Indian Debt Market: An Analysis of the Post Liberalization Era

Tom Jacob
Assistant Professor, Department of Commerce, Christ College, Irinjalakuda, (Kerala) India, PIN: 680121
Thomas Paul Kattookaran
Associate Professor & H.O.D, Research Department of Commerce, St. Thomas College, (Kerala) India,

Abstract

The debt market is one of the most critical components of the financial system of any economy and acts as a leverage tool in a financial system. The debt market comprises of two segments: government securities market and corporate debt market. Indian debt market is dominated by government securities as compared to corporate debt securities. Indian corporate bonds market is very underdeveloped and illiquid in comparison with the Government securities market and mostly depends on highly safe AAA rated bonds for both issuance and trading. This paper analyzes an overview of Indian debt market and to examine the role and growth of Indian debt market compared to equity market in India. It is concluded that Indian debt market has shown growth trend in primary market and secondary market as well as the government security has the prominent role in Indian debt market .This paper also examine the various types of risk affected in Indian debt market and to examine the role of debt market in the Indian economy.

Keywords: *Government Securities Market, Corporate Debt Market, Subsidiary General Ledger Account.*

1. Introduction

The capital market comprises of equity market and debt market. Debt market is a market for the issuance, trading and settlement in debt securities of various types. It is also known as the bond, credit, or fixed income market. Debt securities are one of the most innovative and dynamic instruments evolved in the financial system ever since the inception of money. It is based on the concept of interest and time-value of money. Fixed Income securities personify the essence of innovation and transformation, which have fueled the explosive growth of the financial markets over the past few centuries. Fixed income securities can be issued by a wide range of organizations including the Central and State Governments, public bodies, statutory corporations, banks and institutions and corporate bodies. Debt securities offer one of the most attractive investment opportunities with regard to safety of investments, adequate liquidity and flexibility in structuring a portfolio, easier monitoring, long term reliability and decent returns. They are an essential component of any portfolio of financial and real assets, whether in the form of pure interest-bearing bonds, varied type of debt instruments or asset-backed mortgages and securitized instruments. An important advantage of the fixed income securities is that, they ensure steady and constant return by way of interest and repayment of principal at the maturity of the instrument. Further investors are assured of a dependable income. Some of the fixed income securities offer a risk free return on the investor's moneys. The default on such securities is zero or near zero. Besides there is a sovereign guarantee on those instruments. Fixed income securities are issued by eligible entities of standing against the money borrowed by them from the investors. This guarantees safety of funds invested in these securities. Moreover, such debt is usually secured against the assets of the company.

Debt market has a long history in India [2]. The Government Securities market dates back to 1859 when the British Government took over from the East India Company; there has been active debt issuing by the government both before and after independence. Corporate Bonds, mainly debentures, were being issued by companies of good standing in the pre-war and post-war years. There was, of course, a decline in corporate bond issues in the decades of sixties and seventies following the arrival of term lending institutions who supplied the bulk of the medium and long term funding requirements of the private sector. The public sector's long term funding needs were met by the State. The Indian debt market and the government securities market in particular, is at a turning point in India with significant changes taking place in the domestic economic environment along with various proposed legislative changes in last decade.

2. Statement of Problem

Though capital market has a long history. Its growth is comparatively a recent phenomenon in the world, even in developed countries [3]. Within the capital market, the development of the Debt market is still poor. Indian capital market began to flourish only in the last quarter of the 20th century. Within the capital market of India, one can see the development of equity market and the under development of the Debt market. In India the capital market is often identified as the equity market. It shows the undeveloped and insignificant role of the Debt market .This study is an attempt to analyze the reasons for the undeveloped nature of the Debt market in India and to analyze the role and growth of debt market in India.

3. Importance of the Study

The debt market plays significant role in the development of any economy [4]. In India and other countries the equity market has come down significantly from its peak in recent time. Many companies are considering option of raising capital through debt instead of equity, as investors are reluctant to put their money in equities at this point of time [5]. But the problem with many economies like India is, it does not have developed debt market. Indian debt market is not as active as it is in other developed countries. In India most of the part of the debt market is made up of government securities and T-bills. Indian companies have hardly raised the capital through debt so far and even if they did then it is very less compared to the debt raised by government. There is need to find out what are the issues that can deter Indian companies to raise the capital through debt market and what are the possible solutions to overcome these problems.

4. Objectives

Following are the main objective of the study;

- To find out the growth of the Indian Debt market in the post liberalization period.
- To examine the change in the structural composition of Indian debt market in the post liberalization era.
- To identify structural gaps or deficiency in the Indian debt market and to find out solutions to overcome them.

- Comparative analysis of the debt and the equity market of India in terms of turnover and capitalization.
- To analyze the risk associated with debt market and the impact of debt market in Indian economy.

5. Methodology

5.1 Data Collection

The research will use secondary data which can be collected from the various websites, articles and books. Data is collected from The Handbook of Statistics of Indian Economy [6], Handbook of SEBI [7], Indian Securities Market review [8], Report on currency and finance and Money.rediff [9] etc.

5.2 Data Analysis

Indian debt market and Indian equity market can be compared with the help of comparative analysis. Comparative analysis is the comparison of the performance level of an entity to the performance level of other similar entity in the same area or to other similar area. For analyzing the role and growth the Indian debt market percentage analysis, correlation matrix analysis etc can be used in this study.

6. Regulators of Debt Market

The Securities Contracts Regulation Act (SCRA) [10] defines the regulatory role of various regulators in the securities market. Accordingly, with its powers to regulate the money and Government securities market, the RBI regulates the money market segment of the debt products (CPs, CDs) and the Government securities market. The non Government bond market is regulated by the SEBI [1]. The SEBI also regulates the stock exchanges and hence the regulatory overlap in regulating transactions in Government securities on stock exchanges have to be dealt with by both the regulators (RBI and SEBI) through mutual cooperation. In any case, High Level Co-ordination Committee on Financial and Capital Markets (HLCCFCM) [11], constituted in 1999 with the Governor of the RBI as Chairman, and the Chiefs of the securities market and insurance regulators, and the Secretary of the Finance Ministry as the members, is addressing regulatory gaps and overlaps.

7. Growth in the WDM

Worldwide debt markets are three to four times larger than equity markets. However, the debt market in India is very small in comparison to the equity market. This is because the domestic debt market has been deregulated and liberalized only recently and is at a relatively nascent stage of development. The debt market in India is comprised of two main segments, the Government securities market and the corporate securities market. Government securities form the major part of the debt market-accounting for about 90-95% in terms of outstanding issues, market capitalization and trading value [12].

Table 1: Business Growth of WDM Segment

Business Growth of WDM Segment					
Year	**No: of Securities**	**No: of Traders**	**Turnover (₹mn)**	**Average Daily Turnover (₹mn)**	**Average Trade Size (₹mn)**
2000-01	1,038	64,470	4,285,815	14,830	66
2001-02	979	144,851	9,471,912	32,075	65
2002-03	1,123	167,778	10,687,014	35,983	64
2003-04	1,078	189,518	13,160,962	44,765	69
2004-05	1,151	124,308	8,872,936	30,283	71
2005-06	897	61,981	4,755,235	17,547	77
2006-07	762	19,575	2,191,065	8,980	112
2007-08	601	16,179	2,823,170	11,380	175
2008-09	711	16,129	3,359,515	14,116	208
2009-10	1,144	24,069	5,638,159	23,591	234
2010-11	1,111	20,383	5,594,468	22,558	274
2011-12	1,140	23,447	6,331,786	26,493	270
2012-13	1,421	26,974	7,922,139	32,601	294

(Source: NSE)

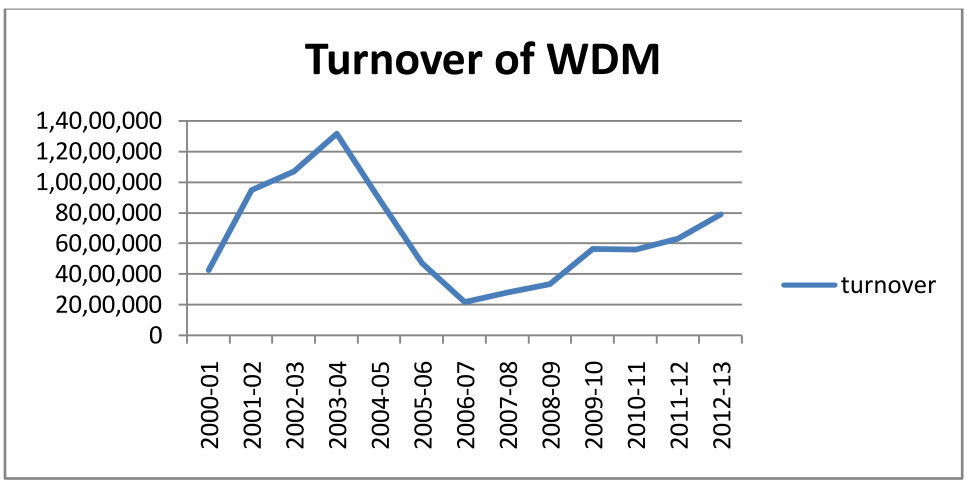

Figure 1: Turnover of WDM

The development and growth of WDM can be studied by analyzing various parameters like, turnover, market capitalization, average daily turnover etc. Indian debt market has grown slowly but steadily from 2000 to 2013.The segment commenced operations on June 30, 1994. This provided the first formal screen based trading facility for the debt market in the country. The highest turnover was witnessed during 2003-04. For analyzing the debt market segment in 2000-01, the turnover is 4285815 and it is increased to 7922139 rupee billion in 2012-13. The CAGR turnover of WDM is 5.25% during this period. The average daily turnover of WDM during the entire period is 24246 Rs. in millions.

8. Security wise distribution of WDM Turnover

8.1 Government Bonds

Government securities (also known as public debt or national debt) [13] are money or credit owned by any level of government, central government, state government or municipality.

The government issues bond to finance their spending when their spending exceed their revenue. Government bonds have maturity period of more than one and it could go up to thirty years. Government bonds are theoretically risk free because the government can raise taxes, reduce spending, or simply print more money to redeem the bond at maturity [14].
Securities of the central and state governments include:

- Zero coupon bonds
- Coupon bearing bonds
- Treasury bills
- Strips

8.2 Public Sector Bonds

These bonds are medium and long term obligations issued by public sector companies where the Government shareholding is 51% and more [15]. Public sectors expand to their business and finance their spending. It is considered to be more risky in comparison to government bond as government has 51% or more holding in PSUs and does not have 100% holding in PSUs.

Bonds that are issued by public sector entities such as government agencies, statutory bodies, public sector bodies etc. Include the following:

- Government guaranteed bonds
- Debentures
- PSU bonds
- Commercial Paper

8.3 Corporate Bonds

These are medium and long term obligation issued by corporate to finance their business. It is considered to be more risky compared to Government bonds and Public sector bonds, as return on corporate bonds solely depends on the performance and profitability of the corporate [16]. Bonds that are issued by private sector entities such as corporate, banks financial institutions etc. Include the following:

- Debentures
- Bonds
- Commercial Paper
- Floating rate bonds
- Zero Coupon Bonds
- Inter corporate deposits

- Certificate of Deposit

8.4 Money Market

A segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year. Money market securities consist of negotiable certificates of deposit (CDs), banker's acceptances, U.S. Treasury bills, commercial paper, municipal notes, federal funds and repurchase agreements (repos) [17].

Table 2: Security wise distribution of WDM Turnover

Security wise distribution of WDM Turnover									
Turnover (₹mn)						Turnover (%)			
Year	**G-sec**	**T-bills**	**PSU Bonds**	**Others**	**Total WDM turn over**	**G-sec**	**T-bills**	**PSUBonds**	**Others**
2000-01	3,909,520	231,434	78,859	66,002	4,285,815	91	5	2	2
2001-02	9,021,049	255,742	109,847	86,194	9,471,912	95	3	1	1
2002-03	10,005,182	322,748	199,847	159,237	10,687,014	94	3	2	2
2003-04	12,187,051	556,709	271,116	146,087	13,160,962	93	4	2	1
2004-05	7,248,362	1,248,422	178,346	197,866	8,872,936	82	14	2	2
2005-06	3,455,629	1,052,333	121,734	125,538	4,755,235	73	22	3	3
2006-07	1,533,697	519,541	44,178	93,648	2,191,065	70	24	2	4
2007-08	1,943,470	660,622	92,318	126,760	2,823,170	69	23	3	5
2008-09	2,342,884	568,239	300,080	148,313	3,359,515	70	17	9	4
2009-10	3,278,374	929,611	868,329	561,845	5,638,159	58	17	15	10
2010-11	3,048,360	987,131	1,095,855	463,121	5,594,468	55	18	20	8
2011-12	3,248,673	1,395,187	1,199,030	488,896	6,331,786	51	22	19	7
2012-13	4,179,271	1,799,018	1,278,700	665,148	7,922,138	53	23	16	8
Total	**65,401,522**	**10,526,737**	**5,828,239**	**3,328,655**	**85,094,175**	**76.8**	**12**	**6.86**	**3.9**

(Source: NSE)

For analyzing the component wise turnover of Indian debt market during this period the highest turnover is G-sec i.e. 76.8% T-bills 12%, PSU bonds 6.86% and other components 3.9%.. The security wise turnover increased at 5.25% CAGR from 2000 to 2013.

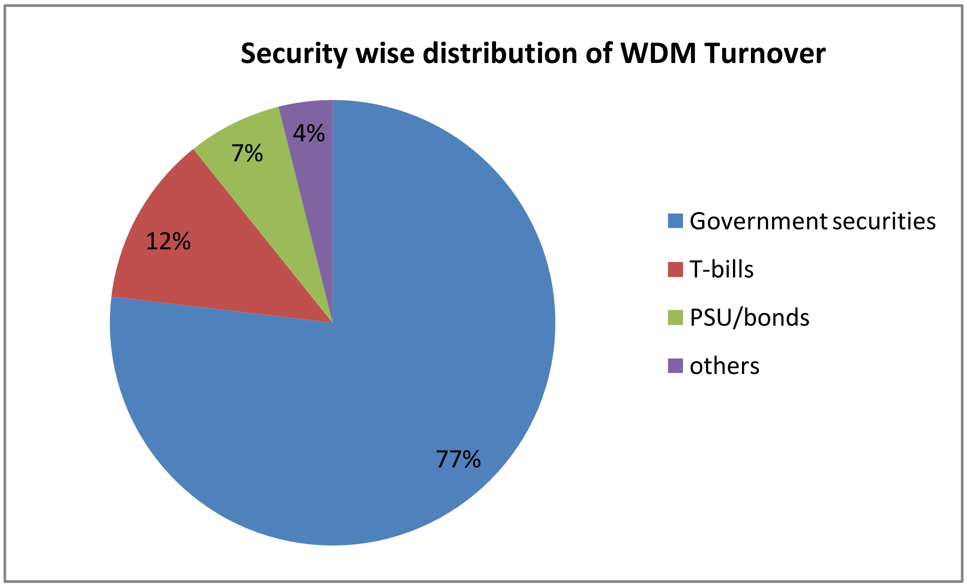

Figure 2: Security wise distribution of WDM Turnover

Table 3: Market Capitalization of WDM Securities

Market Capitalization of WDM Securities (%)					
Year	**G-sec**	**PSU bonds**	**State loans**	**T-bills**	**Others**
2000-01	68	6	8	3	15
2001-02	72	5	8	3	12
2002-03	76	4	8	4	7
2003-04	79	5	7	3	7
2004-05	69	5	15	5	6
2005-06	68	6	15	5	7
2006-07	66	5	14	7	8
2007-08	66	5	15	5	10
2008-09	65	5	15	5	11
2009-10	70	5	17	4	12
2010-11	61	5	17	4	13
2011-12	58	6	18	6	13
2012-13	56	6	18	6	13
Total	**63**	**4**	**16**	**5**	**11**

(Source: NSE)

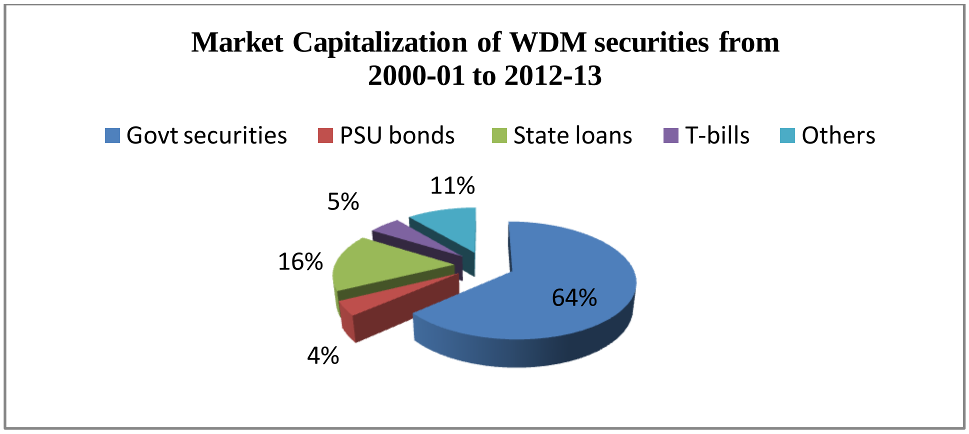

Figure 3: Market Capitalization of WDM securities

The market capitalization of the WDM segment witnessed a constant increase. The total market capitalization of the securities available for trading in the WDM segment stood at. The total market capitalization of Govt securities from 2000-01 to 2012-13 was 64%,PSU bonds 4%, state loans 16%, t-bills to 5%, and others 11% of the total market capitalization of this period.

In many countries debt market is larger than equity market. In fact, in matured economics debt market is three times the size of the equity market. When an investor invests money in equity, he becomes the owner in the corporation issuing the equity shares. He also gets voting right in the company and a share in future profit. In case of debt, the investor becomes a creditor to the issuing entity. As a creditor, he has higher claim to the assets of the entity as compared to a share holder in the event of the company filing for bankruptcy. However a debt investor does not get voting rights or a share in future profits. He is only repaid in the form of a predetermined interest rate.

Table 4: Market capitalization of debt and equity market

Year	Market capitalization of debt (₹mn)	Market capitalization of equity (₹mn)	Average daily Turnover in debt	Average daily Turnover in equity
2000-01	5,808,360	6578470	14830	20776
2001-02	7,567,950	6368610	32075	20776
2002-03	8,644,812	5371332	35983	24621
2003-04	12,158,638	11209760	44765	43289
2004-05	14,617,344	15855853	30283	45062
2005-06	15,675,344	28132007	17547	62532
2006-07	17,848,006	33673500	8980	78124
2007-08	21,233,463	48581217	11380	141474
2008-09	28,483,155	28961942	14116	113252
2009-10	31,659,295	60091732	23591	169591
2010-11	35,948,772	67026156	22558	140291
2011-12	42,727,365	60965180	26493	112890
2012-13	49,283,378	62390350	32601	108330
Total	291,655,882	435,206,109		

(Source: NSE)

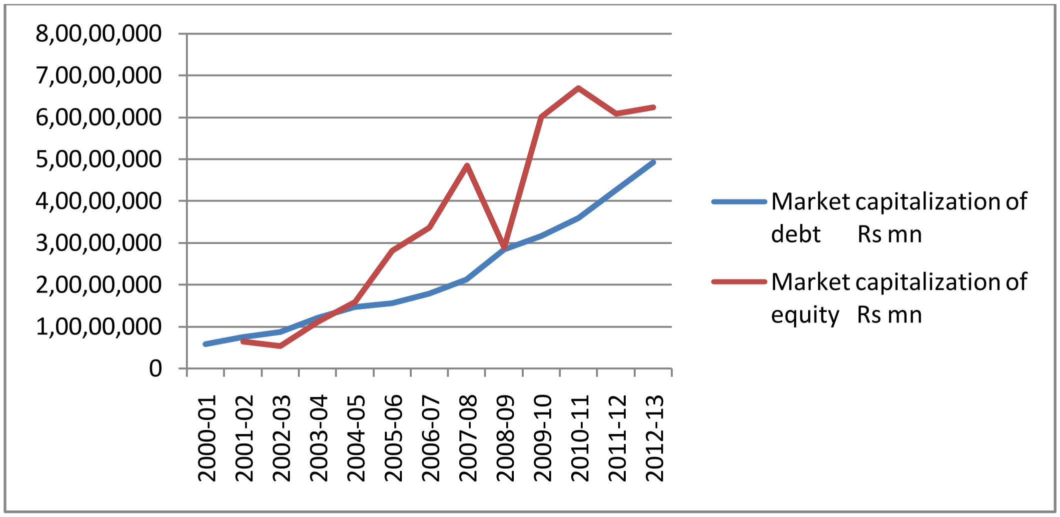

Figure 4: Market capitalization of debt and equity market

Indian debt market has grown steadily in the last 10 - 15 years but still Indian debt market's market capitalization is not even the half of the equity market's market capitalization. RBI and SEBI have taken many reforms in the last decade to make the debt market more attractive for the investors. But still there are many regulatory hurdles which prevent debt market to grow and become more active.

Table 5: CAGR Analysis of Market Capitalization of Debt &Equity

CAGR Analysis of Market Capitalization of Debt &Equity		
Year	Market Capitalization (in RS Million)	
	Debt	Equity
2000-01	5,808,360	6578470
2012-13	49,283,378	62390350
CAGR	**19.51**	**20.62**

Indian debt market has grown steadily in the last 10 - 15 years but still Indian debt market's market capitalization is not even the half of the equity market's market capitalization. RBI and SEBI have taken many reforms in the last decade to make the debt market more attractive for the investors. But still there are many regulatory hurdles which prevent debt market to grow and become more active.

9. Participants in Debt Market

9.1 Participants

Major players in the Indian debt market include commercial banks, trading members, and primary dealers besides institutional investors like insurance companies. Primary Dealers play an important role as market makers in Government securities market [18]. Other participants include co-operative banks, regional rural banks, mutual funds, provident and pension funds. Foreign Institutional Investors (FIIs) are allowed to participate in the Government securities market within the quantitative limits prescribed from time to time. Corporate also buy/ sell the government securities to manage their overall portfolio risk.

Table 6: Participant wise distribution of WDM Turnover

Participant wise distribution of WDM Turnover											
Turnover (in ₹ mn)							Turnover %				
Year	Trading members	FIs/MFs/ corporate	Primary dealers	Indian banks	Foreign banks	Total turn over	Trading members	FIs/MFs/ corporate	Primary dealers	Indian banks	Foreign banks
2000-01	996,023	179,147	948,879	1,437,46	724,303	4,285,814	23	4	22	34	17
2001-02	2,227,794	394,032	2,131,180	3,466,72	1,252,187	9,471,913	24	4	23	37	13
2002-03	2,651,448	402,900	2,354,349	4,143,35	1,134,961	10,687,01	25	4	22	39	11
2003-04	4,580,015	600,140	2,241,312	4,785,32	954,170	13,160,96	35	5	17	36	7
2004-05	3,013,249	456,069	1,641,493	2,652,12	1,110,004	8,872,936	34	5	19	30	13
2005-06	1,522,151	186,405	1,040,921	1,334,74	670,964	4,755,235	32	4	22	28	14
2006-07	676,601	59,159	434,269	570,33	450,702	2,191,065	31	3	20	26	21
2007-08	1,077,039	66,062	243,922	671,35	764,797	2,823,170	38	2	9	24	27
2008-09	1,500,142	114,076	221,060	608,50	915,728	3,359,515	45	3	7	18	27
2009-10	2,775,924	147,645	260,962	1,118,85	1,334,776	5,638,159	49	3	5	20	24
2010-11	2,993,600	134,827	235,527	732,31	1,498,198	5,594,468	54	2	4	13	27
2011-12	3,451,456	284,930	264,035	965,59	1,365,766	6,331,784	55	5	4	15	22
2012-13	4,227,684	344,381	293,085	1,306,21	1,750,777	7,922,138	53	4	4	17	22
Total	**31,693,126**	**3,369,77**	**12,310,99**	**23,792,9**	**13,927,33**	**85,094,17**	**37**	**4**	**14**	**28**	**16**

(Source: NSE)

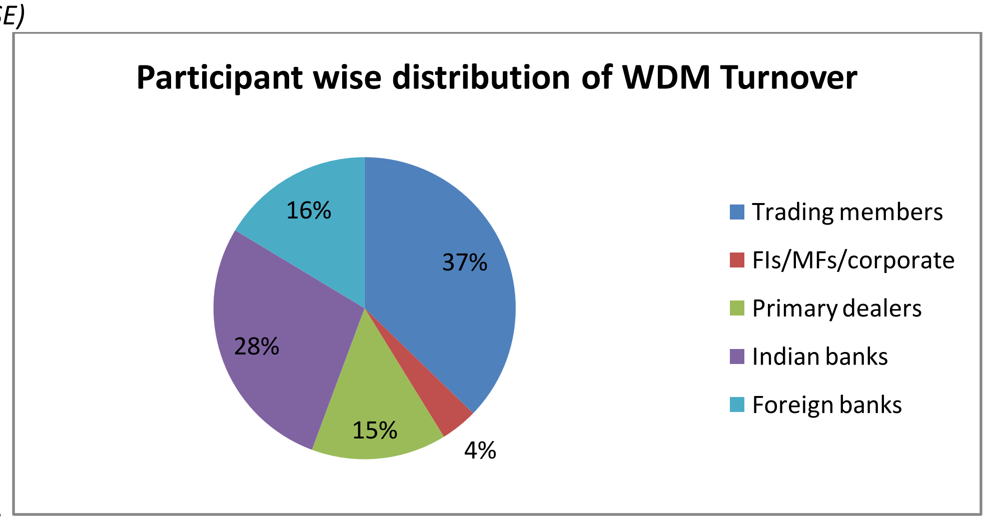

Figure 5: Participant wise distribution of WDM Turnover

WDM Debt Segment has shown a gradual but consistent growth in turnover in the past few years with increased participation from the mainstream banking and institutional players. This Segment expects a sustained rise in turnover and participation in the coming years with the initiation of activity by new members and the continued support and participation of major Banks, Primary Dealers and financial institutions.

For analyzing the participant wise distribution of WDM turnover, trading members are the prominent role in Indian debt market. The total turnover from 2000-01 to 2012-13 of trading members contribute 37%, corporate 4%, primary dealers 15%, Indian banks 28%, and foreign banks to 16% of the total turnover of the Indian debt market.

9.2 Subsidiary General Ledger (SGL) Account

The Reserve Bank acts as a depository-cum-clearing house settlement is through accounts maintained with the Reserve Bank called the Subsidiary General Ledger (SGL) accounts [19]. The physical securities are dematerialized and the relevant holdings are in the form of book entries. Every participant in the government securities market maintains SGL and current accounts with the Reserve Bank. Those not eligible to maintain direct accounts with the Reserve Banks have the facility to open constituent SGL accounts or SGL II accounts with banks that have direct SGL accounts. The Reserve Bank has permitted the National Securities Clearing Corporation Limited (NSCCL), banks, insurance companies, financial institutions, and primary dealers to offer constituent SGL account facility to an investor who is interested in participating in the government securities market. Any trade among participants is settled via this facility. The parties exchange the relevant SGL instruction receipts and the mode of transaction is delivery versus payment. The DVP system ensures settlement by synchronizing the transfer of securities with cash payment. The Reserve Bank settles only on DVP-I basis where both funds and securities are settled on a gross basis. For all transactions undertaken directly between SGL participants, the settlement period is of T+0 or T+1 days while for transactions routed through brokers of NSE, BSE, or OTCEI, the settlement period is upto T+5 days. Participants have the flexibility to decide the terms of settlement. Trades are settled by T+3, if desired by participants. This reduces settlement risks in securities transactions and also prevents diversion of funds through SGL transactions. SGL accounts are maintained by the Public Debt Office (PDO). The PDO oversees the settlement of transactions through SGL and enables the transfer of securities from one participant to another. The seller fills up the SGL form, the buyer countersigns it, and the seller sends this form to the Reserve Bank. The buyer transfers funds towards payment. Inter-bank government securities trades are settled on the same business day while trades with non-bank counter parties settle either on the same day or up to five business days after the trade date. Secondary market trades in government securities between banks are carried on upto 1.00 p.m. on business days and settled on the same day. Trades after that are settled the next day. The transfer of government securities does not attract stamp duty or transfer fee. Moreover, there is no tax education at source on these securities. Trade in the physical form is settled by the parties directly. Securities are delivered in the form of a physical certificate along with the transfer deed duly executed by the authorized signatures of the transferor. The transferee has to lodge the certificates with the Reserve Bank for transfer.

Table 7: Secondary Market Transaction in Government Securities

Secondary Market Transaction in Government Securities					
SGL Non -Repo transactions				Share in non repo turn over (in %)	
Year	**GOI Securities**	**Treasury Bills (₹mn)**	**Total**	**GOI Securities**	**T-bills**
2000-01	5,120,836	600,620	5,721,456	90	11
2001-02	11,446,342	673,316	12,119,658	94	6
2002-03	13,155,989	767,845	13,923,834	95	6
2003-04	15,813,076	1,200,556	17,013,632	93	7
2004-05	9,897,351	2,711,314	12,608,665	79	22
2005-06	4,986,040	2,094,107	12,066,187	41	17
2006-07	2,747,384	1,235,603	3,982,988	69	31
2007-08	3,541,760	1,461,287	5,003,047	71	29
2008-09	5,427,749	1,217,740	6,645,488	82	18
2009-10	6,304,237	2,714,149	9,018,385	70	30
2010-11	5,137,117	1,945,950	7,083,067	73	28
2011-12	5,363,758	2,438,708	7,802,466	69	31
2012-13	8,464,821	2,953,401	11,418,222	74	26
Total	**97,406,460**	**22,014,596**	**124,407,095**	**78**	**18**

The share of WDM segment of NSE in total turnover of Non-Repo SGL GOI securities was 78% and t-bills was 18% from 2000-01 to 2012-13. The highest turnover was during 2003-04. The secondary market transaction in government securities increased at 5.93% CAGR from 2000 to 2013.

10. Risks Associated with Debt Securities

- ***Default Risk:*** This can be defined as the risk that an issuer of a bond may be unable to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture and is also referred to as credit risk.
- ***Interest Rate Risk:*** This can be defined as the risk emerging from an adverse change in the interest rate prevalent in the market so as to affect the yield on the existing instruments. A good case would be an upswing in the prevailing interest rate scenario leading to a situation where the investors' money is locked at lower rates whereas if he had waited and invested in the changed interest rate scenario, he would have earned more.
- ***Reinvestment Rate Risk:*** This can be defined as the probability of a fall in the interest rate resulting in a lack of options to invest the interest received at regular intervals at higher rates at comparable rates in the market.
-

The following are the risks associated with trading in debt securities:

- ***Counter Party Risk:*** It is the normal risk associated with any transaction and refers to the failure or inability of the opposite party to the contract to deliver either the promised security or the sale-value at the time of settlement.
- ***Price Risk:*** it refers to the possibility of not being able to receive the expected price on any order due to a adverse movement in the prices.

11. Impact of Debt Market on Indian Economy

Debt markets are vital to the sustained growth of any economy since they offer efficient mobilization and allocation of financial resources. Debt instruments are used to finance developmental activities undertaken by the government. For a developing economy like India, debt markets are crucial sources of capital funds. The debt market in India is amongst the largest in Asia. It includes government securities, public sector undertakings, other government bodies, financial institutions, banks and companies. The impacts of debt market on India are

- Increased funds for implementation of government development plans. The government can raise funds at lower costs by issuing government securities.
- Conducive to implementation of a monetary policy.
- Less risk compared to the equity markets, encouraging low-risk investments. This leads to inflow of funds into the economy.
- Higher liquidity and control over credit.
- Opportunity for investors to diversify their investment portfolio.
- Better corporate governance.
- Improved transparency because of stringent disclosure norms and auditing requirements.

12. Findings

Indian debt market has grown slowly but steadily from 2000 to 2013.The segment commenced operations on June 30, 1994. The CAGR turnover of WDM is 5.25% during 2000 to 2013. INDIAN debt market is dominated by government securities. For analyzing the component wise turnover of Indian debt market during this period the highest turnover is G-sec i.e. 76.8% T-bills 12%, PSU bonds 6.86%, and other components 3.9%. The debt market in India and all around the world are dominated by government securities, which account for between 50-75 percentage of the trading volume and the market capitalization in all market. The total market capitalization of Govt securities during the entire period was 64%, PSU bonds 4%, state loans 16%, t-bills 5%, and others 11% of the total market capitalization.

Indian bond market has witnessed a significant growth in the past few years primarily because of its high liquidity nature and the government bond market size is much larger than the corporate bond market size. Indian debt market has grown steadily in the last 10 - 15 years but still Indian debt market's market capitalization is not even the half of the equity market's market capitalization. The market capitalization of debt of CAGR is 19.51% and equity is 20.62%.the average daily turnover of debt of CAGR is 0.15% and average daily turnover of equity of CAGR is 16.20%.

For analyzing the participant wise distribution of WDM turnover, trading members are the prominent role in Indian debt market. The total turnover from 2000-01 to 2012-13 of trading members contribute 37%, corporate 4%, primary dealers 15%, Indian banks 28%, and foreign banks to 16% of the total turnover of the Indian debt market.

The share of WDM segment of NSE in total turnover of Non-Repo SGL GOI securities was 78% and t-bills was 18% from 2000-01 to 2012-13. The highest turnover was during 2003-04. The secondary market transaction in government securities increased at 5.93% CAGR from 2000 to 2013.

13. Recommendation

From the above we suggest the following recommendations to make Indian debt market more efficient and active.

- Reduce the direct role of government in the determinations of interest rates by establishing an independent public debt office function.
- Reduce the direct role of government as owner of financial institution to permit the development of a greater diversity of views in investment decision.
- Remove restrictions on investment decision making by institutional investors (such as pension funds and life insurance) and maximize outsourcing of investment decisions and treasury functions to professional fund managers.
- Institute changes to support a system of properly funded and independently managed pension schemes.
- Simplify public issuance procedures, standardize and regularize private placement documentation to improve access to the market by retail investors.
- Remove impediments to the interaction of the institutional and retail market by ensuring that banks can access stock exchanges on behalf of their customers.
- Improve post- trade transparency on secondary debt markets to permit efficient price discovery and thus encourage wider participation in the market.
- Involve the market more formally in decisions on design of financial infrastructure projects.
- Developing the securitization market under the new regulatory framework.
- Encouraging foreign investor participation by increasing foreign investor limits, providing tax incentives and easing regulations.

14.Conclusion

Indian Capital Markets have shown tremendous growth in the post Liberalization era. It remains one of the most resilient globally and poised to be one of the Top destinations for domestic and global businesses to expand and invest into. As global economy moves for imminent recovery, India has shown extraordinary strength to bounce back with greater stability and sustainability. **Raising Capital is a Strategic Priority** across India and role of Capital Markets has assumed far greater importance and urgency. The Debt market still needs to be developed to invite capital inflows needed for massive infrastructure development. The actual future of the Indian DCM and it true potential will only be realized if the government, the policy makers and the regulators function in a co-ordinated and prudent manner. With huge inflow of funds required in the coming years for ambitious infrastructure projects and other capital intensive industry, the demand for debt market is ought to increase. Also with India's increasing connectivity with the outside world and the country's attractiveness to the FIs, more funds are destined to flow. The technological advancements in other economies along with invention of other exotic instruments, too, will be another deciding factor. In this regard, improvement on market infrastructure and putting appropriate checks and balances in place will become absolutely mandatory. The SEBI, RBI and other regulators till now, however, have performed their job quite well. All in all the future of the market and its potential to realize its capacity will be decided by the course of action to be taken by our policy makers and their willingness to become harbingers of change.

References

[1]. Bessembinder, H. and W. Maxwell (2008), "*Transparency and the Corporate Bond Market*", Journal of Economic Perspectives, Volume 22 Number 2, 217-234.

[2]. Centre for Economic Policy Research (2006), "*European Corporate Bond Markets: transparency, liquidity, efficiency*".

[3]. De Fiore, F. and H. Uhlig (2005), "*Bank Finance versus Bond Finance – What explains the differences between US and Europe*", European Central Bank Working Paper Series, No. 547.

[4]. Edwards, A., L. Harris, M. Piwowar (2007), "*Corporate Bond Market Transaction Costs and Transparency*", The Journal of Finance, Vol. 62 No. 3, 1421-1451.

[5]. Endo, T. (2000), "*The Development of Corporate Debt Markets*", Financial Markets Advisory Department International Finance Corporation, The World Bank Group, www.worldbank.org .

[6]. Fahim M. (2012), *"Municipal bonds have been issued by US local government since 1812"*, Article dated 20 March 2012, http://www.citymayors.com/finance/bonds.html#Anchor-47383.

[7]. Goodfriend, M. (2005), based on the remarks made at Bank for International Settlement seminar on "*Corporate Debt Markets in India*" held in Kunming, China, 17-18 November, 2005, www.bis.org32.

[8]. Government of India (2007), *"Report of the High Powered Expert Committee on Making Mumbai an International Finance Centre"*, under the Chairmanship of Percy Mistry.

[9]. Government of India (2008*), "A Hundred Small Steps"*, Report of High Level Committee on Financial Sector Reforms under the Chairmanship of Shri Raghuram Rajan.

[10]. Harkansson, H. (1999), *"The Role of a Corporate Bond Market in an Economy – and in Avoiding Crises"*, University of California, Berkeley Working Paper, www.haas.berkely.edu.

[11]. Igata, M., T. Taki and H. Yoshikawa (2009), *"Examining the US Corporate Bond Market and the Changing Environment for Japan's Corporate Bond Market"*, Nomura Journal of Capital Markets, Winter 2009, Vol. 1 No. 4, www.nicmr.com.

[12]. International Monetary Fund (2009), "*Navigating the Financial Challenges ahead*", Global Financial Stability Report.

[13]. International Monetary Fund (2013), *“Staff Report for the 2013 Article IV Consultation”*, www.imf.org.

[14]. Khanna V. and U. Varottil (2012), *"Developing the Market for Corporate Bonds in India"*, NSE Working Paper No. 6/201233.

[15]. NSE, Indian Securities Market: A Review, 2011-12, www.nseindia.com.

[16]. NSE, Wholesale Debts markets monthly reviews, www.nseindia.com.

[17]. Raghavan, S. and D. Sarwano (2012), *"Development of the Corporate Bond Market in India: an Empirical and Policy Analysis"*, International.

[18]. Reserve Bank of India (2012), *“Reserve Bank of India Annual Report, 2012”*, www.rbi.org.in.

[19]. Reserve Bank of India (2012), “*Corporate Debt Market: Developments, Issues & Challenges*”, Special address delivered by ShriHarun R Khan, Deputy Governor, Reserve Bank of India at FICCI’s 9th Annual Conference on Capital Markets: CAPAM 2012: “Developing Indian Capital Markets - The Way Forward” on October 12, 2012 in Mumbai, www.rbi. org.in34.