Environment & Ecology · GS - III

Explain the role of Alternative Investment Funds and institutional investors in India's capital market. Discuss their contribution to capital formation and the need for effective regulation.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

Alternative Investment Funds; institutional investment; capital formation; market liquidity; investor protection; SEBI regulation

Model Answer

Introduction

India's capital market mobilises household and institutional savings and channels them towards businesses and economic development. Alternative Investment Funds (AIFs) and institutional investors contribute to this process through specialised investment strategies and large-scale capital deployment.

Role in Capital Formation

AIFs invest in asset classes and strategies such as private equity, venture capital, private credit and other permitted investments. They can support startups, infrastructure projects and businesses that may have limited access to conventional financing.

Institutional investors, including mutual funds, insurance companies and pension funds, provide capital to financial markets. Their participation can improve liquidity, facilitate price discovery and broaden the investor base.

Economic Significance

Listing-day bulk deals, such as the reported investment activity involving EAAA India Alternatives, demonstrate how institutional transactions can influence trading volumes and market sentiment. However, such transactions alone do not establish a company's long-term financial strength.

Regulatory Challenges and Way Forward

SEBI should ensure transparent disclosures, appropriate risk management, compliance with investment limits and protection against market manipulation. Investors must assess fundamentals, valuation and risk rather than relying solely on prominent institutional purchases.

Conclusion

A well-regulated investment ecosystem can strengthen capital formation, deepen financial markets and support sustainable economic growth.

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