Dr.V.S.Krishna Govt.Degree College (A)

VALUE ADDED COURSE

FINANCIAL MARKETS

Department of Commerce

Duration of the Course : 30 Hrs

Starting date: 01-10-2023

Ending date: 30-10-2023

Number of Students:30

Name of the Co-ordinator

Sri D.Ramesh,

Lecturer in Commerce

Source: NSE ACADEMY'S Certification in Financial Markets (NCFM)

INTRODUCTION

Course Details: Financial Markets

This is a basic level Value Added Course. for those who wish to either begin a career in the financial markets in India or simply learn the fundamentals of capital markets. The course is designed to help understand the basic concepts relating to different avenues of investment, the primary and the secondary market, the derivatives market and financial statement analysis.

Why should one take this course?

- To get a basic understanding of the products, players and functioning of financial markets, particularly the capital market.
- To understand the terms and jargons used in the financial newspapers and periodicals.

Who will benefit from this course?

- Students
- Teachers
- Investors

Test details

- Duration: 90 minutes
- No. of questions: 100
- Maximum marks: 100, Passing marks: 50 (50%); There is no negative marking in this Course.
- Certificate will be awarded to the successful Candidates

SYLLABUS

FINANCIAL MARKETS

Markets and Financial Instruments:

Types of Markets: Equity Debt, Derivatives Commodities; Meaning and features of private, Public companies; Types of investment avenues.

Primary Market:

Initial Public Offer (IPO); Book Building through Online IPO; Eligibility to issue securities; Pricing of Issues; Fixed versus Book Building issues; allotment of Shares; Basis of Allotment; Private Placement.

Secondary Market:

Role and functions of Securities and Exchange Board of India (SEBI); Depositories; Stock exchanges Intermediaries in the Indian stock market Listing; Membership; Trading Clearing and settlement and risk management; Investor protection fund (IPF); and Do's and Don'ts for investors, Equity and debt investment.

Derivatives:

Types of derivatives; Commodity and commodity exchanges; Commodity versus financial derivatives.

Financial Statement Analysis

Balance sheet; Profit & loss account; Stock market related ratios; Simple analysis before investing in the shares; understanding annual report; Director's report etc

CONTENTS

1. Investment Basics

What is Investment?

The money you earn is partly spent and the rest saved for meeting future expenses. Instead of keeping the savings idle you may like to use savings in order to get return on it in the future. This is called Investment.

Why should one invest?

One needs to invest to:

- earn return on your idle resources
- generate a specified sum of money for a specific goal in life
- make a provision for an uncertain future

One of the important reasons why one needs to invest wisely is to meet the cost of *Inflation.* Inflation is the rate at which the cost of living increases. The cost of living is simply what it costs to buy the goods and services you need to live. Inflation causes money to lose value because it will not buy the same amount of a good or a service in the future as it does now or did in the past. For example, if there was a 6% inflation rate for the next 20 years, a Rs. 100 purchase today would cost Rs. 321 in 20 years. This is why it is important to consider inflation as a factor in any long-term investment strategy. Remember to look at an investment's 'real' rate of return, which is the return after inflation. The aim of investments should be to provide a return above the inflation rate to ensure that the investment does not decrease in value. For example, if the annual inflation rate is 6%, then the investment will need to earn more than 6% to ensure it increases in value. If the after-tax return on your investment is less than the inflation rate, then your assets have actually decreased in value; that is, they won't buy as much today as they did last year.

When to start Investing?

The sooner one starts investing the better. By investing early you allow your investments more time to grow, whereby the concept of compounding (as we shall see later) increases your income, by accumulating the principal and the interest or dividend earned on it, year after year. The three golden rules for all investors are:

- Invest early
- Invest regularly
- Invest for long term and not short term

What care should one take while investing?

Before making any investment, one must ensure to:

1. obtain written documents explaining the investment
2. read and understand such documents
3. verify the legitimacy of the investment
4. find out the costs and benefits associated with the investment
5. assess the risk-return profile of the investment
6. know the liquidity and safety aspects of the investment
7. ascertain if it is appropriate for your specific goals
8. compare these details with other investment opportunities available
9. examine if it fits in with other investments you are considering or you have already made
10. deal only through an authorized intermediary
11. seek all clarifications about the intermediary and the investment
12. Explore the options available to you if something were to go wrong, and then, if satisfied, make the investment.

These are called the *Twelve Important Steps to Investing.*

What is meant by Interest?

When we borrow money, we are expected to pay for using it - this is known as Interest. Interest is an amount charged to the borrower for the privilege of using the lender's money. Interest is usually calculated as a percentage of the principal balance (the amount of money borrowed). The percentage rate may be fixed for the life of the loan, or it may be variable, depending on the terms of the loan.

What factors determine interest rates?

When we talk of interest rates, there are different types of interest rates - rates that banks offer to their depositors, rates that they lend to their borrowers, the rate at which the Government borrows in the

Bond/Government Securities market, rates offered to investors in small savings schemes like NSC, PPF, rates at which companies issue fixed deposits etc.

The factors which govern these interest rates are mostly economy related and are commonly referred to as macroeconomic factors. Some of these factors are:

- Demand for money
- Level of Government borrowings
- Supply of money
- Inflation rate
- The Reserve Bank of India and the Government policies which determine some of the variables mentioned above

What are various options available for investment?

One may invest in:

- **Physical assets** like real estate, gold/jewellery, commodities etc. and/or
- **Financial assets** such as fixed deposits with banks, small saving instruments with post offices, insurance/provident/pension fund etc. or securities market related instruments like shares, bonds, debentures etc.

What are various Short-term financial options available for investment?

Broadly speaking, savings bank account, money market/liquid funds and fixed deposits with banks may be considered as short-term financial investment options:

Savings Bank Account is often the first banking product people use, which offers low interest (4%-5% p.a.), making them only marginally better than fixed deposits.

Money Market or Liquid Funds are a specialized form of mutual funds that invest in extremely short-term fixed income instruments and thereby provide easy liquidity. Unlike most mutual funds, money market funds are primarily oriented towards protecting your capital and then, aim to maximise returns. Money market funds usually yield better returns than savings accounts, but lower than bank fixed deposits.

Fixed Deposits with Banks are also referred to as term deposits and minimum investment period for bank FDs is 30 days. Fixed Deposits with banks are for investors with low risk appetite, and may be considered for 6-12 months investment period as normally interest on less than 6 months bank FDs is likely to be lower than money market fund returns.

What are various Long-term financial options available for investment?

Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits, Bonds and Debentures, Mutual Funds etc.

Post Office Savings: Post Office Monthly Income Scheme is a low risk saving instrument, which can be availed through any post office. It provides an interest rate of 8% per annum, which is paid monthly. Minimum amount, which can be invested, is Rs. 1,000/- and additional investment in multiples of 1,000/-. Maximum amount is Rs. 3,00,000/- (if Single) or Rs. 6,00,000/- (if held Jointly) during a year. It has a maturity period of 6 years. A bonus of 10% is paid at the time of maturity. Premature withdrawal is permitted if deposit is more than one year old. A deduction of 5% is levied from the principal amount if withdrawn prematurely; the 10% bonus is also denied.

Public Provident Fund: A long term savings instrument with a maturity of 15 years and interest payable at 8% per annum compounded annually. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. Tax benefits can be availed for the amount invested and interest accrued is tax-free. A withdrawal is permissible every year from the seventh financial year of the date of opening of the account and the amount of withdrawal will be limited to 50% of the balance at credit at the end of the 4th year immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower the amount of loan if any.

Company Fixed Deposits: These are short-term (six months) to medium-term (three to five years) borrowings by companies at a fixed rate of interest which is payable monthly, quarterly, semi-annually or annually. They can also be cumulative fixed deposits where the entire principal alongwith the interest is paid at the end of the loan period. The rate of interest varies between 6-9% per annum for company FDs. The interest received is after deduction of taxes.

Bonds: It is a fixed income (debt) instrument issued for a period of more than one year with the purpose of raising capital. The central or state government, corporations and similar institutions sell bonds. A bond is generally a promise to repay the principal along with a fixed rate of interest on a specified date, called *the Maturity Date.*

Mutual Funds: These are funds operated by an investment company which raises money from the public and invests in a group of assets (shares, debentures etc.), in accordance with a stated set of objectives. It is a substitute for those who are unable to invest directly in equities or debt because of resource, time or knowledge constraints. Benefits include professional money management, buying in small amounts and diversification. Mutual fund units are issued and redeemed by the *Fund Management Company* based on the fund's net asset value (NAV), which is determined at the end of each trading session. NAV is calculated as the value of all the shares held by the fund, minus expenses, divided by the number of units issued. Mutual Funds are usually long term investment vehicle though there some categories of mutual funds, such as money market mutual funds which are short term instruments.

What is meant by a Stock Exchange?

The Securities Contract (Regulation) Act, 1956 [SCRA] defines 'Stock Exchange' as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. Stock exchange could be a regional stock exchange whose area of operation/jurisdiction is specified at the time of its recognition or national exchanges, which are permitted to have nationwide trading since inception. NSE was incorporated as a national stock exchange.

What is an 'Equity'/Share?

Total equity capital of a company is divided into equal units of small denominations, each called a share. For example, in a company the total equity capital of Rs 300,00,000 is divided into 20,00,000 units of Rs 10 each. Each such unit of Rs 10 is called a Share. Thus, the company then is said to have 20,00,000 equity shares of Rs 10 each. The holders of such shares are members of the company and have voting rights.

What is a 'Debt Instrument'?

Debt instrument represents a contract whereby one party lends money to another on pre-determined terms with regards to rate and periodicity of interest, repayment of principal amount by the borrower to the lender.

In the Indian securities markets, the term '*bond*' is used for debt instruments issued by the Central and State governments and public sector organizations and the term *debenture*' is used for instruments issued by private corporate sector.

What is a Derivative?

Derivative is a product whose value is derived from the value of one or more basic variables, called underlying. The underlying asset can be equity, index, foreign exchange (forex), commodity or any other asset.

Derivative products initially emerged as hedging devices against fluctuations in commodity prices and commodity-linked derivatives remained the sole form of such products for almost three hundred years. The financial derivatives came into spotlight in post-1970 period due to growing instability in the financial markets. However, since their emergence, these products have become very popular and by 1990s, they accounted for about two-thirds of total transactions in derivative products.

What is a Mutual Fund?

A Mutual Fund is a body corporate registered with SEBI (Securities Exchange Board of India) that pools money from individuals/corporate investors and invests the same in a variety of different financial instruments or securities such as equity shares, Government securities, Bonds, debentures etc. Mutual funds can thus be considered as financial intermediaries in the investment business that collect funds from the public and invest on behalf of the investors. Mutual funds issue units to the investors. The appreciation of the portfolio or securities in which the mutual fund has invested the money leads to an appreciation in the value of the units held by investors. The investment objectives outlined by a Mutual Fund in its prospectus are binding on the Mutual Fund scheme. The investment objectives specify the class of securities a Mutual Fund can invest in. Mutual Funds invest in various asset classes like equity, bonds, debentures, commercial paper and government securities. The schemes offered by mutual funds vary from fund to fund. Some are pure equity schemes; others are a mix of equity and bonds. Investors are also given the option of getting dividends, which are declared periodically by the mutual fund, or to participate only in the capital appreciation of the scheme.

What is an Index?

An Index shows how a specified portfolio of share prices are moving in order to give an indication of market trends. It is a basket of securities and the average price movement of the basket of securities indicates the index movement, whether upwards or downwards.

What is a Depository?

A depository is like a bank wherein the deposits are securities (viz. shares, debentures, bonds, government securities, units etc.) in electronic form.

What is Dematerialization?

Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his *Depository Participant* (DP).

2. SECURITIES

What is meant by 'Securities'?

The definition of 'Securities' as per the Securities Contracts Regulation Act (SCRA), 1956, includes instruments such as shares, bonds, scrips, stocks or other marketable securities of similar nature in or of any incorporate company or body corporate, government securities, derivatives of securities, units of collective investment scheme, interest and rights in securities, security receipt or any other instruments so declared by the Central Government.

What is the function of Securities Market?

Securities Markets is a place where buyers and sellers of securities can enter into transactions to purchase and sell shares, bonds, debentures etc. Further, it performs an important role of enabling corporates, entrepreneurs to raise resources for their companies and business ventures through public issues. Transfer of resources from those having idle resources (investors) to others who have a need for them (corporates) is most efficiently achieved through the securities market. Stated formally, securities markets provide channels for reallocation of savings to investments and entrepreneurship. Savings are linked to investments by a variety of intermediaries, through a range of financial products, called 'Securities'.

Which are the securities one can invest in?

- Shares
- Government Securities
- Derivative products
- Units of Mutual Funds etc., are some of the securities investors in the securities market can invest in.

2.1 Regulator

Why does Securities Market need Regulators?

The absence of conditions of perfect competition in the securities market makes the role of the Regulator extremely important. The regulator ensures that the market participants behave in a desired manner so that securities market continues to be a major source of finance for corporate and government and the interest of investors are protected.

Who regulates the Securities Market?

The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Department of Company Affairs (DCA), Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI).

What is SEBI and what is its role?

The Securities and Exchange Board of India (SEBI) is the regulatory authority in India established under Section 3 of SEBI Act, 1992. SEBI Act, 1992 provides for establishment of Securities and Exchange Board of India (SEBI) with statutory powers for (a) protecting the interests of investors in securities (b) promoting the development of the securities market and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has been obligated to perform the aforesaid functions by such measures as it thinks fit. In particular, it has powers for:

- Regulating the business in stock exchanges and any other securities markets
- Registering and regulating the working of stock brokers, sub-brokers etc.
- Promoting and regulating self-regulatory organizations
- Prohibiting fraudulent and unfair trade practices
- Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, intermediaries, self-regulatory organizations, mutual funds and other persons associated with the securities market.

2.2 Participants

Who are the participants in the Securities Market?

The securities market essentially has three categories of participants, namely, the issuers of securities, investors in securities and the intermediaries, such as merchant bankers, brokers etc. While the corporates and government raise resources from the securities market to meet their obligations, it is households that invest their savings in the securities market.

Is it necessary to transact through an intermediary?

It is advisable to conduct transactions through an intermediary. For example you need to transact through a trading member of a stock exchange if you intend to buy or sell any security on stock exchanges. You need to maintain an account with a depository if you intend to hold securities in demat form. You need to deposit money with a banker to an issue if you are subscribing to public issues. You get guidance if you are transacting through an intermediary. Chose a SEBI registered intermediary, as he is accountable for its activities. The list of registered intermediaries is available with exchanges, industry associations etc.

What are the segments of Securities Market?

The securities market has two interdependent segments: the primary (new issues) market and the secondary market. The primary market provides the channel for sale of new securities while the secondary market deals in securities previously issued.

3. PRIMARY MARKET

What is the role of the 'Primary Market'?

The primary market provides the channel for sale of new securities. Primary market provides opportunity to issuers of securities; Government as well as corporates, to raise resources to meet their requirements of investment and/or discharge some obligation.

They may issue the securities at face value, or at a discount/premium and these securities may take a variety of forms such as equity, debt etc. They may issue the securities in domestic market and/or international market.

What is meant by Face Value of a share/debenture?

The nominal or stated amount (in Rs.) assigned to a security by the issuer. For shares, it is the original cost of the stock shown on the certificate; for bonds, it is the amount paid to the holder at maturity. Also known as par value or simply par. For an equity share, the face value is usually a very small amount (Rs. 5, Rs. 10) and does not have much bearing on the price of the share, which may quote higher in the market, at Rs. 100 or Rs. 1000 or any other price. For a debt security, face value is the amount repaid to the investor when the bond matures (usually, Government securities and corporate bonds have a face value of Rs. 100). The price at which the security trades depends on the fluctuations in the interest rates in the economy.

What do you mean by the term Premium and Discount in a Security Market?

Securities are generally issued in denominations of 5, 10 or 100. This is known as the Face Value or Par Value of the security as discussed earlier. When a security is sold above its face value, it is said to be issued at a Premium and if it is sold at less than its face value, then it is said to be issued at a Discount.

3.1 Issue of Shares

Why do companies need to issue shares to the public?

Most companies are usually started privately by their promoter(s). However, the promoters' capital and the borrowings from banks and financial institutions may not be sufficient for setting up or running the business over a long term. So companies invite the public to contribute towards the equity and issue shares to individual investors. The way to invite share capital from the public is through a *'Public Issue'.* Simply stated, a public issue is an offer to the public to subscribe to the share capital of a company. Once this is done, the company allots shares to the applicants as per the prescribed rules and regulations laid down by SEBI.

What are the different kinds of issues?

Primarily, issues can be classified as a Public, Rights or Preferential issues (also known as private placements). While public and rights issues involve a detailed procedure, private placements or preferential issues are relatively simpler. The classification of issues is illustrated below:

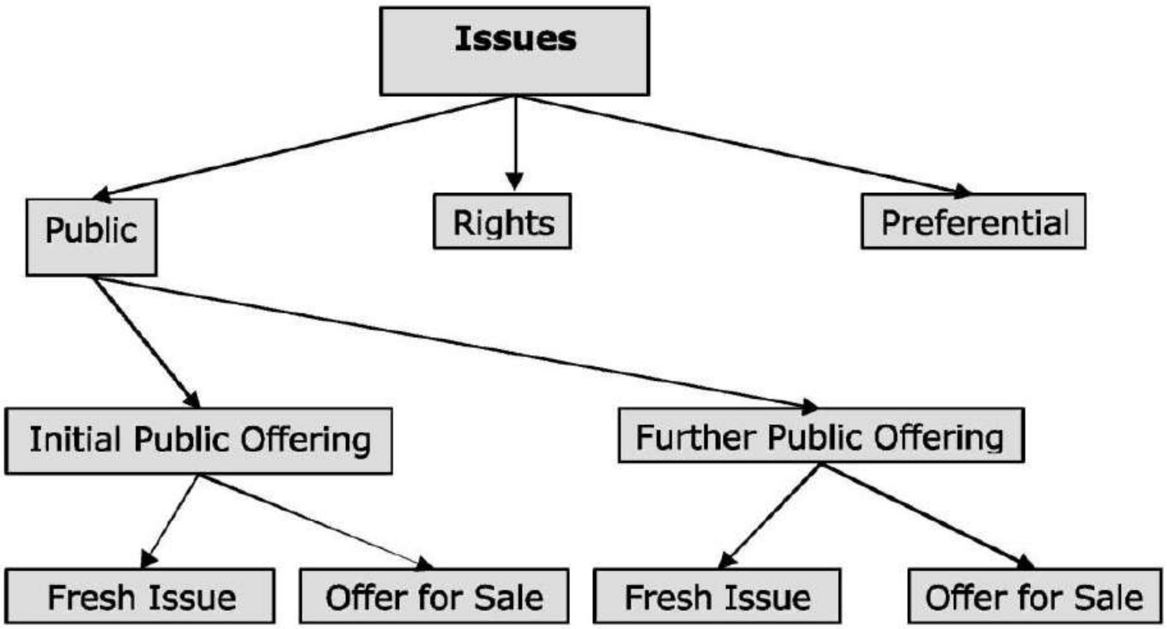
Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities.

A follow on public offering (Further Issue) is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document.

Rights Issue is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. The rights are normally offered in a particular ratio to the number of securities held prior to the issue. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders.

A Preferential issue is an issue of shares or of convertible securities by listed companies to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue. This is a faster way for a company to raise equity capital. The issuer company has to comply with the Companies Act and the requirements contained in the Chapter pertaining to preferential allotment in SEBI guidelines which inter-alia include pricing, disclosures in notice etc.

Classification of Issues



What is meant by Issue price?

The price at which a company's shares are offered initially in the primary market is called as the Issue price. When they begin to be traded, the market price may be above or below the issue price.

What is meant by Market Capitalisation?

The market value of a quoted company, which is calculated by multiplying its current share price (market price) by the number of shares in issue is called as market capitalization. E.g. Company A has 120 million shares in issue. The current market price is Rs. 100. The market capitalisation of company A is Rs. 12000 million.

What is the difference between public issue and private placement?

When an issue is not made to only a select set of people but is open to the general public and any other investor at large, it is a public issue. But if the issue is made to a select set of people, it is called private placement. As per Companies Act, 1956, an issue becomes public if it results in allotment to 50 persons or more. This means an issue can be privately placed where an allotment is made to less than 50 persons.

What is an Initial Public Offer (IPO)?

An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities. The sale of securities can be either through book building or through normal public issue.

Who decides the price of an issue?

Indian primary market ushered in an era of free pricing in 1992. Following this, the guidelines have provided that the issuer in consultation with Merchant Banker shall decide the price. There is no price formula stipulated by SEBI. SEBI does not play any role in price fixation. The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price. There are two types of issues, one where company and Lead Merchant Banker fix a price (called fixed price) and other, where the company and the Lead Manager (LM) stipulate a floor price or a price band and leave it to market forces to determine the final price (price discovery through book building process).

What does 'price discovery through Book Building Process' mean?

Book Building is basically a process used in IPOs for efficient price discovery. It is a mechanism where, during the period for which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date.

What is the main difference between offer of shares through book building and offer of shares through normal public issue?

Price at which securities will be allotted is not known in case of offer of shares through Book Building while in case of offer of shares through normal public issue, price is known in advance to investor. Under Book Building, investors bid for shares at the floor price or above and after the closure of the book building process the price is determined for allotment of shares.

In case of Book Building, the ***demand*** can be known everyday as the book is being built. But in case of the public issue the demand is known at the close of the issue.

What is Cut-Off Price?

In a Book building issue, the issuer is required to indicate either the price band or a floor price in the prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called "Cut-Off Price". The issuer and lead manager decides this after considering the book and the investors' appetite for the stock

What is the floor price in case of book building?

Floor price is the minimum price at which bids can be made.

What is a Price Band in a book built IPO?

The prospectus may contain either the floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band shall not be more than 20%. In other words, it means that the cap should not be more than 120% of the floor price. The price band can have a revision and such a revision in the price band shall be widely disseminated by informing the stock exchanges, by issuing a press release and also indicating the change on the relevant website and the terminals of the trading members participating in the book building process. In case the price band is revised, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding ten days.

Who decides the Price Band?

It may be understood that the regulatory mechanism does not play a role in setting the price for issues. It is up to the company to decide on the price or the price band, in consultation with Merchant Bankers.

What is minimum number of days for which a bid should remain open during book building?

The Book should remain open for a minimum of 3 days.

Can open outcry system be used for book building?

No. As per SEBI, only electronically linked transparent facility is allowed to be used in case of book building.

Can the individual investor use the book building facility to make an application?

Yes.

How does one know if shares are allotted in an IPO/offer for sale? What is the timeframe for getting refund if shares not allotted?

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 the Basis of Allotment should be completed with 8 days from the issue close date. As soon as the basis of allotment is completed, within 2 working days the details of credit to demat account / allotment advice and despatch of refund order needs to be completed. So an investor should know in about 11 days time from the closure of issue, whether shares are allotted to him or not.

How long does it take to get the shares listed after issue?

It takes 12 working days after the closure of the book built issue.

What is the role of a 'Registrar' to an issue?

The Registrar finalizes the list of eligible allottees after deleting the invalid applications and ensures that the corporate action for crediting of shares to the demat accounts of the applicants is done and the dispatch of refund orders to those applicable are sent. The Lead Manager coordinates with the Registrar to ensure follow up so that that the flow of applications from collecting bank branches, processing of the applications and other matters till the basis of allotment is finalized, dispatch security certificates and refund orders completed and securities listed.

Does NSE provide any facility for IPO?

Yes. NSE's electronic trading network spans across the country providing access to investors in remote areas. NSE decided to offer this infrastructure for conducting online IPOs through the Book Building process. NSE operates a fully automated screen based bidding system called NEAT IPO that enables trading members to enter bids directly from their offices through a sophisticated telecommunication network.

Book Building through the NSE system offers several advantages:

- The NSE system offers a nationwide bidding facility in securities
- It provide a fair, efficient & transparent method for collecting bids using the latest electronic trading systems
- Costs involved in the issue are far less than those in a normal IPO
- The system reduces the time taken for completion of the issue process

The IPO market timings are from 10.00 a.m. to 5.00 p.m.

What is a Prospectus?

A large number of new companies float public issues. While a large number of these companies are genuine, quite a few may want to exploit the investors. Therefore, it is very important that an investor before applying for any issue identifies future potential of a company. A part of the guidelines issued by SEBI (Securities and Exchange Board of India) is the disclosure of information to the public. This disclosure includes information like the reason for raising the money, the way money is proposed to be spent, the return expected on the money etc. This information is in the form of **'Prospectus**' which also includes information regarding the size of the issue, the current status of the company, its equity capital, its current and past performance, the promoters, the project, cost of the project, means of financing, product and capacity etc. It also contains lot of mandatory information regarding *underwriting* and statutory compliances. This helps investors to evaluate short term and long term prospects of the company.

What does 'Draft Offer document' mean?

'Offer document' means *Prospectus* in case of a public issue or offer for sale and *Letter of Offer* in case of a rights issue which is filed with the Registrar of Companies (ROC) and Stock Exchanges (SEs). An offer document covers all the relevant information to help an investor to make his/her investment decision.

'Draft Offer document' means the offer document in draft stage. The draft offer documents are filed with SEBI, atleast 30 days prior to the registration of red herring prospectus or prospectus with ROC. SEBI may specify changes, if any, in the draft Offer Document and the issuer or the lead merchant banker shall carry out such changes in the draft offer document before filing the Offer Document with ROC. The Draft Offer Document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI.

What is an 'Abridged Prospectus'?

'Abridged Prospectus' is a shorter version of the Prospectus and contains all the salient features of a Prospectus. It accompanies the application form of public issues.

Who prepares the 'Prospectus'/ 'Offer Documents'?

Generally, the public issues of companies are handled by *'Merchant Bankers'* who are responsible for getting the project appraised, finalizing the cost of the project, profitability estimates and for preparing of 'Prospectus'. The 'Prospectus' is submitted to SEBI for its approval.

What does one mean by 'Lock-in'?

'Lock-in' indicates a freeze on the sale of shares for a certain period of time. SEBI guidelines have stipulated lock-in requirements on shares of promoters mainly to ensure that the promoters or main persons, who are controlling the company, shall continue to hold some minimum percentage in the company after the public issue.

What is meant by 'Listing of Securities'?

Listing means admission of securities of an issuer to trading privileges (dealings) on a stock exchange through a formal agreement. The prime objective of admission to dealings on the exchange is to provide liquidity and marketability to securities, as also to provide a mechanism for effective control and supervision of trading.

What is a 'Listing Agreement'?

At the time of listing securities of a company on a stock exchange, the company is required to enter into a listing agreement with the exchange. The listing agreement specifies the terms and conditions of listing and the disclosures that shall be made by a company on a continuous basis to the exchange.

What does 'Delisting of securities' mean?

The term 'Delisting of securities' means permanent removal of securities of a listed company from a stock exchange. As a consequence of delisting, the securities of that company would no longer be traded at that stock exchange.

What is SEBI's Role in an Issue?

Any company making a public issue or a listed company making a rights issue of value of more than Rs 50 lakh is required to file a draft offer document with SEBI for its observations. The company can proceed further on the issue only after getting observations from SEBI. The validity period of SEBI's observation letter is three months only i.e. the company has to open its issue within three months period.

Does it mean that SEBI recommends an issue?

SEBI does not recommend any issue nor does take any responsibility either for the financial soundness of any scheme or the project for which the issue is proposed to be made or for the correctness of the statements made or opinions expressed in the offer document. SEBI mainly scrutinizes the issue for seeing that adequate disclosures are made by the issuing company in the prospectus or offer document.

Does SEBI tag make one's money safe?

The investors should make an informed decision purely by themselves based on the contents disclosed in the offer documents. SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue. However, the investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against relying on any 'tips' or news through unofficial means.

3.2 Foreign Capital Issuance

Can companies in India raise foreign currency resources?

Yes. Indian companies are permitted to raise foreign currency resources through two main sources: a) issue of foreign currency convertible bonds more commonly known as 'Euro' issues and b) issue of ordinary shares through depository receipts namely 'Global Depository Receipts (GDRs)/American Depository Receipts (ADRs)' to foreign investors i.e. to the institutional investors or individual investors.

What is an American Depository Receipt?

An American Depositary Receipt ("ADR") is a physical certificate evidencing ownership of American Depositary Shares ("ADSs"). The term is often used to refer to the ADSs themselves.

What is an ADS?

An American Depositary Share ("ADS") is a U.S. dollar denominated form of equity ownership in a non-U.S. company. It represents the foreign shares of the company held on deposit by a custodian bank in the company's home country and carries the corporate and economic rights of the foreign shares, subject to the terms specified on the ADR certificate.

One or several ADSs can be represented by a physical ADR certificate. The terms ADR and ADS are often used interchangeably.

ADSs provide U.S. investors with a convenient way to invest in overseas securities and to trade non-U.S. securities in the U.S. ADSs are issued by a depository bank, such as JPMorgan Chase Bank. They are traded in the same manner as shares in U.S. companies, on the New York Stock Exchange **(NYSE)** and the American Stock Exchange (AMEX) or quoted on **NASDAQ** and the over-the-counter **(OTC)** market.

Although ADSs are U.S. dollar denominated securities and pay dividends in U.S. dollars, they do not eliminate the currency risk associated with an investment in a non-U.S. company.

What is meant by Global Depository Receipts?

Global Depository Receipts (GDRs) may be defined as a global finance vehicle that allows an issuer to raise capital simultaneously in two or markets through a global offering. GDRs may be used in public or private markets inside or outside US. GDR, a negotiable certificate usually represents company's traded equity/debt. The underlying shares correspond to the GDRs in a fixed ratio say 1 GDR=10 shares.

4. SECONDARY MARKET

4.1 Introduction

What is meant by Secondary market?

Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

What is the role of the Secondary Market?

For the general investor, the secondary market provides an efficient platform for trading of his securities. For the management of the company, Secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions.

What is the difference between the Primary Market and the Secondary Market?

In the primary market, securities are offered to public for subscription for the purpose of raising capital or fund. Secondary market is an equity trading venue in which already existing/pre-issued securities are traded among investors. Secondary market could be either auction or dealer market. While stock exchange is the part of an auction market, Over-the-Counter (OTC) is a part of the dealer market.

4.1.1 Stock Exchange

What is the role of a Stock Exchange in buying and selling shares?

The stock exchanges in India, under the overall supervision of the regulatory authority, the Securities and Exchange Board of India (SEBI), provide a trading platform, where buyers and sellers can meet to transact in securities. The trading platform provided by NSE is an electronic one and there is no need for buyers and sellers to meet at a physical location to trade. They can trade through the computerized trading screens available with the NSE trading members or the internet based trading facility provided by the trading members of NSE.

What is Demutualisation of stock exchanges?

Demutualisation refers to the legal structure of an exchange whereby the ownership, the management and the trading rights at the exchange are segregated from one another.

How is a demutualised exchange different from a mutual exchange?

In a mutual exchange, the three functions of ownership, management and trading are concentrated into a single Group. Here, the broker members of the exchange are both the owners and the traders on the exchange and they further manage the exchange as well. This at times can lead to conflicts of interest in decision making. A demutualised exchange, on the other hand, has all these three functions clearly segregated, i.e. the ownership, management and trading are in separate hands.

4.1.2 Stock Trading

What is Screen Based Trading?

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. This was time consuming and inefficient. This imposed limits on trading volumes and efficiency. In order to provide efficiency, liquidity and transparency, NSE introduced a nationwide, on-line, fully-automated screen based trading system (SBTS) where a member can punch into the computer the quantities of a security and the price at which he would like to transact, and the transaction is executed as soon as a matching sale or buy order from a counter party is found.

What is NEAT?

NSE is the first exchange in the world to use satellite communication technology for trading. Its trading system, called National Exchange for Automated Trading (NEAT), is a state of-the-art client server based application. At the server end all trading information is stored in an in-memory database to achieve minimum response time and maximum system availability for users. It has uptime record of 99.7%. For all trades entered into NEAT system, there is uniform response time of less than one second.

How to place orders with the broker?

You may go to the broker's office or place an order on the phone/internet or as defined in the *Model Agreement,* which every client needs to enter into with his or her broker.

How does an investor get access to internet based trading facility?

There are many brokers of the NSE who provide internet based trading facility to their clients. Internet based trading enables an investor to buy/sell securities through internet which can be accessed from a computer at the investor's residence or anywhere else where the client can access the internet. Investors need to get in touch with an NSE broker providing this service to avail of internet based trading facility.

What is a Contract Note?

Contract Note is a confirmation of trades done on a particular day on behalf of the client by a trading member. It imposes a legally enforceable relationship between the client and the trading member with respect to purchase/sale and settlement of trades. It also helps to settle disputes/claims between the investor and the trading member. It is a prerequisite for filing a complaint or arbitration proceeding against the trading member in case of a dispute. A valid contract note should be in the prescribed form, contain the details of trades, stamped with requisite value and duly signed by the authorized signatory. Contract notes are kept in duplicate, the trading member and the client should keep one copy each. After verifying the details contained therein, the client keeps one copy and returns the second copy to the trading member duly acknowledged by him.

What details are required to be mentioned on the contract note issued by the stock broker?

A broker has to issue a contract note to clients for all transactions in the form specified by the stock exchange. The contract note inter-alia should have following:

- Name, address and SEBI Registration number of the Member broker.
- Name of partner/proprietor/Authorised Signatory.
- Dealing Office Address/Tel. No./Fax no., Code number of the member given by the Exchange.
- Contract number, date of issue of contract note, settlement number and time period for settlement.
- Constituent (Client) name/Code Number.
- Order number and order time corresponding to the trades.
- Trade number and Trade time.
- Quantity and kind of Security bought/sold by the client.
- Brokerage and Purchase/Sale rate.
- Service tax rates, Securities Transaction Tax and any other charges levied by the broker.
- Appropriate stamps have to be affixed on the contract note or it is mentioned that the consolidated stamp duty is paid.
- Signature of the Stock broker/Authorized Signatory.

What is the maximum brokerage that a broker can charge?

The maximum brokerage that can be charged by a broker from his clients as commission cannot be more than 2.5% of the value mentioned in the respective purchase or sale note.

Why should one trade on a recognized stock exchange only for buying/selling shares?

An investor does not get any protection if he trades outside a stock exchange. Trading at the exchange offers investors the best prices prevailing at the time in the market, lack of any counter-party risk which is assumed by the *clearing corporation,* access to investor grievance and redressal mechanism of stock exchanges, protection upto a prescribed limit, from the Investor Protection Fund etc.

How to know if the broker or sub broker is registered?

One can confirm it by verifying the registration certificate issued by SEBI. A broker's registration number begins with the letters 'INB' and that of a sub broker with the letters 'INS'.

What precautions must one take before investing in the stock markets?

Here are some useful pointers to bear in mind before you invest in the markets:

- Make sure your broker is registered with SEBI and the exchanges and do not deal with unregistered intermediaries.
- Ensure that you receive contract notes for all your transactions from your broker within one working day of execution of the trades.
- All investments carry risk of some kind. Investors should always know the risk that they are taking and invest in a manner that matches their risk tolerance.
- Do not be misled by market rumours, during advertisement or 'hot tips' of the day.
- Take informed decisions by studying the fundamentals of the company. Find out the business the company is into, its future prospects, quality of management, past track record etc Sources of knowing about a company are through annual reports, economic magazines, databases available with vendors or your financial advisor.

- If your financial advisor or broker advises you to invest in a company you have never heard of, be cautious. Spend some time checking out about the company before investing.

- Do not be attracted by announcements of fantastic results/news reports, about a company. Do your own research before investing in any stock.
- Do not be attracted to stocks based on what an internet website promotes, unless you have done adequate study of the company.

- Investing in very low priced stocks or what are known as penny stocks does not guarantee high returns.

- Be cautious about stocks which show a sudden spurt in price or trading activity.

- Any advise or tip that claims that there are huge returns expected, especially for acting quickly, may be risky and may to lead to losing some, most, or all of your money.

What Do's and Don'ts should an investor bear in mind when investing in the stock markets?

- Ensure that the intermediary (broker/sub-broker) has a valid SEBI registration certificate.
- Enter into an agreement with your broker/sub-broker setting out terms and conditions clearly.
- Ensure that you give all your details in the 'Know Your Client' form.
- Ensure that you read carefully and understand the contents of the 'Risk Disclosure Document' and then acknowledge it.
- Insist on a contract note issued by your broker only, for trades done each day.
- Ensure that you receive the contract note from your broker within 24 hours of the transaction.
- Ensure that the contract note contains details such as the broker's name, trade time and number, transaction price, brokerage, service tax, securities transaction tax etc. and is signed by the Authorised Signatory of the broker.
- To cross check genuineness of the transactions, log in to the NSE website (www.nseindia.com) and go to the 'trade verification' facility extended by NSE. Issue account payee cheques/demand drafts in the name of your broker only, as it appears on the contract note/SEBI registration certificate of the broker.

- While delivering shares to your broker to meet your obligations, ensure that the delivery instructions are made only to the designated account of your broker only.
- Insist on periodical statement of accounts of funds and securities from your broker. Cross check and reconcile your accounts promptly and in case of any discrepancies bring it to the attention of your broker immediately.

  Please ensure that you receive payments/deliveries from your broker, for the transactions entered by you, within one working day of the payout date.
- Ensure that you do not undertake deals on behalf of others or trade on your own name and then issue cheques from a family members'/ friends' bank accounts.
- Similarly, the Demat delivery instruction slip should be from your own Demat account, not from any other family members'/friends' accounts.
- Do not sign blank delivery instruction slip(s) while meeting security payin obligation.
- No intermediary in the market can accept deposit assuring fixed returns. Hence do not give your money as deposit against assurances of returns.
- "Portfolio Management Services' could be offered only by intermediaries having specific approval of SEBI for PMS. Hence, do not part your funds to unauthorized persons for Portfolio Management.
- Delivery Instruction Slip is a very valuable document. Do not leave signed blank delivery instruction slip with anyone. While meeting pay in obligation make sure that correct ID of authorised intermediary is filled in the Delivery Instruction Form.
- Be cautious while taking funding form authorised intermediaries as these transactions are not covered under Settlement Guarantee mechanisms of the exchange.
- Insist on execution of all orders under unique client code allotted to you. Do not accept trades executed under some other client code to your account.
- When you are authorising someone through 'Power of Attorney' for operation of your DP account, make sure that:

    - your authorization is in favour of registered intermediary only.
    - authorisation is only for limited purpose of debits and credits arising out of valid transactions executed through that intermediary only.

  - you verify DP statement periodically say every month/ fortnight to ensure that no unauthorised transactions have taken place in your account.
  - authorization given by you has been properly used for the purpose for which authorization has been given.
  - in case you find wrong entries please report in writing to the authorized intermediary.
- Don't accept unsigned/duplicate contract note.
- Don't accept contract note signed by any unauthorised person.
- Don't delay payment/deliveries of securities to broker.
- In the event of any discrepancies/disputes, please bring them to the notice of the broker immediately in writing (acknowledged by the broker) and ensure their prompt rectification.
- In case of sub-broker disputes, inform the main broker in writing about the dispute at the earliest. If your broker/sub-broker does not resolve your complaints within a reasonable period please bring it to the attention of the 'Investor Services Cell' of the NSE.
- While lodging a complaint with the 'Investor Grievances Cell' of the NSE, it is very important that you submit copies of all relevant documents like contract notes, proof of payments/delivery of shares etc. alongwith the complaint. Remember, in the absence of sufficient documents, resolution of complaints becomes difficult.
- Familiarise yourself with the rules, regulations and circulars issued by stock exchanges/SEBI before carrying out any transaction.

4.2 Products in the Secondary Markets

What are the products dealt in the Secondary Markets?

Following are the main financial products/instruments dealt in the Secondary market which may be divided broadly into Shares and Bonds:

Shares:

Equity Shares: An equity share, commonly referred to as ordinary share, represents the form of fractional ownership in a business venture.

Rights Issue/ Rights Shares: The issue of new securities to existing shareholders at a ratio to those already held, at a price. For e.g. a

2:3 rights issue at Rs. 125, would entitle a shareholder to receive 2 shares for every 3 shares held at a price of Rs. 125 per share.

Bonus Shares: Shares issued by the companies to their shareholders free of cost based on the number of shares the shareholder owns.

Preference shares: Owners of these kind of shares are entitled to a fixed dividend or dividend calculated at a fixed rate to be paid regularly before dividend can be paid in respect of equity share. They also enjoy priority over the equity shareholders in payment of surplus. But in the event of liquidation, their claims rank below the claims of the company's creditors, bondholders/debenture holders.

Cumulative Preference Shares: A type of preference shares on which dividend accumulates if remained unpaid. All arrears of preference dividend have to be paid out before paying dividend on equity shares.

Cumulative Convertible Preference Shares: A type of preference shares where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

Bond: is a negotiable certificate evidencing indebtedness. It is normally unsecured. A debt security is generally issued by a company, municipality or government agency. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the loan. The various types of Bonds are as follows:

Zero Coupon Bond: Bond issued at a discount and repaid at a face value. No periodic interest is paid. The difference between the issue price and redemption price represents the return to the holder. The buyer of these bonds receives only one payment, at the maturity of the bond.

Convertible Bond: A bond giving the investor the option to convert the bond into equity at a fixed conversion price.

Treasury Bills: Short-term (up to one year) bearer discount security issued by government as a means of financing their cash requirements.

4.2.1 Equity Investment

Why should one invest in equities in particular?

When you buy a share of a company you become a shareholder in that company. Shares are also known as Equities. Equities have the potential to increase in value over time. Research studies have proved that the equity returns have outperformed the returns of most other forms of investments in the long term. Investors buy equity shares or equity based mutual funds because:-

- Equities are considered the most rewarding, when compared to other investment options if held over a long duration.
- Research studies have proved that investments in some shares with a longer tenure of investment have yielded far superior returns than any other investment. The average annual return of the stock market over the period of last fifteen years, if one takes the Nifty index as the benchmark to compute the returns, has been around 16%.

However, this does not mean all equity investments would guarantee similar high returns. Equities are high risk investments. Though higher the risk, higher the potential returns, high risk also indicates that the investor stands to lose some or all his investment amount if prices move unfavorably. One needs to study equity markets and stocks in which investments are being made carefully, before investing.

What has been the average return on Equities in India?

If we take the Nifty index returns for the past fifteen years, Indian stock market has returned about 16% to investors on an average in terms of increase in share prices or capital appreciation annually. Besides that on average stocks have paid 1.5% dividend annually. *Dividend* is a percentage of the face value of a share that a company returns to its shareholders from its annual profits. Compared to most other forms of investments, investing in equity shares offers the highest rate of return, if invested over a longer duration.

Which are the factors that influence the price of a stock?

Broadly there are two factors: (1) stock specific and (2) market specific. The stock-specific factor is related to people's expectations about the company, its future earnings capacity, financial health and management, level of technology and marketing skills.

The market specific factor is influenced by the investor's sentiment towards the stock market as a whole. This factor depends on the environment rather than the performance of any particular company. Events favourable to an economy, political or regulatory environment like high economic growth, friendly budget, stable government etc. can fuel euphoria in the investors, resulting in a boom in the market. On the other hand, unfavourable events like war, economic crisis, communal riots, minority government etc. depress the market irrespective of certain companies performing well. However, the effect of market-specific factor is generally short-term. Despite ups and downs, price of a stock in the long run gets stabilized based on the stock-specific factors. Therefore, a prudent advice to all investors is to analyse and invest and not speculate in shares.

What is meant by the terms Growth Stock / Value Stock?

Growth Stocks:

In the investment world we come across terms such as Growth stocks, Value stocks etc. Companies whose potential for growth in sales and earnings are excellent, are growing faster than other companies in the market or other stocks in the same industry are called the Growth Stocks. These companies usually pay little or no dividends and instead prefer to reinvest their profits in their business for further expansions.

Value Stocks:

The task here is to look for stocks that have been overlooked by other investors and which may have a 'hidden value'. These companies may have been beaten down in price because of some bad event, or may be in an industry that's not fancied by most investors. However, even a company that has seen its stock price decline still has assets to its name - buildings, real estate, inventories, subsidiaries, and so on. Many of these assets still have value, yet that value may not be reflected in the stock's price. Value investors look to buy stocks that are undervalued, and then hold those stocks until the rest of the market realizes the real value of the company's assets. The value investors tend to purchase a company's stock usually based on relationships between the current market price of the company and certain business fundamentals. They like P/E ratio being below a certain absolute limit; dividend yields above a certain absolute limit; Total sales at a certain level relative to the company's market capitalization, or market value etc.

How can one acquire equity shares?

You may subscribe to issues made by corporates in the primary market. In the primary market, resources are mobilised by the corporates through fresh public issues (IPOs) or through private placements. Alternately, you may purchase shares from the secondary market. To buy and sell securities you should approach a SEBI registered trading member (broker) of a recognized stock exchange.

What is Bid and Ask price?

The 'Bid' is the buyer's price. It is this price that you need to know when you have to sell a stock. Bid is the rate/price at which there is a ready buyer for the stock, which you intend to sell.

The 'Ask' (or offer) is what you need to know when you're buying i.e. this is the rate/ price at which there is seller ready to sell his stock. The seller will sell his stock if he gets the quoted "Ask' price.

If an investor looks at a computer screen for a quote on the stock of say XYZ Ltd, it might look something like this:

Bid (Buy side)			**Ask (Sell side)**
Qty.	**Price (Rs.)**	**Qty.**	**Price (Rs.)**
1000	50.25	50.35	2000
500	50.10	50.40	1000
550	50.05	50.50	1500
2500	50.00	50.55	3000
1300	49.85	50.65	1450
Total 5850			**8950**

Here, on the left-hand side after the Bid quantity and price, whereas on the right hand side we find the Ask quantity and prices. The best Buy (Bid) order is the order with the highest price and therefore sits on the first line of the Bid side (1000 shares @ Rs. 50.25). The best Sell (Ask) order is the order with the lowest sell price (2000 shares @ Rs. 50.35). The difference in the price of the best bid and ask is called as the Bid-Ask spread and often is an indicator of liquidity in a stock. The narrower the difference the more liquid or highly traded is the stock.

What is a Portfolio?

A Portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goal(s). Items that are considered a part of your portfolio can include any asset you own-from shares, debentures, bonds, mutual fund units to items such as gold, art and even real estate etc. However, for most investors a portfolio has come to signify an investment in financial instruments like shares, debentures, fixed deposits, mutual fund units.

What is Diversification?

It is a risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance. Diversification is possibly the best way to reduce the risk in a portfolio.

What are the advantages of having a diversified portfolio?

A good investment portfolio is a mix of a wide range of asset class. Different securities perform differently at any point in time, so with a mix of asset types, your entire portfolio does not suffer the impact of a decline of any one security. When your stocks go down, you may still have the stability of the bonds in your portfolio. There have been all sorts of academic studies and formulas that demonstrate why diversification is important, but it's really just the simple practice of "not putting all your eggs in one basket." If you spread your investments across various types of assets and markets, you'll reduce the risk of your entire portfolio getting affected by the adverse returns of any single asset class.

4.2.2. Debt Investment

What is a 'Debt Instrument'?

Debt instrument represents a contract whereby one party lends money to another on pre-determined terms with regards to rate and periodicity of interest, repayment of principal amount by the borrower to the lender.

In Indian securities markets, the term **bond'* is used for debt instruments issued by the Central and State governments and public sector organizations and the term *^debenture'* is used for instruments issued by private corporate sector.

What are the features of debt instruments?

Each debt instrument has three features: Maturity, coupon and principal.

> *Maturity:* Maturity of a bond refers to the date, on which the bond matures, which is the date on which the borrower has agreed to repay the principal. *Term-to-Maturity* refers to the number of years remaining for the bond to mature. The Term-to-Maturity changes everyday, from date of issue of the bond until its maturity. The term to maturity of a bond can be calculated on any date, as the distance between such a date and the date of maturity. It is also called the term or the tenure of the bond.
>
> *Coupon:* Coupon refers to the periodic interest payments that are made by the borrower (who is also the issuer of the bond) to the lender (the subscriber of the bond). Coupon rate is the rate at which interest is paid, and is usually represented as a percentage of the par value of a bond.
>
> *Principal:* Principal is the amount that has been borrowed, and is also called the par value or face value of the bond. The coupon is the product of the principal and the coupon rate.

The name of the bond itself conveys the key features of a bond. For example, a GS CG2008 11.40% bond refers to a Central Government bond maturing in the year 2008 and paying a coupon of 11.40%. Since Central Government bonds have a face value of Rs.100 and normally pay coupon semi-annually, this bond will pay Rs. 5.70 as six-monthly coupon, until maturity.

What is meant by 'Interest' payable by a debenture or a bond?

Interest is the amount paid by the borrower (the company) to the lender (the debenture-holder) for borrowing the amount for a specific period of time. The interest may be paid annual, semi-annually, quarterly or monthly and is paid usually on the face value (the value printed on the bond certificate) of the bond.

What are the Segments in the Debt Market in India?

There are three main segments in the debt markets in India, viz., (1) Government Securities, (2) Public Sector Units (PSU) bonds, and (3) Corporate securities.

The market for *Government Securities* comprises the Centre, State and State-sponsored securities. In the recent past, local bodies such as municipalities have also begun to tap the debt markets for funds. Some of the PSU bonds are tax free, while most bonds including government securities are not tax-free. Corporate bond markets comprise of commercial paper and bonds. These bonds typically are structured to suit the requirements of investors and the issuing corporate, and include a variety of tailor-made features with respect to interest payments and redemption.

Who are the Participants in the Debt Market?

Given the large size of the trades, Debt market is predominantly a wholesale market, with dominant institutional investor participation. The investors in the debt markets are mainly banks, financial institutions, mutual funds, provident funds, insurance companies and corporates.

Are bonds rated for their credit quality?

Most Bond/Debenture issues are rated by specialised credit rating agencies. Credit rating agencies in India are CRISIL, CARE, ICRA and Fitch. The yield on a bond varies inversely with its credit (safety) rating. The safer the instrument, the lower is the rate of interest offered.

How can one acquire securities in the debt market?

You may subscribe to issues made by the government/corporates in the primary market. Alternatively, you may purchase the same from the secondary market through the stock exchanges.

5. DERIVATIVES

What are Types of Derivatives?

Forwards: A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future at today's pre-agreed price.

Futures: A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that the former are standardized exchange-traded contracts, such as futures of the Nifty index.

Options: An Option is a contract which gives the right, but not an obligation, to buy or sell the underlying at a stated date and at a stated price. While a buyer of an option pays the premium and buys the right to exercise his option, the writer of an option is the one who receives the option premium and therefore obliged to sell/buy the asset if the buyer exercises it on him. Options are of two types - **Calls** and **Puts** options:

> ***'Calls'*** give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date.
>
> ***'Puts'*** give the buyer the right, but not the obligation to sell a given quantity of underlying asset at a given price on or before a given future date.

Presently, at NSE futures and options are traded on the Nifty, CNX IT, BANK Nifty and 116 single stocks.

Warrants: Options generally have lives of up to one year. The majority of options traded on exchanges have maximum maturity of nine months. Longer dated options are called Warrants and are generally traded over-the-counter.

What is an 'Option Premium'?

At the time of buying an option contract, the buyer has to pay premium. The premium is the price for acquiring the right to buy or sell. It is price paid by the option buyer to the option seller for acquiring the right to buy or sell. Option premiums are always paid upfront.

What is 'Commodity Exchange'?

A Commodity Exchange is an association, or a company of any other body corporate organizing futures trading in commodities. In a wider sense, it is taken to include any organized market place where trade is routed through one mechanism, allowing effective competition among buyers and among sellers - this would include auction-type exchanges, but not wholesale markets, where trade is localized, but effectively takes place through many non-related individual transactions between different permutations of buyers and sellers.

What is meant by 'Commodity'?

FCRA Forward Contracts (Regulation) Act, 1952 defines "goods" as "every kind of movable property other than actionable claims, money and securities". Futures' trading is organized in such goods or commodities as are permitted by the Central Government. At present, all goods and products of agricultural (including plantation), mineral and fossil origin are allowed for futures trading under the auspices of the commodity exchanges recognized under the FCRA.

What is Commodity derivatives market?

Commodity derivatives market trade contracts for which the underlying asset is commodity. It can be an agricultural commodity like wheat, soybeans, rapeseed, cotton, etc or precious metals like gold, silver, etc.

What is the difference between Commodity and Financial derivatives?

The basic concept of a derivative contract remains the same whether the underlying happens to be a commodity or a financial asset. However there are some features which are very peculiar to commodity derivative markets. In the case of financial derivatives, most of these contracts are cash settled. Even in the case of physical settlement, financial assets are not bulky and do not need special facility for storage. Due to the bulky nature of the underlying assets, physical settlement in commodity derivatives creates the need for warehousing. Similarly, the concept of varying quality of asset does not really exist as far as financial underlyings are concerned. However in the case of commodities, the quality of the asset underlying a contract can vary at times.

6. DEPOSITORY

How is a depository similar to a bank?

A Depository can be compared with a bank, which holds the funds for depositors. An analogy between a bank and a depository may be drawn as follows:

BANK	DEPOSITORY
Holds funds in an account	Hold securities in an account
Transfers funds between accounts on the instruction of the account holder	Transfers securities between accounts on the instruction of the account holder.
Facilitates transfers without having to handle	Facilitates transfers of ownership without having to handle
Facilitates safekeeping of money	Facilitates safekeeping of shares.

Which are the depositories in India?

There are two depositories in India which provide dematerialization of securities. The National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

What are the benefits of participation in a depository?

The benefits of participation in a depository are:

- Immediate transfer of securities
- No stamp duty on transfer of securities
- Elimination of risks associated with physical certificates such as bad delivery, fake securities, etc.
- Reduction in paperwork involved in transfer of securities
- Reduction in transaction cost

- Ease of nomination facility
- Change in address recorded with DP gets registered electronically with all companies in which investor holds securities eliminating the need to correspond with each of them separately
- Transmission of securities is done directly by the DP eliminating correspondence with companies
- Convenient method of consolidation of folios/accounts
- Holding investments in equity, debt instruments and Government securities in a single account; automatic credit into demat account, of shares, arising out of split/consolidation/merger etc.

Who is a Depository Participant (DP)?

The Depository provides its services to investors through its agents called depository participants (DPs). These agents are appointed by the depository with the approval of SEBI. According to SEBI regulations, amongst others, three categories of entities, i.e. Banks, Financial Institutions and SEBI registered trading members can become DPs.

Does one need to keep any minimum balance of securities in his account with his DP?

No. The depository has not prescribed any minimum balance. You can have zero balance in your account.

What is an ISIN?

ISIN (International Securities Identification Number) is a unique identification number for a security.

What is a Custodian?

A Custodian is basically an organisation, which helps register and safeguard the securities of its clients.

Besides safeguarding securities, a custodian also keeps track of corporate actions on behalf of its clients:

- Maintaining a client's securities account
- Collecting the benefits or rights accruing to the client in respect of securities
- Keeping the client informed of the actions taken or to be taken by the issue of securities, having a bearing on the benefits or rights accruing to the client.

How can one convert physical holding into electronic holding i.e. how can one dematerialise securities?

In order to dematerialise physical securities one has to fill in a Demat Request Form (DRF) which is available with the DP and submit the same along with physical certificates one wishes to dematerialise. Separate DRF has to be filled for each ISIN number.

Can odd lot shares be dematerialised?

Yes, odd lot share certificates can also be dematerialised.

Do dematerialised shares have distinctive numbers?

Dematerialised shares do not have any distinctive numbers. These shares are *fungible,* which means that all the holdings of a particular security will be identical and interchangeable.

Can electronic holdings be converted into Physical certificates?

Yes. The process is called *Rematerialisation.* If one wishes to get back your securities in the physical form one has to fill in the Remat Request Form (RRF) and request your DP for rematerialisation of the balances in your securities account.

Can one dematerialise his debt instruments, mutual fund units, government securities in his demat account?

Yes. You can dematerialise and hold all such investments in a single demat account.

7. MUTUAL FUNDS

What is the Regulatory Body for Mutual Funds?

Securities Exchange Board of India (SEBI) is the regulatory body for all the mutual funds. All the mutual funds must get registered with SEBI.

What are the benefits of investing in Mutual Funds?

There are several benefits from investing in a Mutual Fund:

Small investments: Mutual funds help you to reap the benefit of returns by a portfolio spread across a wide spectrum of companies with small investments.

Professional Fund Management: Professionals having considerable expertise, experience and resources manage the pool of money collected by a mutual fund. They thoroughly analyse the markets and economy to pick good investment opportunities.

Spreading Risk: An investor with limited funds might be able to invest in only one or two stocks/bonds, thus increasing his or her risk. However, a mutual fund will spread its risk by investing a number of sound stocks or bonds. A fund normally invests in companies across a wide range of industries, so the risk is diversified.

Transparency: Mutual Funds regularly provide investors with information on the value of their investments. Mutual Funds also provide complete portfolio disclosure of the investments made by various schemes and also the proportion invested in each asset type.

Choice: The large amount of Mutual Funds offer the investor a wide variety to choose from. An investor can pick up a scheme depending upon his risk/return profile.

Regulations: All the mutual funds are registered with SEBI and they function within the provisions of strict regulation designed to protect the interests of the investor.

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Value Added Course Certificate

202.1.. to 202.2..

This is to certify that Mr./Miss....Adduri Ramu....of III B.Com (A&T)....has successfully completed the Value Added Course in....Financial Markets with Regd No....21313001....Organized by the Department of....Commerce....in collaboration with........during year 202.1.. to 202.2.. He/She has passed the course with ....A....grade.

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Value Added Course Certificate

2021 to 2022

This is to certify that Mr./Miss Akkireddy Nagateja of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No. 21313002 Organized by the Department of Commerce in collaboration with .... during year 2021 to 2022 He/She has passed the course with A grade.

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Value Added Course Certificate

2021 to 2022

This is to certify that Mr./Miss Anguluru Supriya of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No. 21313003 Organized by the Department of Commerce in collaboration with .... during year 2021 to 2022 He/She has passed the course with A grade.

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Value Added Course Certificate

2021.. to 2022..

This is to certify that Mr./Miss Bheemireddi Sai of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No 21313004 Organized by the Department of Commerce in collaboration with .... during year 2021.. to 2022. He/She has passed the course with A grade.

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Value Added Course Certificate

2021.. to 2022.

This is to certify that Mr./Miss Bowdu Nalini Kumari of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No 21313005 Organized by the Department of Commerce in collaboration with .... during year 2021 to 2022 He/She has passed the course with A grade.

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Value Added Course Certificate

2021 to 2022

This is to certify that Mr./Miss Chevveti Ajay of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No 21313006 Organized by the Department of Commerce in collaboration with .... during year 2021 to 2022 He/She has passed the course with A grade.

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Value Added Course Certificate

2021 to 2022

This is to certify that Mr./Miss Chodi Bhaskara Rao of III B.Com (A&T) has successfully completed the Value Added Course in Financial Markets with Regd No. 21313007 Organized by the Department of Commerce in collaboration with .... during year 2021 to 2022 He/She has passed the course with A grade.

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Value Added Course Certificate

2021... to 2022..

This is to certify that Mr./Miss...Durya Raju Kumar...of
...III B.Com (A&T)...has successfully completed the Value Added Course in...Financial Markets
with Regd No...21313008...Organized by the Department of...Commerce...in
collaboration with.........during year 2021.. to 2022.. He/She has passed the course with
...A...grade.

Academic Coordinator	**IQAC Coordinator**	**Course Coordinator**	**PRINCIPAL** Dr. V.S. Krishna Govt. Degree College(A)