A STUDY OF SCAMES IN INAIAN CAPITAL MARKET

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Abstract:

The Indian capital market is the market for long term loanable funds as distinct from money market which deals in short-term funds. Indian stock exchange has faced lots of challenges from its beginning time. There were many lacunas in the security system, operation system of the capital market. Experienced people of the capital market have taken many disadvantages of this lacunas which resulted as the scams in market. This paper focuses on the historical backdrop Indian capital market. It also studies the major scams happened in the Indian capital market.

Objective of the Study:

The present paper studies following objectives

1- To understand the History of Indian Capital market.

2- To study the major scams happened in the Indian capital market.

Data Collection:

Present research article is a descriptive study. This research article is studied on secondary data which derived from academic reference books, websites and academic magazines.

Introduction:

Indian Stock Markets are one of the oldest in Asia. Its history dates back to nearly 200 years ago. The earliest records of security dealings in India are meager and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century. The history of the Indian capital markets and the stock market, in particular can be traced back to 1861 when the American Civil War began. The opening of the Suez Canal during the 1860s led to a tremendous increase in Exports to the United Kingdom and United States, several companies were formed during this period and many banks came to the fore to handle the finances relating to these trades. With many of these registered under the British Companies Act, the Stock Exchange, Mumbai, came into existence in 1875. This was the beginning point of modern Indian capital market.

History of Capital Market

History of capital markets in India is mainly considered in two parts. i.e. Before independence and after independence. We can take a glance on history of capital market as follows.

Indian Capital Market before Independence

The Indian capital market was not properly developed before Independence. The growth of the industrial securities market was very much hampered since there were very few companies and the number of securities traded in the stock exchanges was still smaller. Most of the British enterprises in India looked to the London capital market for funds than to the Indian capital market. A large part of the capital market consisted of the gilt-edged marker for government and semi-government securities.

Indian Capital Market after Independence

Since Independence and particularly after 1951, the Indian capital market has been broadening significantly and the volume of saving and investment has shown steady improvement. In 1951 there were about 28,500 companies both public limited and private limited companies with a paid-up capital of Rs. 775 crores. In the 1960-70s was characterized by was and droughts in the country with led to bearish trends. These trends were aggravated on forward trading its called ‘contracts for clearing’. Financial institutions such as LIC and GIC helped revive the sentiment by emerging as the most important group of investors. The markets have witnessed several golden times too. Retail investors began participating in the stock markets in a small way with the dilution of the FERA in 1978. In the 1980s emerged an explosive growth of the securities market in India, with millions of investors suddenly discovering lucrative opportunities. Many investors enter to the stock market. Dr. Manmohan Singh as Finance Minister came with a reform agenda in 1991 of LPG policy during this decade. The mid-1990s saw a rise in leasing company shares, and hundreds of companies, mainly listed in Gujarat, and got listed in the BSE. The 1991-92 securities scam revealed the inadequacies of and inefficiencies in the financial system. It was the scam which prompted a reform of the equity market. The Indian stock market has change in terms of technology and market price.In the 2000s saw the emergence of Ketan Parekh and the information; communication and entertainment companies came into the limelight. This period also coincided with the dotcom bubble in the US, with software companies being the most favored stocks. There was a meltdown in software stock in early 2000. Both SEBI and retail participants should be active in spreading market wisdom and empowering investors in planning their finances and understanding the markets.It has been a drastic long journey for the Indian capital market. Recent time’s capital market is performed very well, fairly integrated, mature, more globally. The Indian capital market is one of the best in the world in terms of technology. There are many businesses news channels, newspaper, magazines, are issued in India. Online trading is become a global phenomenon. Indian capital market would be an integrated with international market.

Major Scams of Indian Capital Market

Following are the major scams happened in Indian Capital Market.

1. Harshad Mehta Scam

Harshad Mehta Scam is probably the most popular stock market scam in India. During the early 1990s, Harshad Mehta, a stockbroker, started facilitating transactions of ready-forward deals among the Indian banks, acting as an intermediary. In this process, he used to raise funds from the banks and subsequently illegally invest the same in the stocks listed in the Bombay Stock Exchange to inflate the stock prices artificially.Because of this malpractice, the Sensex moved upwards at a fast pace and reached 4,500 points in no time. The retail investors started feeling tempted seeing the sudden rise of the market. A huge number of investors started investing their money in the stock market to make quick money.During the period from April 1991 to May 1992, it is estimated that around five thousand crore rupees were diverted by Harshad Mehta from the Indian banking sector to the Bombay stock exchange. After the fraud was revealed, the Indian stock market crashed consequently. And as guessed, Harshad was not in a position to repay crores of money to the Indian banks.Conclusively, Harshad Mehta was sentenced to jail for 9 years by the honorable court and was also banned to carry out any share trading activity in his lifetime.

2. Ketan Parekh Scam

After the Harshad Mehta scam, a Chartered Accountant named “Ketan Parekh” had similar plans of arranging comparable securities scam. Coincidently, Ketan used to work as a trainee under Harshad Mehta earlier and hence also known as the heir of Harshad Mehta’s scam technique.However, Ketan Parekh not only used to procure funds from the banks but also other financial institutions. Like Harshad Mehta, he also used to inflate the stock prices artificially. Apart from the Bombay Stock Exchange, the other stock markets where Ketan Parekh actively operated were the Calcutta Stock Exchange and the Allahabad Stock Exchange.Nonetheless, Parekh used to deal mostly in ten specific stocks, also known as the K-10 stocks. He applied the concept of circular trading for inflating their stock prices. You might be surprised to know that even the promoters of some companies paid him to boost their stock prices in the market. Anyways, after the Union budget in 2001 was announced, the Sensex crashed by 176 points. The Government of India carried out an intensive investigation into this matter.At last, it was the Central Bank who determined Ketan Parekh to be the mastermind behind this scam and he was barred from trading in the Indian stock exchanges till 2017.

3. Satyam Scam

The Chairman of Satyam Computer Services Limited (SCSL), Mr. Ramalinga Raju confessed to SEBI of the manipulation done by him in the accounts of the Company. This corporate scandal was carried on from 2003 till 2008. It is estimated that the fraud took place for around Rs five thousand crores of cash balances as of the company by falsifying revenues, margins. The stock price of Satyam fell drastically after this incident. Eventually, CBI took charge of conducting the investigation into the matter. They filed three partial charge sheets against Satyam. Subsequently, these three partial charges were merged into one charge sheet.In April 2009, Raju and nine others involved in the fraud were sentenced to jail by the honorable court. Consequently, Mahindra Group acquired SCSL and it was renamed as Mahindra Satyam. It subsequently merged within Tech Mahindra in 2013.

4. Saradha Scam

Sudipta Sen, the Chairman of the Chit-fund company called Saradha Group, operated a plethora of investment schemes. The schemes were called the Ponzi schemes and did not use any proper investment model. This scheme is alleged to have cheated over a million investors.The Saradha Group collected huge funds from innocent investors in West Bengal, Assam, Jharkhand, and Odisha. The money collected was used to be invested in real estate, the media industry, Bengali film production houses, and many more. The Saradha scam came to the fore in April 2013 when Sudipta Sen fled leaving behind an 18-page letter.Although the Saradha scam didn’t have any direct impact on the Indian stock market, it had an indirect impact on the stock exchange. The Foreign Institutional Investors (FII) took a step back seeing such unregulated Ponzi schemes being floated in the market.

5. NSEL Scam

National Spot Exchange Ltd (NSEL) is a company that was promoted by Financial Technologies Indian Ltd and the NAFE. Two individuals named Jignesh Shah and Shreekant Javalgekar were held guilty of this scam. The Funds that were procured from the ignorant investors were siphoned off. This is because most of the underlying commodities did not have any existence at all. The transactions of commodities were being carried out only on paper.NSEL attracted the attention of retail investors by offering them fixed returns on paired contracts in commodities. Around 300 brokers have been alleged roles in the ₹5,500-crore NSEL scam in 2013.

Conclusion:

From the above study we understand thatSecurities and Exchange Board of India (SEBI) was established in India in the early 1990s to administer and regulate the functioning of the Indian securities markets. It is the apex authority that regulates the affairs of Indian securities market participants. If you are a follower of the financial market, you would know the frequent amendments that come every year in the SEBI Act and Regulations.SEBI has taken many significant steps to safeguard the interests of the common stock market investors in India. Still, many fraudsters like Vijay Mallaya, Nirav Modi, etc. are still able to befool the Indian financial system. Although the occurrence of stock market scams and corporate scandals has reduced subsequent to the establishment of SEBI, but hasn't completely stopped.

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