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Impact of Stock Market on Indian Industrial Development

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Abstract:

India's economy was underdeveloped at the time of independence, with agriculture accounting for over 60% of India's GDP and most of the country's export earnings coming from agriculture. After 60 years of independence, India is now showing signs of becoming a leading economic power. Industrial development in India can be divided into two phases. In the first phase (1947-80), the government gradually increased its control over various economic sectors. In the second phase (1980-97), various measures (Between 1980-1992) liberalized the economy. These measures were temporarily liberalized. Hence, after 1992, the process of liberalization was emphasized and a fundamental difference in the nature of approaches was also introduced. At present, looking at the picture of the stock markets of developing countries around the world, the condition of the Indian stock market is looking good. The bright outlook of the Indian stock market is beneficial for all three investors – industry, business and government. The present research paper reflects on the impact of stock market on Indian industrial development.

Keywords: Industrial growth, stock market, privatization, economic growth

Purpose:

- To Study Indian Industrial Development
- To Study State of Indian Economy
- To Study Share market concept
- To Study the impact of stock market on Indian industrial development

Introduction:

There was no industrial policy announced in India before independence, as India was ruled by the British government and their policies were motivated by British interests and did not want to encourage industrial development in India. After the experience of World War II, the government realized the need for an industrial policy in the country, resulting in the establishment of the Department of Planning and Reconstruction in 1944. On April 21, 1945, the head of this department, Sir Dayal, issued the Industrial Policy Statement, but it could not actually be implemented. The British Government adopted a policy of indifference towards India's industrial development and always wanted India to remain an exporter of raw materials and an importer of manufactured goods. After independence, it was considered necessary to promulgate an industrial policy for the rapid economic development of the country. For this, the Government of India organized an 'Industrial Conference' in December 1947. The conference concluded that the Government of India should announce a clear industrial policy soon. On April 6, 1948, on the recommendation of the Industrial Council, the first industrial policy based on mixed economy was formulated by the then Minister of Industries and Supplies Dr. Shyama Prasad Mukherjee announced. After independence, India was systematically implemented under various Five Year Plans which included industrial plans and resulted in the establishment of a large number of heavy and medium industrial units. The industrial development policy of the country has given greater focus on removing regional disparities and imbalances in the country and also given place to diversity. Industrial development is developed by encouraging the potential of Indian people to achieve self-reliance. Due to all these efforts, today India has been able to progress in the manufacturing sector. Today we export many industrial goods to different countries. A few centuries ago, people used to run businesses with their own money. Their businesses were small and when they expanded their operations, they did so only with their own money. Not all business owners could set up factories and industries with their own money. Banks also did not lend large amounts of capital to new companies to start or expand their businesses. Thus in the early 17th century, when trading companies were exploring the newly discovered continents of Asia and the Americas, they needed large sums of money that their kings could not provide. The wealthy in his country were willing to lend, but they demanded exorbitant interest. So, in 1602, the Dutch East India Company decided to raise its capital from the common people and became the first company to issue shares on the Amsterdam Stock Exchange. A stock exchange is a market where the exchange of stocks and other financial instruments is facilitated. The exchange provides services to stock brokers and traders to buy or sell stocks. Companies that are willing to raise capital from the public get listed on stock exchanges. Companies must meet documentation and fee requirements to be listed on an exchange so that their shares are available for purchase and sale by the general public.

Indian Stock Market Overview

Bombay Stock Exchange (BSE) and National Stock Exchange of India Limited (NSE) are the two primary exchanges in India. Apart from this, there are three other active stock exchanges in the country. However, BSE and NSE have established themselves as the two major exchanges and account for nearly 99% of India's trading. NSE is the leading exchange in terms of daily trading volume. Average daily turnover in the exchanges is around 9 lakh crores. About 1500 stocks are listed on NSE with a total market capitalization of USD 2.27 trillion. More than 5000 stocks are listed on BSE and it has a market capitalization of about $4.9 trillion. Most of the major stocks are traded on both the exchanges and thus investors can buy them on both the exchanges. The settlement cycle of both the exchanges is different. The primary index of BSE is BSE Sensex which consists of 30 stocks. NSE consists of NSE 50 Index (NIFTY) of 50 stocks. BSE Sensex is old and widely based. Both these indices are calculated on the basis of free float market capitalization and consist of widely traded stocks in major sectors. Markets are closed on Saturdays and Sundays. Both the exchanges have converted from open outcry trading system to fully automated computerized trading mode, known as BOLT (BSE On Line Trading) and NEET (National Exchange Automated Trading) systems respectively. They facilitate efficient processing, automatic order matching, faster execution of transactions and transparency. SEBI is the principal regulator regulating stock exchanges, brokers, depositories, depository participants, MFs, FIIs and other participants in the Indian secondary and primary markets.

Economic Indicators and Stock Market:

- The stock market gives an indication of the health of the economy. Economic indicators help investors understand the state of the economy so that they can manage their investments according to current conditions. Certain leading indicators also help investors predict the next phase of the business cycle.
- Stock market is an important indicator of economy. Any broad stock market index covering most sectors and companies can provide a good estimate of a country's economic health. A country's GDP depends on the output of companies and the stock index is a good representation of these companies. That is why a broad stock index is a good indicator of the health of an economy.

- GDP, PMI, IIP data etc Have highly positive correlation with stock market. Conversely, interest rates, unemployment figures, inflation etc. have a very negative correlation with the stock market.
- Increase in IIP numbers is a good sign for cement and steel industries. IIP data is purely industrial data. This does not include the banking sector. But growth in production and investment is usually financed by borrowing from banks. An increase in industrial production and capital expenditure is likely to have a positive impact on the banking sector.
- Capital intensive industries are most affected by high interest rates but benefit most when interest rates are low. It is better to avoid investing in real estate, automobiles etc. when interest rates are rising.
- Companies with high debt on their balance sheets are severely affected by high interest rates. In a high interest rate environment, companies with zero or almost zero debt on their balance sheets will benefit the most. FMCG is considered a defensive sector due to low debt. Rising interest rates are associated with slower growth in bank loans and deposits.
- Sectors like IT are less affected by interest rates. The IT sector has been the most affected by factors such as currency fluctuations, rising attrition levels, visa restrictions, competition from large global players and margin pressure. Certainly, the IT sector is not interest rate sensitive.

Growth of the stock market:

Undoubtedly, the stock market is looking forward in India at this time, but the way long-stalled companies' share sales have surged during the Covid-19 period has created a threat to the stock market. Retail investors have to be most careful about this. In such a situation, every step in the stock market must be taken vigorously. Along with the height of the stock market, the interests of small investors and the protection of their capital must also be taken care of. The government has to make the role of SEBI more effective to move forward on the path of strengthening equity and capital markets. The stock market will play a very effective role in reviving the industrial and business sector of the country devastated by covid. Investors will move quickly to take advantage of the stock market. At the same time, the central government may also go ahead to achieve the disinvestment target of Rs 1.75 lakh crore in the current financial year 2021-22.

Reasons for rapid growth of stock market:

There are many reasons for the rapid growth of the stock market in the country. Investors see that the growth rate of the Indian economy may reach eight to nine percent in 2021-22 amidst the challenges of Corona. At the same time, central banks around the world, including India, have poured a large amount of capital into the market. In that case, interest rates are historically low at this time. Investors are also noticing that returns on Fixed Deposits (FDs) with a currency of around 6 per cent are lower than stock market returns. Prospects of India's better relations with the US have boosted investor sentiment. Due to the strong confidence in the Indian economy, foreign investors are very interested in investing more capital in the Indian stock market. At the same time, a major policy step taken by the government in the current financial year's budget to boost growth rates and revenue has also given a big boost to the stock market. In fact, the Finance Minister has predicted a 22 percent hike in direct taxes and GST in the budget. The disinvestment target has been set at Rs 1.75 lakh crore. The finance minister did not hesitate to increase the fiscal deficit to 6.8 percent of GDP.

Promotion of Privatization:

Apart from promoting privatization in the budget, the government has moved ahead with insurance-banking, electricity and tax reforms. Due to this, the stock market has also gained momentum. In the current financial year 2021-22 budget, massive incentives to infrastructure, health, manufacturing and services sectors are beneficial for the stock market. Increasing the foreign direct investment (FDI) limit in the insurance sector to 74 per cent will help the sector attract new capital and boost business. Setting up a new development finance institution (DFI) focusing on the infrastructure sector with an initial capital of Rs 20,000 crore is a good move. Initiatives have also been taken to simplify TDS rules. The budget is an attempt to create a stable institutional framework to support the corporate bond market. A provision of Rs 300000 crore has been made in the budget to boost the power distribution sector. The Finance Minister has earmarked Rs 20,000 crore for recapitalization of non-performing assets (NPAs) of public sector banks. Apart from IDBI Bank, the government has proposed to privatize two other public sector banks and a general insurance company. Clarity on dividend has been ensured in the budget. This has increased transparency and investors are attracted to invest money in the stock market.

Conclusion:

The bright outlook of the Indian stock market is beneficial for all three investors – industry, business and government. Last year on March 23, 2020 the 30-share Sensex of Bombay Stock Exchange (BSE) was seen on a downward trend of 25,981 points, it could touch a level of 54,717.24 points on August 5, 2021. In the first four months of the current financial year 2021-22 i.e. from April to July, investors in the stock market have earned Rs 31 lakh crore. At this time, there is a competition to bring IPO in the stock market. The participation of retail investors in IPOs has increased by 25 percent. Over 1.4 crore demat accounts have been opened in the last financial year. The number of demat accounts in the country has crossed 6.5 crore. It is important to note that for the first time in a decade, the total market capitalization of listed companies in India has exceeded the country's Gross National Product (GDP) due to the stock market boom. In this context, the ratio of market capitalization to GDP has crossed 100 percent. However, from the point of view of small and rural investors, there is a need to further simplify the stock market process. People need to be made aware that the stock market is not a gambling house. It is an economic barometer to measure the speed of a country's economy.

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