Indian Journal of Finance and Economics
Vol. 3, No. 2, **2022** : pp. 197-205

URL : www.arfjournals.com
https://DOI: 10.47509/IJFE.2022.v03i02.05

ARF INDIA
Academic Open Access Publishing
www. arfjournals. com

TRENDS IN CORPORATE FINANCIAL MARKETS: A DIAGNOSTIC STUDY

C. R. Reddy

Emeritus of Commerce, Sri Krishnadevaraya University, 1-1-267 Vivekananda Nagar, Anantapur (A.P). E-mail: dr.reddycr@gmail.com

Received : 25 May 2021; Revised : 15 June 2022; Accepted : 18 November 2022; Published : 30 December 2022

Abstract: The financial activity of corporate sector comprises corporate finance parting with ownership and management. Trend of corporate financing is crucial in an emerging economy of a nation. The prevalent approach in the Indian financial markets shows how Indian firms are accessing their capital requirements. Capital is the base and keeps on-going business. Trading is termed as financial market comprising of primary market and secondary market. Capital at the micro-enterprises become base for the peace progress of economy. The focus of study is on the capital financing received as debt, equity and related forms. Trend of debt tendency in India remain low and falling over the past years while equity remains rising. Emerging trends in corporate finance outlines the progress of capital market. Firms are deprived of credit availability through debt market and highlight the contemporary corporate financing through initial public offer (IPO). Assess of the primary market contribution efficiency in terms of pace and progress of the corporate sector.

Keywords: C*apital budgeting*, capital market, corporate finance, primary market, stock exchange

INTRODUCTION

Finance is the base and keeps on going business. It is not only an input factor but on its presence only, all other input factors can make full and effective utilization and thus becomes a strategic role in enhancing production and productivity of the corporate sector. Therefore, the fortunes of corporate sector are heavily depend upon capital; raising it from good sources and using funds effectively to reaping optimum financial results of business. The stronger the financial sector, the healthier the nation's economy.

To cite this article:

C. R. Reddy (2022). Trends in Corporate Financial Markets: A Diagnostic Study. *Indian Journal of Finance and Economics*, Vol. 3, No. 2, pp. 197-205. https://DOI: 10.47509/IJFE.2022.v03i02.01

Efficient operations of business invariably depend upon the sound Financial Management in employing funds cautiously and judiciously for the progressive performance of business. So, the corporate financing is the utmost perennial link in the economic development and growth of nation. The focus of this present study is to assess the critical role of the financial market in pace progress of the corporate sector growth.

In the domain of corporate sector, finance is critical subject matter and is deep rooted in the daily lives of employees who work in firms and production of goods for the human beings. Viability of corporate finance distinctively becomes a sound capital structuring and healthy investment decision concerning maximization of shareholder-value through the long-and-short-term financial planning and financial strategies. The activities of corporate finance range from the financing decision and investment decision. Trading financial securities and derivatives at low transaction costs is termed as financial market comprising of money market and capital market. The former is used for short-term borrowing usually utilise to acquire assets holding for a year or less while the latter refers to the long-term securities meant for acquiring fixed assets. Capital market includes equity market and debt market. This dual aim of corporate sector is presented below.

Financing: Firm accesses to finance through the capital market is very much forte. Nevertheless, it comes across the multiple choices to raise funds; among them opting to a debenture, bank loan, public fixed deposits and bank loan are important. By financial innovation and securitization, a firm can raise its required capital from a variety of instruments. Hence, the job of financial management lies on ensuring a planned capitalisation of firm with right mode of finance channel.

Investment: Next big task of business is feasible investment decision to get higher returns to its shareholders. It is called investment decision. Only those projects of the corporate sector provide a higher return in long-run is to be identified for investment. An individual can start his own business. No matter what type of business that he must start, but he has answer to satisfy that the firm's business requires:

- Long-term investments determine by the line of business with capital assets to carry the business operations. It is called *capital budgeting* in corporate finance.
- Long-term equity financing as investment in certain proportion to the working capital. This is called *capital structuring.*
- To know everyday activities of collections from the debtor-customers and paying to the suppliers. It is termed as *working capital management*.

CORPORATE FINANCE MATTERS MUCH

Business financing is extremely unique to each type of business. Financing business is not only tricky because of its individuality but because of the market analysts and stockbrokers who monitor the financial market in order to help their clients in taking a specific action. Observing market conditions is crucial for suggesting certain capital structure of an entity's clients. Financial regulations change frequently, and savvy business needs legal representation to stays up to date, on the market changes and understands the latest corporate finance laws. The securities and other finance related laws are complicate which does arise to take a specialized attorney to really know this 'ins' and 'outs'. A wide range of financial transactions and disputes are:

- Structuring the complex of commercial credit facilities
- Structuring debt between the parent entities and their subsidiaries
- Loans to business entities
- Mergers and acquisitions
- Negotiation and documentation of deal terms
- Public and private capital acquisition
- Tax implication of financial transactions
- Employment implication of financial transactions
- Acquisition involving financial and professional services

FINANCIAL MARKET

The term financial market refers to stock exchange and facilitates an organization's trade in financial securities in terms of exchange of stock or commodity. Much stock takes place in trading through stock exchange; still the corporate sector actions in terms of merger, acquisition and diversification are outside the purview of stock exchange. A notably emerging feature of Indian economic growth in the recent past has been an active and effective role of the stock market. Indian financial market comprises of primary capital market and secondary market which discussed below.

Primary Capital Market: Bringing as well as meeting 'demand' and 'supply' of capital funds of an organisation is called primary capital market. It is a channel for the sale and issue of new stock of securities. The securities of equity at face value or at discount/premium depending upon the profitability or otherwise the issuing company opens-up subscription to the new investors in the market of domestic or international. Why the companies do offer subscription of shares to the public? The promoters of most established companies bring the need capital funds or borrow loans from banks which are not sufficient to meet the existing fund-demand to carry on its business efficiently to achieve its motto over the long- period. In such case, the companies do invite the public for their saving-contribution towards the equity shares and the certificate will be issue to the investor to the effect. Inviting the public contribution for capital funds through subscription is called Public Issue. Another source of corporate sector funds is that of foreign direct investment. Financial markets were insulated from foreign investors, now, has thrown open for their investments. So, the Indian modern economic policy has been flowed foreign direct investment (FDI) into Indian capital market.

Secondary Capital Market: The securities of entities already issued to the public - individual investors through Initial Public Offer (IPO) are termed as trading in the capital market. An investor, if wants to buy or sell stock in the secondary market would need to contact the broker of stock exchange who is contemplated securities on behalf of the investor; for which he/she is entitled to brokerage at a certain percentage on the value trade done. Transactions exist between the stock-issuers and the potential investors in the primary capital market whereas between the stock and the potential buyers in the secondary capital market. Ease of securities sells without loss is called liquidity.

SOURCES OF FINANCE

Ongoing business must have a sound source of funds for its development and growth. The principal sources, besides bank-loans, are plough back of profits, securities of debt and equity. They are explained below.

Plough back of Profits: Earnings are a considerable source for the new project of corporation. Plough-back of corporation earnings into business by simply reinvesting them in its business saves the preliminary funds-cost. It is an attractive source of capital to meet the expenditure to be incurred for expansion or diversification of business. No Government approval is essential to the firm to reinvest funds 'plough-back' out of profits. Naturally, it is preferable instead of stock and bonds buying which incurs some costs like interest payment associated with them.

Debt Bond: Debt-bond is the second source of finance to the corporation. Bond is like: "As I Owe You." It is issued with a face value, also called the par-value. Interest payment called coupon payment is usually made on a biannual basis but could be of nearly any duration. Even the firm offers 'zero-coupon' bond implies the face value is its maturity amount. The bond-holders have priority over the equity holders as creditors in case of bankruptcy of firm.

Equity: Equity in business is a key source of capital fund namely stock. It is contributed by the owners of firm. It is critical importance to the business sector on launching to the business and initial operations. Stock gives the investor a bundle of legal rights - ownership, share earnings, transferability and power to exercise voting. The usual way to acquire stock is by paying cash or equivalent consideration.

Foreign Direct Investment: Foreign investment in a business with control over company is called Foreign Direct Investment (see Table 2 for FDI investment). It takes place on when an investor begins the operations or acquires foreign business by the FDI. Distinguishes it from the portfolio investment in which an investor merely purchases equities of foreign-based companies. The external sources of finance are inadequate to meet the business operations of the corporate sector.

Other Sources: Smaller corporations or start-up seek to raise funds through private-equity by involving the private investors. A private equity firm consists of investors group who pool their money together for investment purpose in other companies. It might provide venture capital which must be extremely savvy about the start-up plans of new business. Today, venture capital is often used to finance entrepreneurial start-ups in Biotechnology and Clean Technology. Another source of private equity is the angel investors with affluence individuals to provide venture capital for a business to get started in exchange for repayment with interest. The main difference between an angel investor and a venture capitalist is the source of funds: an angel investor invests his or her own money while venture capitalists use the pooled funds.

STOCK EXCHANGE

A Stock Exchange is anyone individual, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the transactions of buying, selling or dealing in stock. It could be regional/ national within the specified operational jurisdiction given at the time of its recognition. Added, an increasing number of firms in the corporate sector utilise the securities of stock exchanges in borrowing the need finances. Now, it has been access to the global capital market through issue of Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global Depository Mechanism. As a trading platform of trading in securities, stock exchange plays a role in the capital market.

The number of stock exchanges in India were eight namely Mumbai, Ahmadabad, Kolkata, Madras, Kanpur, Delhi, Bangalore and Pune. The Indian stock market till date has remained stagnant due to the rigid economic controls. It was only in 1991, after the liberalization process, Indian stock market witnessed a flurry of IPOs serially. The market saw many new companies spanning across different industry segments and business began to flourish. The launch of the National Stock Exchange and the Over the Counter Exchange of India has been helped in regulating smooth flow and transparent way of trading securities. As regulatory body of Indian capital market, it has strength of a significant mark in the capital market of the corporate sector. Having vested with necessary powers, the SEBI has been:

- Regulating the business in stock exchanges and other securities markets
- Registering and regulating the working of intermediaries and mutual funds
- Regulating substantial acquisition of shares and takeover of companies
- Regulating and promoting the self-regulatory organisations
- Promoting investors education and training of intermediaries
- Prohibiting insider trading and unfair trade practices
- Calling for information, inspection and enquiry accountability, and appraisal of stock exchanges, and intermediaries, and self-regulation entities in the stocks market
- Performing such functions and effecting such powers of the Capital Issues (Controls) Act, 1947 and the Securities Contracts (Regulations) Act, 1956
- Issuing a prescription call for capital from the primary market with disclosure standards, prudential norms and simplification of issue procedure

SCOPE OF FINANCIAL MARKETS

Debt as a financing instrument enjoys several benefits over equity. It provides (a) positive firm leverage during recession and de-leverage during growth period and (b) interest tax-shield. But, excessive debt can certainly result in financial distress and also pushing in bankruptcy. A positive association between debt-equity ratio and profitability can be expected as a debt disciplining device to manage the firms having higher free-cash-flows. Data on the resources of Indian corporate sector from the primary markets is set in Table 1.

Table 1: Sources of Corporate Funds and Primary Market (₹ In crore)

Year	*Equity Issues*			*Debt Issues*						
(1)	*Public & Rights (2)*	*Private Place-ment (3)*	*Total (4)*	*Public (5)*	*Private Place-ment (6)*	*Total (7)*	*% of Col. 4 to Col. 10 (8)*	*7 to Col. 10 (%) (9)*	*Total (Col. 4 +7) (10)*	*FDI Equity Inflows (11)*
2010-11	58157	56361	114518	9451	218785	228236	33.41	66.59	342754	97320
	(50.78)	(49.22)	(100.00)	(4.14)	(95.86)	(100.00)				
2011-12	12857	27871	40728	35610	261284	296894	12.06	87.94	337622	165146
	(31.57)	(68.43)	(100.00	(12.00)	(88.00)	(100.00)				
201-13	15473	62935	78408	16892	361462	378354	17.17	82.83	456762	121907
	(19.73)	(80.27)	(100.00)	(4.46)	(95.54)	(100.00)				
2013-14	13269	60125	73394	42382	276054	318436	18.73	81.27	391830	147518
	(18.08)	(81.92)	(100.00)	(13.31)	(86.69)	(100.00)				
2014-15	9789	57362	67151	9410	404136	413546	13.97	86.03	480697	181682
	(14.58)	(85.42)	(100.00)	(2.28)	(97.72)	(100.00)				
2015-16	1141	6392	75325	49925	456410	506335	12.95	87.05	581660	262322
	(15.15)	(84.85)	(100.00)	(9.86)	(90.14)	(100.00)				
2016-17	10928	62808	73736	48456	498481	546940	11.88	88.12	620676	291696
	(14.82))	(85.18)	(100.00)	(8.86)	(91.14)	(100.00)				
2017-18	10096	62849	72945	50484	537905	588389	11.03	88.97	661334	288889
	(13.840)	(86.16)	(100.00)	(8.58)	(91.42)	(100.00)				
2018-19	10151	66699	76850	49713	577189	626902	10.92	89.08	703752	309867
	(13.21)	(86.79)	(100.00)	(7.93)	(92.07)	(100.00)				
2019-20	10160	66820	76980	50110	576750	626860	10.94	89.06	703840	320840
	(13.20)	(86.40)	(100.00)	(7.99)	(92.01)	(100.00)				
2020-21	10008	67110	77118	49770	577040	626810	10.96	89.04	703928	341818
	(12.98)	(87.02)	(100.00)	(7.94)	(92.06)	(100.00)				
2021-22	10118	67400	77518	50433	475380	527593	10.99	89.01	705341	364168
	(13.05)	(86.95)	(100.0))	(8.03)	(91.97)	(100.0))				
Average	15160	60246	75406	42049	474525	516745	13.86	86.14	544078	362685
(2010- 21)	(20.10)	(79.90)	(100.00)	(8.14)	(91.86)	(100.00)				

Source: Stock Exchange Board of India

Table 1 discloses the trend of capital from primary market by the Indian corporate sector. In 2010-11, amount rise in equity and debt capital is worked out 33.41 per cent and 66.59 per cent of 342754 crore. The corresponding figures in 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 2019-20, 2020-21 and 2021-22 are 12.06 per cent and 87.94 per cent of 337622 crore; 17.17 per cent and 82.83 per cent of 456762 crore; 18.73 per cent and 81.27 per cent of 391830 crore; 13.97 per cent and 86.03 per cent of 480697 crore; 12.95 per cent and 87.05 per cent 58166 crore; 11.88 per cent and 88.12 per cent of 62067 crore; 11.03 per cent and 88.97 per cent of 661334 crore, 10.92 per cent and 89.08 per cent of 703752 crore, 10.94 per cent and

89.06 per cent of 703840 crore, 10.96 per cent and 89.04 per cent of 703928 crore and 10.99 per cent and 89.01 per cent of 705341 crore respectively for the above period of years. The change towards debt capital by the corporate sector is a welcome sign as it is available without much unprompted essence.

Among debt capital, the key players are public and private which scored a mark of 4.14 per cent and 95.86 per cent of 228236 crore in 2010-11 whereas the corresponding figures in 2021-22 are 8.03 per cent and 91.97 per cent of 527593 crore. This has made a lions' share effect on corporate financing by the private sector. The share equity issues, too, the public and private sector have confronted with each other at the share of 50.78 per cent and 49.22 per cent of 114518 crore in 2010-11 while the figures in 2021-22 are 13.05 per cent and 86.95 per cent of 77518 crore. Foreign direct investment in equity capital component is accounted for 97320 crore in 2010-11 while it is 364168 crore in 2021-22 thus registered a rise by 266848 crore or 274.20 per cent. An observed point is that the private sector in equity capital participation has secured a major share. The private players, thus, are dominating in the capital of Indian corporate sector through primary market.

EMERGING TRENDS IN CORPORATE FINANCE

Indian corporate finance ensuing in an ever-increasing rise in magnitude and market facet by speeding-up the demand for jobs in the corporate sector. The emerging trends are as:

- **A visual emerging trend** *is value-based management and* shareholder value creation by undertaking efficient business activities. This strategic approach has been in operation in renowned companies to build up the shareholders confidence.
- The corporate sector job is hot-job group internationally and operationally-orientation.
- An integrated trend of risk and liability management in decentralisation business is the utmost need of the dat. Value of flexible integrated-risk management is gaining substantially.
- Dynamic leadership of financial manager is to be value-centric in financial markets analysis. Hence, lay down strategic sound financial plan in terms of economically viable and commercially feasible facing the challenges of current nature.
- Horizontally and vertically depth increase to 'Meet-the-point' of maximum return on investment is a welcome sign. To capture this axiom, the financial status by means of just raising money and making effective financial decision have critically essential for smart, communicative and thoughtful business-men in finance position.

- Turnaround strategic programme as shock-observer insures to the vital analysis in measuring corporate sector's threats and weaknesses.