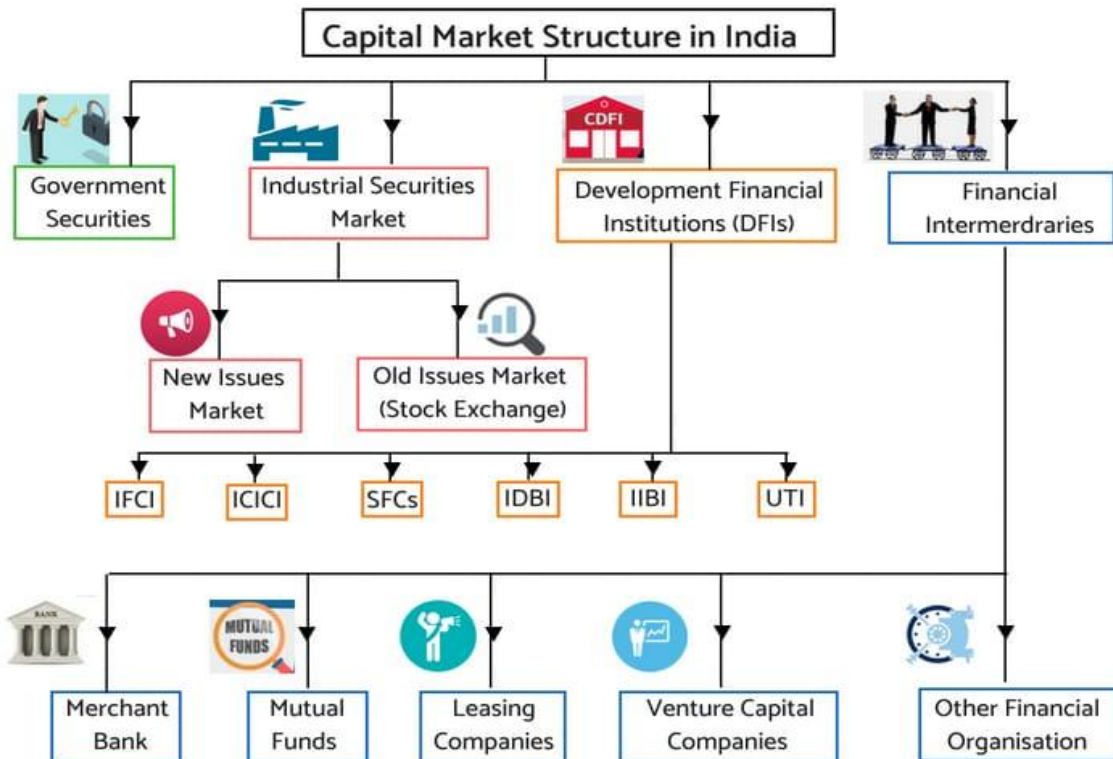
The secondary market is thus an important adjust of the primary market. The activity in these two markets is inter-linked and the indicators are also related although separate in themselves and the starting link is listing of issues on the Stock Markets. In the secondary market, the move to an electronic trading system has resulted in transparency in trades, better price discovery and lower transaction costs. The efficiency of the market has improved through faster execution of trades. The operational efficiency of the stock market has also been strengthened through improvements in the clearing and settlement practices and the risk management process. Almost the entire delivery of securities now takes place in dematerialized form.

The secondary market also called "aftermarket" is the financial market for trading of securities that have already been issued in its initial private or public offering. Stock exchanges are examples of secondary markets. Alternatively, secondary market can refer to the market for any kind of used goods. Secondary market is also called share market. Share market includes exchange of those securities which are already sold and listed in the Primary market. Any transaction in the share market can be executed by the members of the exchange keeping in mind the rules and regulations of the SEBI. The Indian secondary capital market classifies into two ways as follow:

A. Secondary capital market for corporate and financial intermediaries

B. Secondary capital market for government securities and public sector bonds.

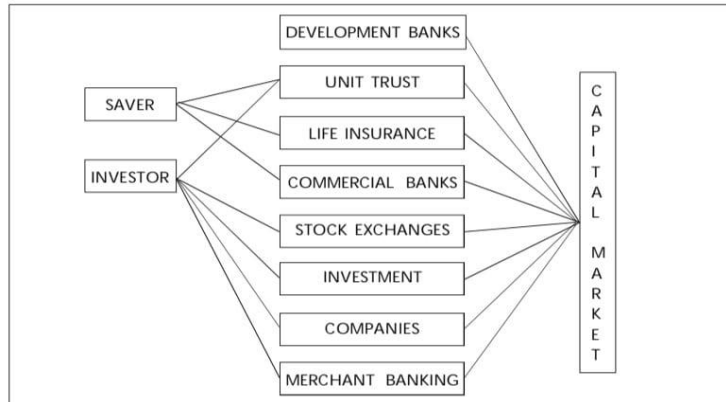




IV. THE INDIAN CAPITAL MARKET TODAY

The Indian capital market is a vital component of the country's financial system, playing a crucial role in

mobilizing savings and channeling them into productive investments.



V. ROLE OF THE CAPITAL MARKET

The capital market plays a vital role in providing liquidity and investment instruments. It fosters economic growth in various ways such as by augmenting the quantum of savings and capital formation and through efficient allocation of capital, which, in turn, raises the productivity of investment.

Mobilization of Savings - The market gathers idle savings from households and directs them toward productive investments, transforming financial resources into physical capital.

Capital Formation for Businesses - It provides essential long-term funds to corporations and governments via equity, debentures, and bonds, allowing firms to grow, innovate, and generate employment.

Raising Long-Term Capital - The existence of a stock exchange enables companies to raise permanent capital. The investors cannot commit their funds for a permanent period but companies require funds permanently.

Investment and Risk Analysis - Research offers insights into how investors can diversify portfolios, handle risks, and achieve high returns, crucial for informed decision-making.

Impact of Technology and Globalization - Studies look at the impact of technology-driven trading, automation, and increased foreign portfolio investment on the functioning of capital markets.

The capital market also enables the valuation of firms on an almost continuous basis and plays an important role in the governance of the corporate sector.

The Indian capital market contributes to economic growth by

Mobilization of Savings is a key function of the capital market

Collects savings from individuals and institutions.
 Channels these savings into investments in businesses.
 Puts idle money to productive use, contributing to national output.

Funding for Growth and Innovation - It's A Key Source Of Long-Term Capital For Corporations And Startups, Driving Infrastructure Development.

Job Creation - The capital market fuels business growth across sectors, sparking widespread employment. It also generates direct jobs in financial services like brokerage, investment banking, and credit rating.

International Integration and Market Depth - FPI and FDI inflows inject global capital into India, boosting market liquidity, depth, and show casing investor trust in the economy.

Regulatory Compliance and Accountability - Listed firms follow stringent reporting standards, enhancing governance, safeguarding investors, and fostering a stable, transparent financial ecosystem.

VI. REVIEW OF LITERATURE

Subir Gokarn (1996) in his research paper “Indian Capital Market Reforms, 1992-96 An Assessment” has used a conceptual framework that draws on the theory of regulation on the one hand and the new political economy on the other to make an assessment of the wide-ranging reforms that have been initiated in the Indian stock market over the past four years. Based on the framework the various reforms are classified into categories reflecting their regulatory effectiveness and their impact on sources of market failure. The researcher arrives at a generally positive assessment of the reforms, but points out three areas of concern- the lack of a fixed term appointment for the regulators, the persistence of non-competitive conditions in the market, and the excessive entry of new scripts into the market. Although in recent days, some steps have been taken to address this problem as well.

Vera-Munoz, S. C. (2006) Rama, Dasaratha V. and William J. Read, Resignations by the Big 4 and the Accounting Horizons, 20(1). Vera- Munoz, S. C. (2006): Vera-Munoz, along with their co-authors, likely have expertise in accounting or auditing, given their publication in Accounting Horizons.

Geetha et al (2012) in their research paper titled “Capital Market in India: A Sectorial Analysis” had made an attempt to compare and contrast the risk return characteristics of ten major industrial sectors which account for 88.74% of the economy’s industrial production. Indian economy has emerged as one of the most attractive destinations for business and investment opportunities due to huge manpower base, diversified natural resources and strong macro-economic fundamentals. Indian economy in the world market is explained in terms of statistical information provided by the various economic parameters. Such indicators include Gross Domestic Product (GDP), Gross National Product (GNP), Per Capita Income, Whole sale Price Index (WPI), Consumer Price Index (CPI), etc. The economic indicators as mentioned are recently enhanced with a new indicator – the capital market index, which had for years proved to be a measure of the investor sentiment in an economy. It had been one of the leading indicators of economic performance in many countries and India also views it with substantial importance as an indicator of market sentiment. The stock market indexes thus prove to be efficient tools to measure the performance of Indian capital market and hence present an overall idea of the economy as a whole. In this paper an attempt has been made for making an analysis of the performance of major industrial sectors operating in the stock market. While concluding it have been stated the Indian Capital Market is highly diversified with numerous industrial sectors operating within it.

The study provides an overview of the risk return characteristics of ten major industrial sectors in the Indian market. Investment decisions are generally made on the basis of performance of a stock and the expectations of the investor – capital gain, regular income, liquidity etc.

Bandyopathy, T. (2020). Pandemonium: The Great Indian Banking Tragedy. Roli Books Private Limited. Bandyopadhyay, (2020): Bandyopadhyay likely has a background in finance, economics, or banking, given the subject matter of their book focusing on the challenges within the Indian banking sector.

Mishra.A(2020) Has examined how Indian stock markets operate and offered some recommendations to enhance their operation in his book. The study emphasizes the necessity of controlling the amount of speculation in order to meet the demands of price consistency and liquidity. It recommends that in order to increase liquidity, corporate securities be listed simultaneously on multiple stock exchanges

SEKHAWAT(2021) Has researched the function of Indian stock markets both before to and following independence. According to the report, four out of five joint stock sector enterprises were covered by listed stocks. Investing in securities was no longer restricted to a select few or any particular class of people. Many people from the small and middle classes were interested in it. It was noted that a significant amount of money were first used to buy already-issued stocks.

AGRAWAL(2022) The investment performance of new equity share offerings, particularly those of young firms, warrants independent research, according to a comprehensive study titled "Return on New Equity Issues." The "fixed price" at which fresh issues are issued is the factor that has the biggest impact on the rate of return to the original buyers. Both dividends and capital gains are included in the return on equity. This study looks at how rates of return on equity vary over time and provides reliable estimates of those rates.

SINHA.G(2023) Assesses the investment choices made by Indian investors and provides a profile of them. He tried to find out how well they understood financial information, how much they used it, and how comfortable they were with it. There is a prevalent perception that the corporations' Annual Report and other announcements are not well received by individual investors, and the information they supply typically falls short of their demands.

VII. RESEARCH METHODOLOGY

The research will use mixed methods - quantitative and qualitative. Quantitative analysis will use primary data from financial reports, market indices, and trading volumes.



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Qualitative analysis will involve expert interviews and surveys. Statistical tools and econometric models will analyze data and provide insights.

VIII. CONCLUSION

The study reveals a rising level of awareness and participation in capital markets among young, educated individuals, especially students.

The Indian capital market has transformed into a dynamic, technology-driven financial ecosystem. Most respondents recognize the positive role of capital markets and related reforms in driving economic growth. However, notable gaps persist in areas such as financial literacy, investment diversification, and investor protection. Many factors influence the Indian capital market, including macroeconomic conditions, global stock market trends, foreign investments, government policies and political interference, as well as investor behavior of investors etc.

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