Security Analysis and Portfolio Management
Prof. C. S. Mishra
Department of VGSOM
Indian Institute of Technology, Kharagpur

Module No. # 01
Lecture No. # 05
Organization and Function of Equity and Debt Markets

Hello, in this lesson of security analysis and portfolio management, we are going to discuss about the Organization and Function of Equity and Debt Markets.

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So, before we move from the particulars of the equity or debt market, spend little time on what is a securities market asset. Securities market is a place where the financial instruments are traded. When we say financial instruments, could be shares of the company, it could be bonds, it could be debentures, it could be treasury bills of the issued by government of India. Any financial instruments issued by, any issuer for that matter, where for the trading takes place that is called as securities market.

Essentially, it is a meeting place for the buyer and seller of financial instruments. Now, a securities market need not comprise of only the instruments, it can comprise of people, the institutions, the issuing organization like company, government, state government or central government, then any banks or financial institutions who are actually the issuers.

It also comprises of the system that facilitates this particular transactions taking place between buyer and seller. It also comprises our regulatory authorized like Securities and Exchange Board of India – SEBI in case of India, or Securities and Exchange Commission in case of U.S; it consists of department of company affairs, in case of government of India. It also consists of other regulatory agencies like, Reserve bank of India, whoever is also going to get oversee, the affairs of the market, they are players and process, that is also comprises that also part of our securities market.

In fact, the stock exchange that is very popularly known as that is where a trading happen that is also part of securities market. So, it comprises of the entire people who trade, institutions who trade, institution who issue, government, company, regulators, all those things who are involved in the transactions involving final securities or part of securities market.

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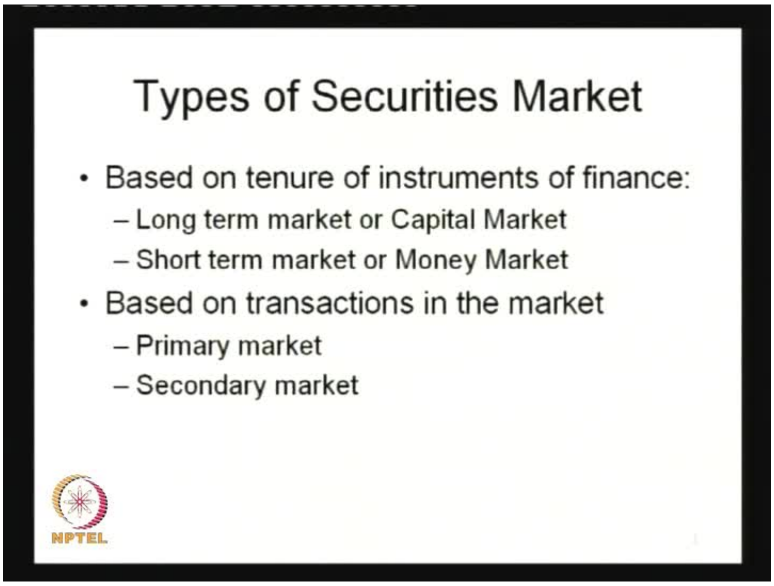

Then, coming to the classification, the securities market can be classified broadly into two ways, one is that on the basis of tenure of the instruments that is issued, that is one is a long term capital market, long term market or a short term market. One is a long term, when the company has or the issuer has raised the finance from the savers or the investors, it does not have the intention of giving it back to the investor immediately. Typically, more than 3, 2 or 4, 5 years can be taken as a long term instruments. And a long term instruments is, when is issued that particular market is known as capital market. The long term instruments can be both ownership ((form like)) shares, or it can be of lender form that is debts, debentures bonds, or hybrid form like, preference shares for that matter.

Then, if any instrument is issued for a short term period or the market deals with a short term instruments like, Treasury bill of the government of or a particular country. Then, you have at certain instruments like, commercial papers issued by the corporates for short term funds which is typically, the tenure could be some 81 days, a 89 days or 181 days or may be less than 365 days. So, those particular markets are known as money market instrument, so money market is essentially short term and capital market is essentially the long term.

Then, in the next classification that we have is, it based on the transaction in market, how the transaction takes place? If the first time, the transaction taking place between the issuer and like the company is issuing a shares to the public at large through a particular process to the potential investors that is called the primary market; that means, this is the first transaction taking place between the issuer and the investor. Post issue, if somebody has already entered the particular investment, in particular share or particular bond or particular debenture, and he or she likes to exit from that particular instrument and then he or she has to go to a search for a person who is willing to buy that particular instrument for a particular price.

So, it may not be possible or feasible for a particular investor to get the best deal by just going and standing in somewhere in the market and expecting that somebody is going to buy his share or debenture that he has purchased earlier through primary market. So, in such case, there is a platform which is provided by the system or the market in the country that where the seller of the instrument who has already bought the share earlier will like to look for a particular buyer. So, that particular market, only the transactions takes place between in a holder of the instrument and he or she sells this instruments to somebody else, so that is called the secondary market. So, what happens, so any transactions after the primary issue market has taken place, any transactions involving in that particular instrument is now secondary market transaction, it may change from one hand to multiple hands subsequently, but that still remain as securities secondary market.

So, in fact, beside that somebody if has already bought the shares or debentures in a particular instrument, he can exit from that. At the same time some other investors may be there who could not for some reasons participate in the issue of that particular shares or debentures before it was offered to the public, but later they realizes, particular share or debenture is worth investing. So, they will look for invest again, but the company may not come with another issue of this particular instrument for that matter.

So, in such case, if somebody is willing to sell the instrument, then the other person who is willing to buy can also buy from this. So, this transaction between holder of the instrument and potential buyer of the instruments is known as the secondary market, where there is a seller as well as buyer of the particular financial instruments. Beside this long term like, capital market and money market institution, like product wise, there can be also some other instruments which are risk hazing instruments. Like, we have features options and derivative securities, where the value of this particular instrument like options or features or whatever that interest in that, all those things it derived out of the underlying assets.

So, that they also come under the securities market, but they are the essential instruments for the risk hazing, for which we have a separate session and will be discussing more about those instruments then.

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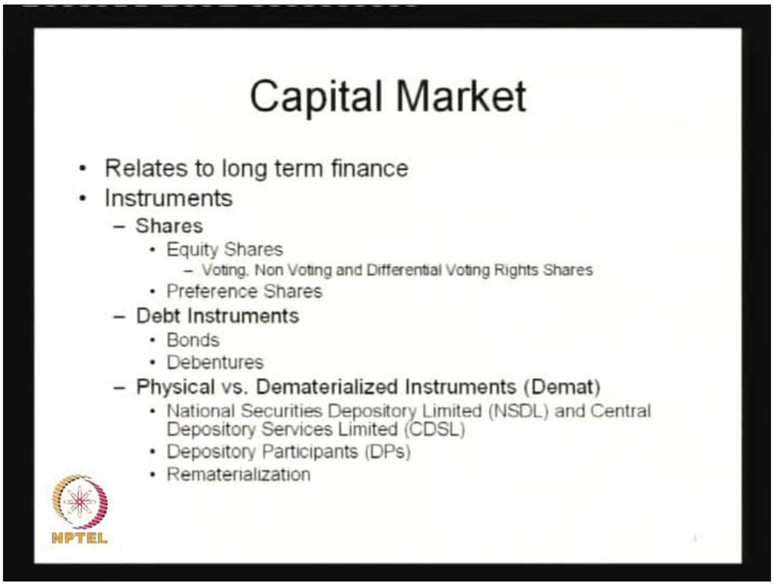

Then, coming to the next category, that is, your broad market or capital market, in this particular session, we will be devoting more on the capital market and which comprises equity as well as dept, and also we will talk about certain things about primary market as well as secondary market. So, when we say capital market, is essentially leaded to long term finance and the instrument that the, that is, a part of the long term finance or capital market can be shares, can be debt instruments or can be and those instruments can also be an physical format or the demat format or digital format for that matter.

When you say shares, it is nothing but an ownership of a particular company, participating in the ownership of the particular company and the shares can be of two types, one is equity share, another is preference share. In equity share is essentially the ownership of the company, so if I have got one share out of hundred shares issued by the particular company, then I can say, I have one percent stake in this particular company, and equity share as we have discussed earlier in the overall financial markets. So, in this equity share, their owners and they the equity share holders becomes the residual stake holder of the particular business; that means, after all the stakes of all the stake holder taken care, whatever is left over that belongs to the equity share holders.

And this equity share holders typically or usually, they have a (( )) voting rights, so they can participate in the decision making through giving their vote. And if the company calls for an annual general body meeting or any general body meeting, the equity share holders can come and depending upon the number of shares held their voting right is going to be determined.

So, if I have got one share, I have got to one voting right, if someone has got two shares, he or she has got two voting rights. So, that is called generally the voting equity shares with voting, you say ordinary shares. But now, off late there are some other instruments, which have come that is called nonvoting shares. So, non-voting shares what happens? Though they are like equity shares, but they do not have any participation in the meetings or the decision making as such.

So, they do not have any right to vote for or vote against any decision making of the organization as such in the general body meeting or whatever shareholders meeting take place. So, what makes this particular instrument more attractive, usually the nonvoting shares get a differential return, that is, a better return, than the equity share holders. Equity shares as supposed to be getting, though it is not compulsory, something are return known as dividend, so if the equity share holders are getting some dividends, so nonvoting shareholders should be getting something more than the ordinary equity share holders.

So, since they have divested with the dispense of the voting right, so to take care of that higher dividends are declared. So, this could be attractive for certain shareholders, who do not want to take part in decision making process. There rather content with the dividends on the investors, on the shares, so they were that may be attractive for those people. There are also some other types of share, that is, there are also known as class B or a class B 1 like that, the shares in other market, but in a Indian context, we talk about that differential voting rights here.

And what happens in this case; in this type of share, the shareholder of the differential voting right share will have a different voting right; that means, more or less than that ordinary share holders.

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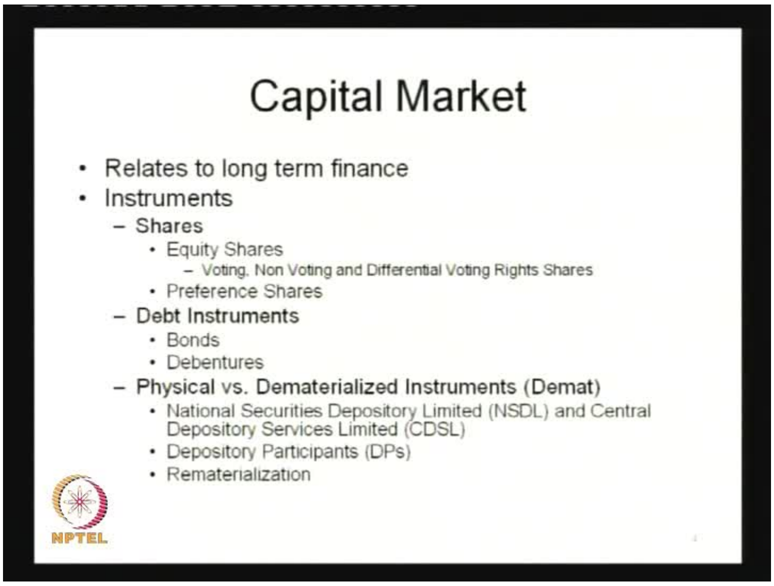

So, one may have one differential voting right share, this particular type of share then, but he may have two voting rights for one share. So, this is typically issued to the promoting share holder, so that they have more control. And this differential voting rights they may be able to exercise that or it may be of help when the particular company becomes a target of a particular acquisition market.

So, if somebody is going acquire, so in this case, this particular voting rights may revoke - and in that case – invoke; and in that case, the differential voting rights shareholders will have more votes and they may fact any takeover that is going to happen for that matter, so that is called differential voting right share. Then preference shares, preference share is that they get certain preference over the equity shares with regards to dividend and the principle repayment.

So, the company wished to declare dividend on the shares to the equity share holders, it has to fast declare the dividend to the preference shares, and preference share will always have a nomenclature of some like 5 percent, 10 percent, a certain percentage as a prefix and such percentage is known as the divided that is expect to be declared on the preferences. If it is a 12 percent preference share of rupees 100 each that will be at the end of the year the preferential holder will get 12 rupees dividend. After having declared, the dividend for the preference share holder, then only the dividend per equity share holders can be given, that is one preference that is over about dividend.

Second preference, that preference shareholders get, let us say, the company has to windup and it will give the money back to the stake holders. The fast preference will be given to the preference shareholders of course, before that all the creditors must have been taken care; all those outside obligations must have been taken care except the claims of preference shareholders and the equity share holders.

Now, when it comes to the satisfaction of claims of shareholders, then the preference shareholders are given the first preference and then, the equity share holders are given the next preference. Then, we have a debt instrument that is called bonds or debentures. These particular instruments are nothing but a loan which has been split into small parts, let us say, the 1 crore rupees of loan can be distributed, can be split into one lack parts. In that case, which have got 100 rupees each, and that 1 bond can be of 100 rupees each. Usually, the bonds are having a face value of 1000 rupees, whereas in case of equity shares and all, we can have face value up to 1 rupee per share.

So, the bonds and debentures will be getting, the bonds and debenture holders will be getting a periodic repayment called interest, and they will also get back the principle amount at a certain period of time, and the principle also can be given in installment, so need not be given only at the end, it can be also given in between of the tenure of the instruments.

Then, we have another category, those all these instruments that we talked about can be classified into physical versus dematerialized. When you say physical instruments; that means, there is a proof in terms of like a paper based instrument, where one gets certificate that, so that says that, this particular holder of this particular instrument has this many shares with him and whereas in a demat format, this physical share is physical instrument is not in existence rather everything is in a digital format - dematerialized format.

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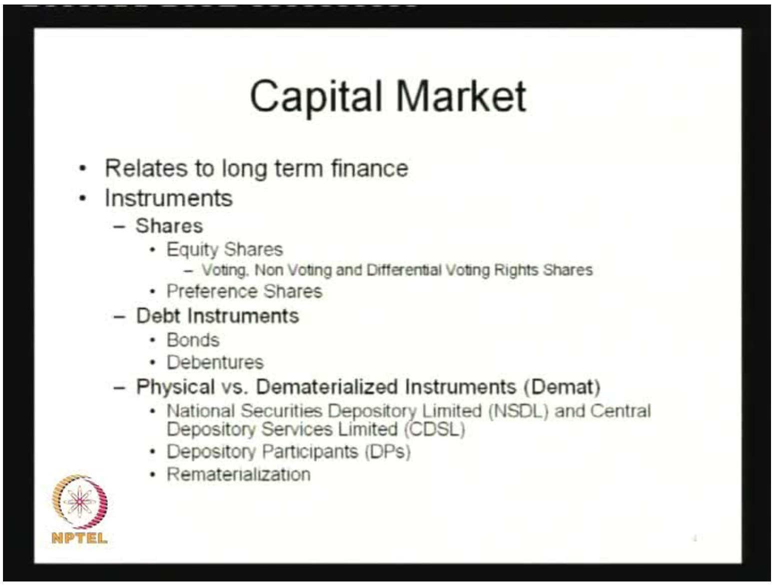

So, there are two major agencies like a national securities depository limited and central depository service limited in India, which are the depository institutions, which have got the dematerialized instruments of different instruments issued by different companies, which were earlier in physical format or even newly issued, now there in digital format.

So, they are the depository of this instruments and this particular organizations have participants like depository participant, and for any way invested to trade in the stock market should have an account the depository participant and like we have an account in the bank or the savings deposit or whatever the deposit for that matter, and it gets debited or credited depending upon whether you withdraw money or we deposit money.

Similarly, this demat account meant kept by this deposited participants and held by the investors will also show that how many shares of which particular company is there in this particular investors name. So, that there is an account of which shares are there, which does not there and the shares trading takes place that is related, say, the investor will buy certain instruments, then it will be credited that will be having that more, yes, that will show that this particular investor has got now new shares of this particular number.

Similarly, shares are traded and sold by this particular investor, then their account will show then how many shares are now, there after these particular sales as taken place.

Then, we have also process our rematerialization, this is also process. If the investor wants certain subjects, certain rules and regulation, he or she can convert the dematerialized share into the physical format. So, it will be now the investors will be issued certain physical instruments like in terms of paper, black and white it will be issued there. So, dematerialized is there as well as rematerialized also possible and dematerialized already taken place.

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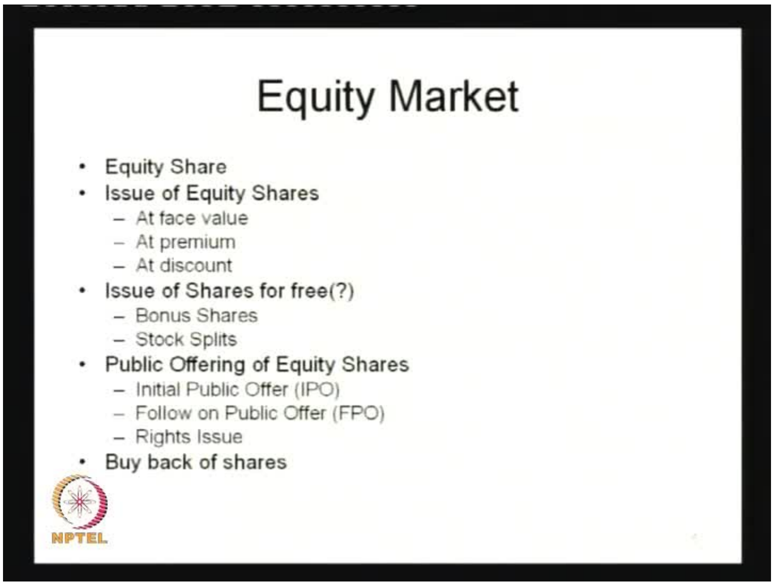

Next, we move on to something called the broad market of equity market. Equity market as we discussed, it is comprises of equity share and trading in that particular equity share. Equity shares can have, whenever, the equity shares are issued by the company it can be issued at a face value. Face value is something like on the face of the instrument, yes, it can be rupees 10 or it can be rupees 5, rupees 1 that is the face value.

But, this particular share can be issued at a price more than the face value or at a less than the face value. When the share is issued at a price more than the face value, it is called shares are issued at a premium and the shares are issued at a value less than the face value, that is a called a shares are issued at a discount. Of course, whether the company can issue the shares at a premium or a discount, there are certain regulations given by the companies act, as there are regulations given by the Securities and Exchange Board of India SEBI. In the context which is not that anybody can, though it is now, it is free for the company charge, whatever price they will like to charge per their share, but the certain conditions that must be fulfilled, before the company got a permission to go for any pricing of the share for that matter. Then, there are certain shares which look like their issues for free; they are called the bonus shares. And bonus shares means, what happens, the company has raised certain amount from the market through issue of equity shares.

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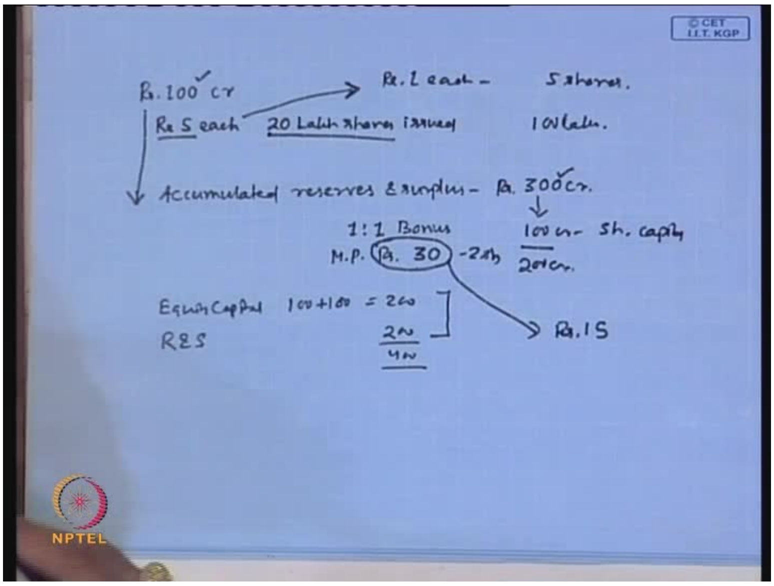

Let us say, the company has raised rupees 100 crore and there of rupees 5 each, so in that case, there are 20, 00,000 shares or 2 million shares issued. Now, after certain point of time, this amount gets invested, then the reinvestment takes place let us the company has accumulated certain reserves and surplus or there is accumulated the profit after certain point (( )) to the extent of rupees 300 crore.

Now, at this point of time, the company can think of declaring or converting these reasons because, this anyway belong to the equity share holders into equity shares. So, the company may think that, for every share that they have - 20, 00,000 shares here of rupees 5 each - they like to sell or they like to issue, one for each 1 held by a particular, so 1:1 bonus.

So, what happens in that case, out of 300 crore, 100 crore goes towards share capital and reserve surplus now becomes 200 crore. So, new equity capital will be… equity capital is now, 100 plus 100 that is 200, reserves and surplus that is now another 200 total comes to 400.

So, overall stake of the investors as equity holder is not, since earlier it was 300 plus 100 that is also 400, now it is 200 plus 200 is 400. But instead of 1 share, the investor has another 1 share, so any person who has having 1 share is now having 2 shares together, so this is like given you 1 share for bonus. But in any case, if the shares are traded at that point of time, before the issue of the bonus, let us say, the market price of the share is rupees 30, then once the bonus is issued, the share price, market price will correct itself to half of that, because now this 30 is worth for now 2 shares, so this will correct to rupees 15.

So, if in the market, there is no change that, yes, number of shares might have gone up, but the overall stake of the particular overall market will be the particular share has actually remained constant. Of course, is another matter that the market may take this particular issue of bonus as a difference signal, good signal bad signal, and accordingly the share price can move up or move down, first it will correct from rupees 3 to rupees 15.

Then, there is something called stock split, what happen is stock split, this instead of issuing bonus shares to have more liquidity in the market, like in this example, this company may think of splitting the shares of rupees 5 each into rupee 1 each; that means, instead of 5 shares 1 share the investor will have now 5 shares of rupee 1 each as face value.

So, if the company was having earlier 20 lakh shares, now it will have 100 lakh shares or 1 crore shares that is issued to different invest in the markets, that is supposed to be leading to a more transactions in the market, because number of shares are more though the value is less. Now, the price will also automatically correct to one fifth of the original price, when there will be only rupees 5 as the face value as such.

And if the 30 rupees was the share before the stock split, the price will now become 30 by 5 lakh to 6 rupees per share. Now, instead of having 1 share of 30 rupees, now one has 5 shares rupees 6, that become now rupees 30 in terms of market price.

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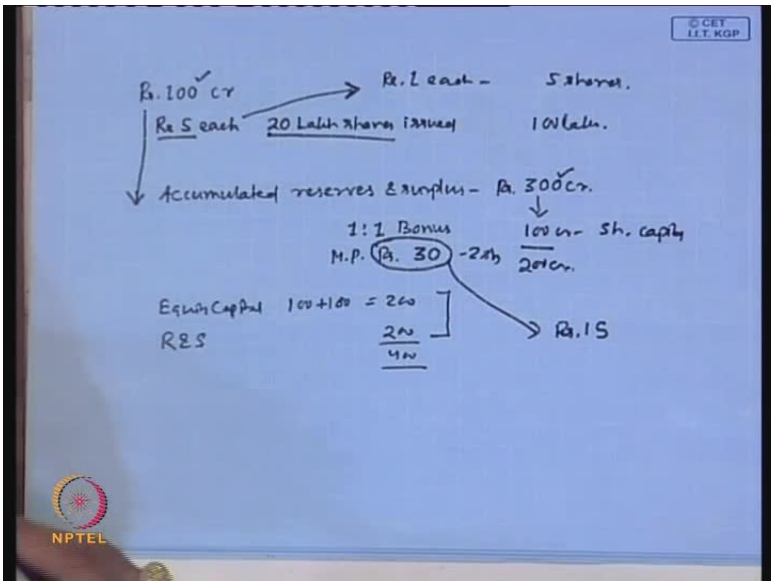

So, overall the investor that does not gain just because the stock split or the bonus issue has taken place. Then, coming to equity market; the equity market in the shares can be issued to the general public through something called initial public offer. Initial public offer means, it is first time this is offered to the public at large, where general public as well as the institution investors can participate, and if the that is a first time which not that the first time the shares have been issued. Shares might have been issued to the promoters earlier, but to the public it has been issued, and the particular offer document has to file with the securities in exchange board of India. And this offer document has to weighted by SEBI not indicating that this particular whatever has been declared is good or bad.

SEBI ensures that whatever, material information should be there for the investor to take a decision or to buy or not this particular share, and those information have to be disclosed by in the offer document. And once the offer document is have been weighted by the SEBI, the company can issue it in general public and any such public offer is that comes after the ((IP)) has taken place that is called the Follow on Public Offer - FPO.

So, as far as the nature of this particular process is concerned, they know difference between these two, but only thing is that the follow on public offer is that, it is more than one of company has come with the public offer. The first time it comes is called initial public offer, so the company in its life can only have one initial public offer and you can have many follow on public offer.

Then, there is one more process, where it is called rights issue and it need not be it is it can just be informed to the registrar of the companies in particular state for the companies registered, that the company is going for rights issue, it need not be approved or by SEBI for that matter.

What happens? Rights issue, the existing shareholders have got a certain right for preemptive right over any newly shares are issued, so that they will not like there ownership to be diluted by having shares with other investors outside, who are those investors who are not the shareholders at present. So, when the rights share comes, the existing shareholders are given, the right to buy the share of the particular company, for a particular price.

Now, obviously, if the price of the share at where the particular shares going to be issued is going to be less than the market price prevailing, then it will be attractive profession for the share holder to buy the rights to get the share. Then, another thing is that the rights themselves, that I have a right to buy certain shares of this company at a particular price, can itself is sold in the market to someone.

So that instead of I myself exercising the right, someone else exercise the right, so let say the price of the particular share prevailing is 100 rupees, and the right rights is to price is 90 rupees; that means, if I subscribe this particular share for 90 rupees, I can sell in the market for 100, so I get a gain of 10 rupees. So, instead of suspecting the rights, I can rather sell the right to someone for certain less than 10 rupees or 5 for 6 rupees for that matter, and then I have a gain of 5 to 6 rupees. Let us say, 5 rupees if I sell the share, so I get 5 rupees, and the person who is buying the right, he can buy the share at 90, so 90, and he has paid the 5 rupees as the rights price to me.

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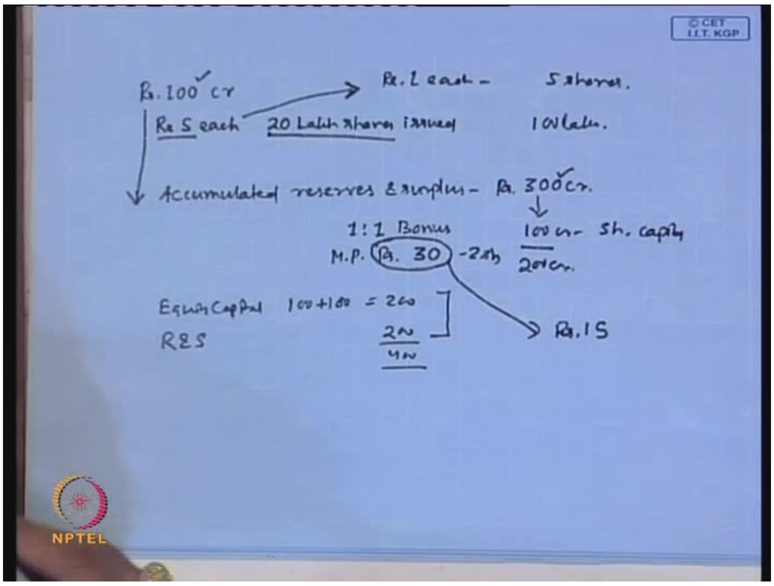

So, he is spending 95 rupees, for getting a share worth 100 rupees, that is, in the market, so he is having gain of 5 rupees. So, unless the market price is more than the rights price, the rights have no value for that matter. Then, we have another transaction takes place in the equity market, it is called by back up shares. So, usually or it is that, it is not mentioned when the equity shares issued by the company, that when this particular shares are going to be taken back, the money will be given back.

Equity shares are suppose to be the forfeiture instruments of the company, if the investor will like to exit from the equity share holding, he or she can sell the share to another person in the secondary market, but company is not obliged to buy the share from the investor.

But, depending upon certain regulations provision that is been taken care by the (()) of the company. Company can think of buying the shares from the market, by going for a offer in the market itself, that it intends to buy the shares from the existing shareholders at a particular price. So, subject to certain regulations of the regulators, the company can buy back the shares, so that is called the buy back up shares. What happens? Essentially, the company giving back certain cash to the equity share holders and it is optional for the equity share holder to sell the shares or not to the company.

So, with that what happen? The number of sales of the company gets reduced, and company possibly intends to enhance the parameters of the financial market performance like, earnings per share or something, like when the number of shares gets reduced on earning per share is likely to go up. So, because of that, possibly company may think of buying back the shares.

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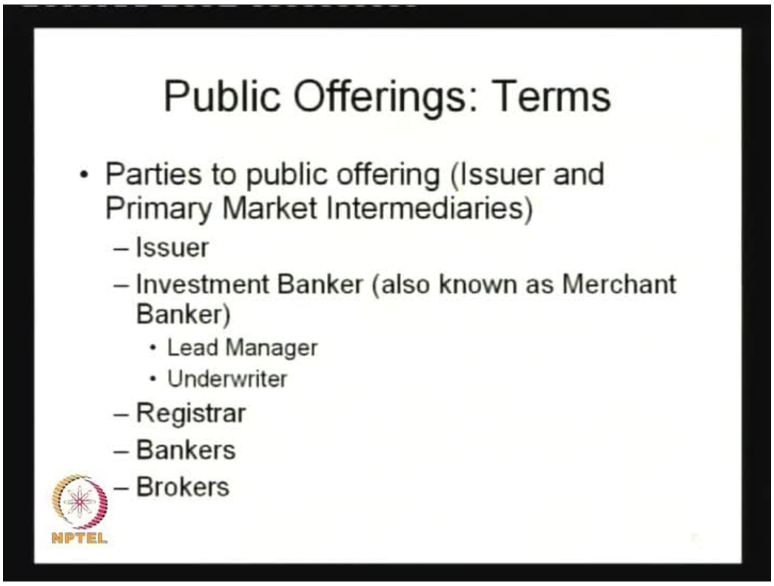

Then, next we move on to the public offer in different terms, and that is there, is certain terms that is there, when you talk about something like primary market, we have something called issuer. Issuer is the party or the institution or the company organization, which issues the instruments to the public at large. So, that is the issue like, company like, let us say Infosys comes with a public issue or recently certain public sector undertakings have come with public issue, so they are called issuer of the instrument. And all this issue when it is going to be offered to the public at large, it is the there is there may not be the competency in the company for that matter to handle everything.

And there are so many regulatory aspects to be taken care, so many rules and procedures have to followed, so there will be professionals who helped in this particular process. And we have certain process professionals like, professional institutions, like investment bankers, for example, we have or something like state bank India or SBI capital market.

There are several such ICICI securities, like there are several organizations, the d s p Merrill lynch, so many organizations are there which facilitate on this particular process. We have international players like Nomura, for that one in India, so they facilitate this particular process. They help the company go for a public offer, and they have the expertise to look at whether how all the things have been taken care, that are proper due diligence has been taken care or not, all the rules have been followed or not, whether the prospectus or the offer document file with SEBI is confirming all the rules and regulations, all those things are netegrities legal issues, procedural issues are taken care by the investment bankers.

So, they are actually facilitators for the public issue, so they are also very major players in a market. And investing banker also have to be registered with this securities and exchange SEBI for that matter, no without registration, this investment bankers cannot play a role of investment banking.

If they have other services to do, but such type of activities can be done only when they are recognized by the SEBI as investment banker. Then, investment banker can be of two types, one is a lead manager, who facilitates the entire process, there is another one is called, another type of investment banker is called under writer.

Under writer is something like an insurance coverage, something like that. So, let what happens? Let the company is coming with the public offer, and for some reason, this particular instrument or the shares or something like that is not appealing to the investors, so there may not be 100 percent subscription for this particular instrument.

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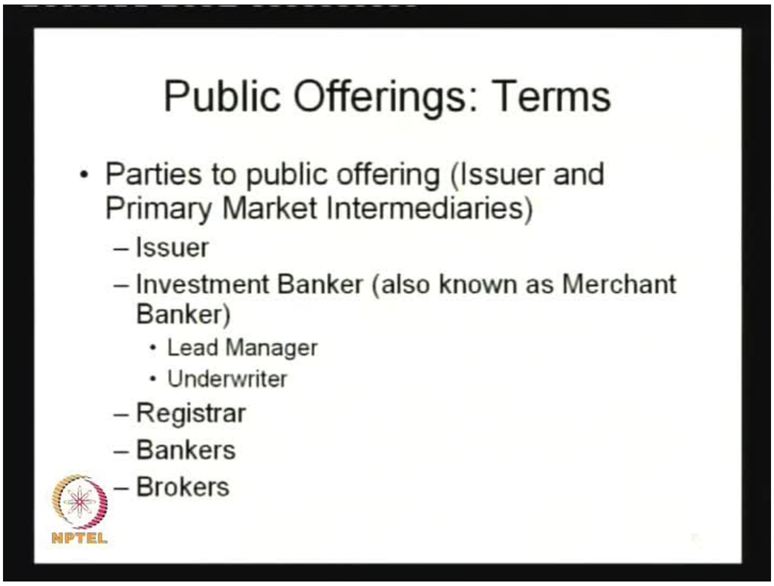

So, in such case, the under writer gives a under taking that, yes, for a fee, they have which they have been promised to the irrespective of that, that is invoked or not, and they will be getting the fee that if the company fails to particular getting the full subscription from the market, then underwriter is going to buy the shares or the instruments from that. So, they give a comfortable for the our company, yes if there is any problem, the underwriters are there to buy under certain regulations for underwriting also, which we are not discussing in detailing about that, certain regulations prescribed by the SEBI in Indian context.

Then, you have registered to be issued, registered to be issue is like that who will maintained to the who are the potential for the applicants, then who registered also maintained the records of share owners, of the who are the persons, who own this instrument and who own the shares. Then, the transfer takes to the registrar, which also can be known as transfer agent. If somebody will like to sell the share, then share has to be transferred to another person name, so they will take care of that particular record. So, they will have a registrar of the instrument holders, may be shareholders, may be debenture holders, may be bond holders, so they have all the information about who are the buyers of this particular instrument.

Then, there are certain another organization like a bankers, so it is not that the company is going to get this money from the investor directly, rather it will be through a banker.

So, the banker will have the funds for certain period of time, where the depositors actually apply for these shares through a particular application document. And the banker will be collecting the cash on behalf of the company and it will be passed from the company at the right point of time.

Then, there are certain brokers who actually ensures or they facilitate, where spreading of this particular information is that yes this particular shares are issued beside the public advertisement that takes place through electronic media or a print media. Brokers also, they also circulate the application forms across the banks or the stock exchanges or wherever there is a possibility that the investors can come and look at that.

So, they facilitate as a brokers, need not be mandatory for the company when going for public issue, but it is always better that…, because they are in touch with the investors and the ground level and (( )) for that matter. So, it is the company that may take up the help, take the help of the brokers, and the brokers are actually the members of stock exchange and each broker can also have their sub brokers who participate.

And obviously, this when you have got from application of a document, and there will be broker code, they are so there will be certain commission percentage that accrue to the broker, because in for him this particular share application might have actually came.

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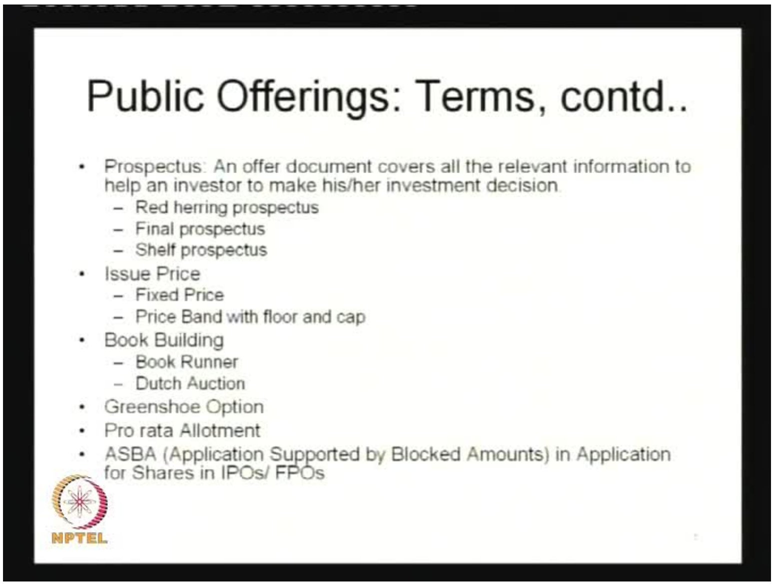

So, there to spread the message and also facilitate the process for that matter, so this is a broker. Then, we have other terms in the public offering, the statistical prospectus, this prospectus are the offer document, it covers all the relevant information with the public - the issue - and the company, so that the investor can take an inform the make an informed decision.

So, as we have discussed earlier, the investment banker will facilitate that, every information is giving all the rules and regulation, it will complied with, and the offer document is given to SEBI for rating. And that offer document is suppose to be taking care of all the things which what the company is going to do with this particular issue of money, say issue of shares, whether it come to a register funds, various funds are going to be applied, what are the companies feature plan, what are the risks involved in this particular business, where are the product market, all those things have to be… or the regulated approvals have been taken or not, or this company is going to listed or not, where is going to be listed, all those things detail things are available in that offer document, which helps the investor to make a decision, yes, I will buy or not buy this particular share. And this prospectus can be of something as red herring prospectors.

Red herring prospectus is something which is not final; that means, what happens, because of the recent phenomena, the company when they file a prospectus of the SEBI, in that case, there are certain things particularly with the respect to number of shares, and the price of the share may not be finalized. So, there are certain things which are not finalized, but other things are more or less there, so that is given to the that is submitted to a SEBI for rating, and that is called red herring prospectors. Once all the information is there with the company, then a finance prospectus is given to SEBI for information.

Then, there is something called shelf prospectus; a shelf prospectus is useful for those companies where it is allowed for banking and financial institutions in Indian context. Where instead of going for repeated number of herring over prospectus, a shelf prospectus is kept with the SEBI or the regulatory authority, and for now, it is for public consumption also.

So, this company can come with more number of, multiple number of particular issue in a particular given period of time, let us say one year. And every time the company comes with the new issue, the company only has to give an information memorandum. And some additional information to be provided to the in addition to the original offered document or the shelf prospectus, it will be giving certain information memorandum, which will give more information, which is now vital for the decision making.

So, someone need not file the full prospectus, every time it goes for that, so it is kept in the shelf which is on for a particular of time. Every time the company comes with the new issue, in that particular time, it will only come with another information memorandum. Then, these shares or the particular shares for that matter can be priced, fixed or can have a price band.

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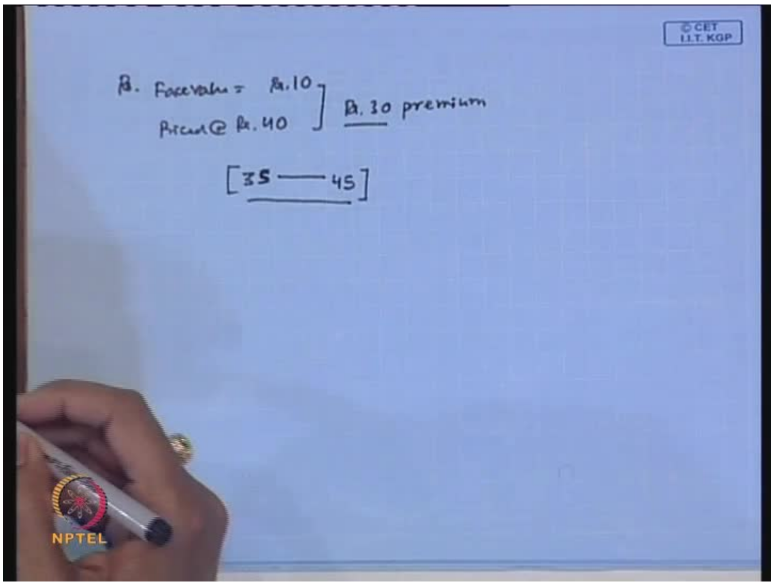

So, the company may think of depending on the particular valuation of the particular share, the company may think that ok, we will issue the shares for rupees, this will be face value of a share, let us say is rupees 10. Depending on the valuation of the share, the company thinks that it can be priced at rupees 40; that means, this is rupees 30 premium.

And once this particular price is fixed, it is offered to the public, it may be possible that all the shares are not subscribed or there is a very less subscription, because company always feels that there is lot of demand for its shares. It talks about the reputation of the market, the goodwill goodwill of the company or the reputation of the company in the market.

So, if company will always like that the shares are subscribed, rather it is oversubscribed. That means, there are more applicants, more number of shares applied compared to the number of shares available for the investors. So, for that, when there will be less number application when the shares are positive value high, and when there will be more applications shares are positive to be valued less, so there is an under valuation problem, then, there will be more applicants for that.

So, at that point of time, when that happens, the company may feel bad, or feel good or feel bad that it could have priced more, because there is lot of subscriptions for that. And there is a risk also involved, that, yes, they will not be enough subscription, it may devolve on the underwriters, because there is under subscription for the instrument, then in that case, there is also talks a reputation. Instead of doing 30 rupees as the premium, the company can think of that, yes, the share is within a band, let us say, it is between 35 to 45 and there is a certain principles, that like that is lower band will be maximum 20 percent less than the upper band, there is a difference like that and so, let us say, 35 to 45 is there.

So, now, what will happen, this will be the offer that is these shares will be issued anything between 35 and 45, so the investors will now offer to buy the shares at a particular price between 35 and 45. So, based on the response of the company that is going to be finalized, and this particular process is also known as book building process, which you have in the next point.

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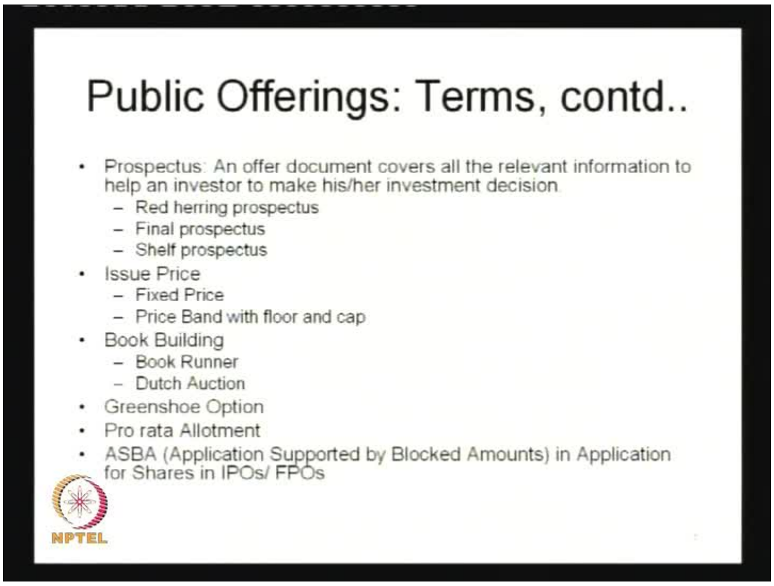

Book building, there is a book runner who actually maintains the book of applicants of the shares, where these shares are applied for by the investors at different prices and this prices are arranged in a particular manner like ascending or descending order.

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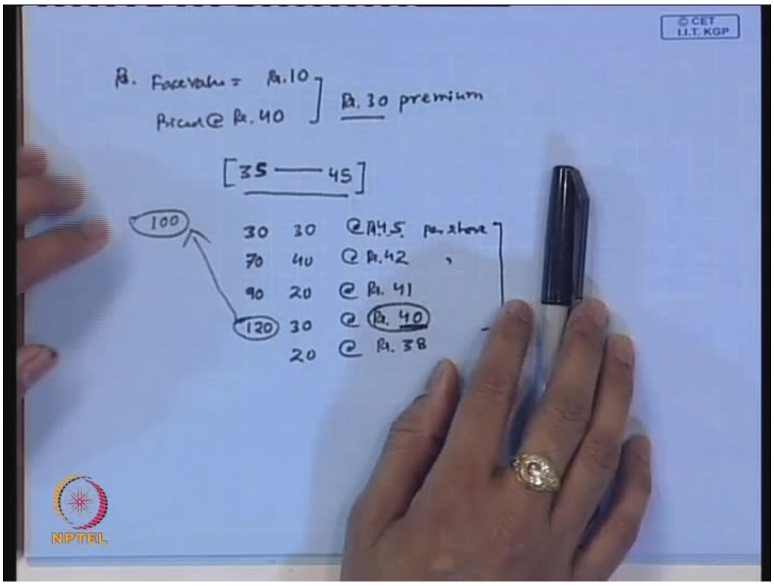

So, obviously the company is going to buy issue the shares at the best possible or the highest possible price. But, let us say in this example, let us say the there are company will like to issue a 100 shares, so let us say there are only 30 applicants who will like to buy at rupees 45 per share; that means, there are 70 more applicants have to be there.

There may be another 40 who will like to buy at rupees 42, there may be another 20 who will like to buy at rupees 41, and then there are another 30 who will like to buy the share at rupees 40. And there may be rupees another, let us say, 20 share applicants, 20 applications, 20 number of shares will like to buy or let us say rupees 38.

So, let us say these are the, 5 prices have come out from this application, now you can see here, so if you go for a cumulative number of shares applied 30, 40 becomes 70, then becomes 90, then it becomes 120; that means, the shares are subscribed with the extend of 100 percent within by the amount of… The minimum price the company is going to be charged is rupees 40, not beyond or less than 40 as such.

So, that will be the price, because the dark section what happens? It is done like this, but all the shareholders, so there we have applied at 45, 42, 41, everybody will be given at rupees 40, as per the as it is a lowest lesser price, because at that point all the shares are spread.

Now, one can see here, that there are 120 applications for 100 shares. Now, these when there are more number of applicants, compared to the more number of application of per share compared to the shares that is there offers sale by the company and at that case the pro rata arrangement has to be there. That means, for in every simple ratio, for every 1.2 share applied for… one share is going to be issued by the company.

Then, the company can also have something like green shoe option. Green shoe option means, that in case of over subscription to the number of shares, the company can retain the over subscription amount to the extent, maximum possible to the extent of 15 percent. That means, if the company has offered to issue 100 shares and there is an application to the extent of 120 shares, then company can exercise the green shoe option and go up to 115 shares to be issued and obviously to 120 applications on the pro rata basis. So, it is a combination of green shoe option as well as pro rata allotment.

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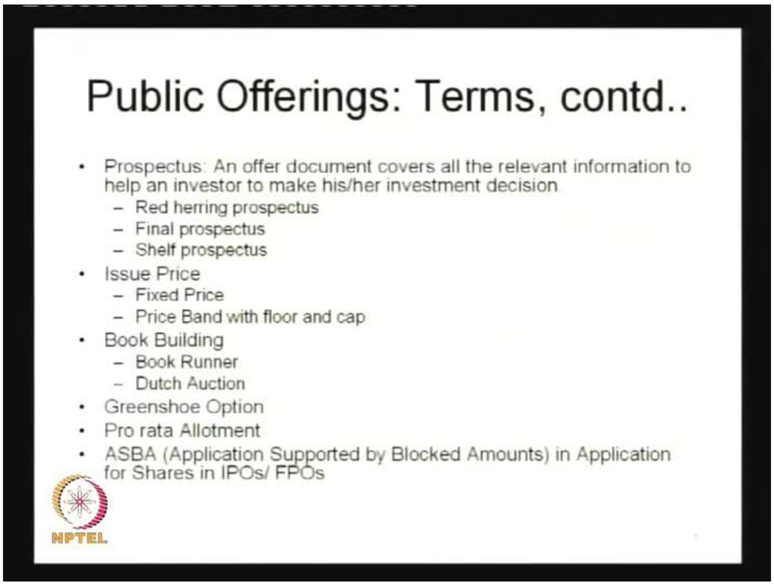

There is a new thing that has come in Indian context is ASBA, there is Applications Supported by Blocked Amounts in application for shares in IPOs and FPOs. So, what happen in this case? When the shareholder is or the potential investor is applying for the shares in the market, in that case, what will happen? The amount that is there in the bank for this particular investor, gets it is there and it is getting transferred to the... It is never within the investor now, because the investor cannot utilize that.

But, ultimately the shareholder may not get the shares, because all the shareholders may not, all the applicants may not get the shares, in that case, the shareholder is the applicant is going to get back the money, but this money has already been blocked and it is been taken from the account and the investor looses the interest.

So, instead of that, losing interest, there is what happens this particular amount will be blocked by the banker, but it will be still with the account holder, and only when the shares are actually issued to the and the person, is becomes invisible for the shares, then only the amount will be transferred to the company.

So, the investor will not lose the interest on the amount, if the company fails to or company cannot - give the shares to the - issue the shares to the particular investor. So, that is the as a good provision that has come in the Indian market.

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Now, we move on to the secondary market, or we talk about something called a stock exchange. The stock exchange is in a place where buying and selling of the shares and other financial instruments actually take place. And it is not necessary that stock exchange should be in physical premise or billing or something like that.

Earlier, we use to have this stock exchange where physical premise via the brokers, or the members of the stock exchange use to have something called open cry system where will go with certain signs and symbols and words something like that, they exchange the information between among themselves and which indicates that is this particular share is going put to be sold by this particular broker at this particular price. Then, somebody may indicate with their sign or something that is going to be that he or she is going to buy that particular or that price or less than that or more than that.

And in that case, that is your physical segment or the physical market there, but now actually the market has moved to digital or online format where anybody who is having a connection to the internet, who can then, if he has in the particular account like demat account and bank account and also an account with the broker or the other service providers who will facilitate the selling of the shares like organization, ex brokers are there like ICICI direct and all of them account with them. In that case, what will happen? One can buy the share, or buy and sell the shares in the market online.

So, it is a virtual market now, it need not be that you have to go to a particular premise, if you have an account, if you like to buy or sell the shares we can do it sitting at home for that matter, and the brokers also have the terminals with them and through them they can also transact as and though the investors need not go to the stock exchange physically to go for that.

And we have prominent stock, is an India like Bombay Stock Exchange and National Stock Exchange, they are prominent national stock exchange's, national level stock exchanges in India, there are also 19 other regional stock exchanges located in different parts of the country, typically, the capital cities have, an major industrial cities of the country, but they are actually almost nonexistence. There number of transactions that they have (( )) is very negligible now, because all the shares are now available for sale or buy in the online format the NSE and BSE. So, obviously, they have taken an they have taken the major chance on the market now. A NSE now have a better person to the share in the market in terms of volume that is there compared to BSE.

There are some other international stock exchanges like NASDAQ and Newyork stock exchange in U S, and London stock exchange or LSE in London or a U K, then you have Hong Kong stock exchange in Hong Kong, there are some examples over here reported international stock exchanges.

And as we discussed there are 4 national stock exchanges are, there will be a besides BSE and NSE, there is one more exchange called OTCI or there is called Over the Counter Exchange of India. There is one more exchange called Interconnected Stock Exchange of India which is connecting the regional stock exchanges of India, but their volume delt in that market is very negligible as such, so prominent stock exchange in India is a BSE and NSE.

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Then, we move out to the other terms of secondary market; secondary market, as we discussed, it is no more physical delivery of the shares, it is like a no physical market, is now online market, there is called bolt is the online market of BSE. The BSE is online trading system and then you have NEAT, that is, National Exchanges for Automated Trading. So, bolt system and neat system in the respective stock exchanges; NEAT is a NSE and bolt is in case of BSE and as we have discussed earlier, so this shares can be transferred between one party to another party online for a particular price.

So, one can give the price that I like to buy the share or I like to sell the shares at this particular company, at this particular price and there will be also corresponding buyer and seller, the codes given by other players - other investors - whenever there is a (( )) between the buy code of someone or self-code of some other person, and the trading can actually take place. And when the trading too takes place, there can be two types of trading in stock exchange, that is, one is a cash account and another is a margin trading.

In a cash account, though it need not be typically cash that the cash is giving paid as such, and cash account what happens? There will be delivery in a particular settlement cycle or there may be non-delivery also. Delivering means, the settlement cycle like there is a t plus 2 if transaction plus 2 days, that is, settlement period, so within 2 days this settlement has to take place; that means, the buyer of the share will get the share and the seller of the share is going to get the cash as such.

Then, another is non-delivering based element is, in this same day - in the intraday - I take a position of buy and then, I take it is position of sell, and then depending on the differential market, I may have to pay or I may get some money from the market depends upon, what I bought and what I sold, on the settlement has taken place in that particular day. So, it is called there is no delivery, rather, I get differential price as such, that is a cash account, that is also called margin trading. In margin trading what happens? You need not have all the cash to be given by you, if you are going to buy certain shares neither you are going to give all the shares that you like to sell for that matter.

Based on a particular percentage of margins one can go for a bigger volume of share transactions is like acting like a leverage where you have a small amount to invest but you can participate in the bigger size of the market or deal as such. So, based on that, it is a margin trading is, based on that you have got small margin giving and you can go to bigger transactions there.

Then, in the case of market, there are different types of players in the market; they are called bulls, bears and stags. Bulls are those investors or the brokers for that matter who believe that the share price is going to upwards, they ever they are going to continuously going to be rise as such, there will be little optimist that the share price will going to move up. Bears are some those investors, those brokers, those participants who say that the share price is going to actually fall, they have got pessimistic, expected the share price is going to fall. Stags are some people who are not interested in this market or so they are independent, whether there as a bear bulls market or bears market, going up or market is coming down.

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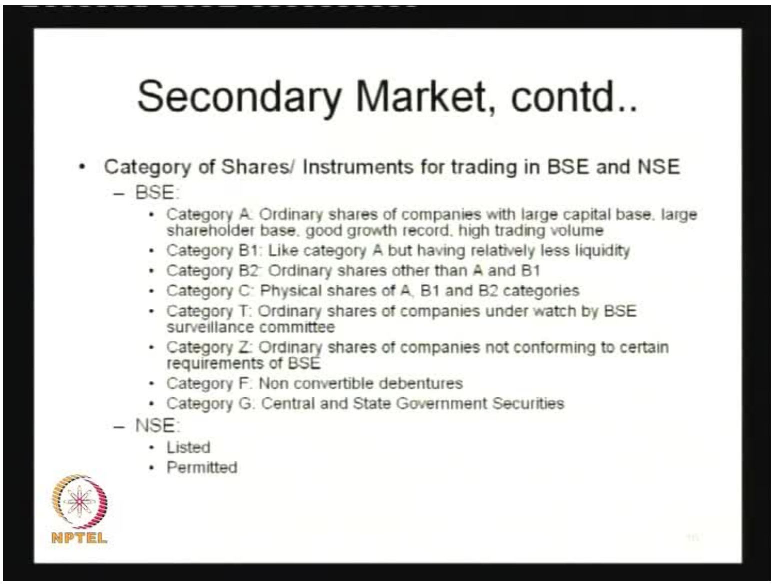

Then, coming to the Again, the certain other terms that you have is called, when the BSE, in NSE, they are different categories of shares, in BSE you have got different categories, in NSE two categories are listed and permitted. In BSE you have got category A. Category A shares are supposed to be the something like a blue cheap, where there is more number of transactions that take place in this particular segment, and then they have got use to bigger capital base, they have got large shareholders, there is big demand for this particular instruments, for this companies shares.

So, the category, the best category in the category share, and there will be little lesser liquidity in those shares, but other connections taken care, they are called category B 1, and category B 2 those are also good shares, but they are not such good like A and B even the category B 2. Then, you have got category share C; C shares where there is a cash segments, so everybody may not have the shares in the demat format, one may have the shares in physical format, they will be category C shares with the physical formats are actually there.

And then you have category T, where there is because of certain manipulations inside trading, this particular company may under surveillance, so those company shares are known as category T shares. And category Z shares are something which is not appealing to the investor, there are not lot of transactions happen, the company do not furnish the required information in time and that is the called category Z share.

Then, you have got category F share, which is nothing but the category F instrument that is called non-convertible debenture. Then, you have got category G which takes care of something like central and state government securities like debt instruments. Then, in National Stock Exchange you have two categories of shares, that is, listed and permitted. Listed means that is there listed in this stock National Stock Exchange and permitted means it is listed in other stock exchanges, but permitted to be traded in National Stock Exchange.

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Then, other thing that you have in secondary market is called the book closure and record dates; certain information, certain announcement need made like a dividend declaration, bonus declaration all this things can be made. And a book closure means that during that particular time - on that particular time - the shares cannot be transferred to another person, whoever is holding this share he or she is going to get the benefit out of that particular information. The dividends will be going to those people who have the shares at that particular time, so record date is there till the book closure take place, so that the shareholder the buyer or the seller know whether he is going to get the dividend or not.

So, depending on that there will be a dividend ex dividend price or cumulative dividend price, ex dividend price means, the price buyer of the share will get the share but not the dividend; dividend will go to the seller of the share. There is something called block trading where, a bigger volume on transaction that takes place not small transaction that is called block trading, typically between institutional players, there is something called penny stocks. Penny stock is that stock which is available for buying in the market for a very less price and typically those book value to the particular share may be much lesser than the market, and other things that we have in the stock market, there is other very pertinent information about stock market is that, that is called price earning ratio and price to book ratio.

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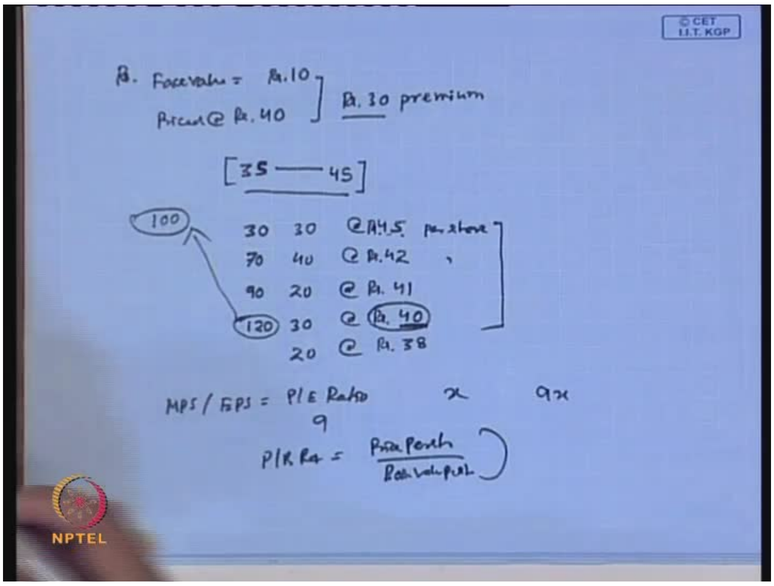

Price earning ratio is nothing but, market price per share to earnings per share, that is an indicator that which says, yes, if the company is earning per share is x per ratio is 9; the share will be set for 9 x rupees. So, price to book value ratio is nothing but, it is price per share divided by book value per share. These are indicator stock about that is share a lower the ratio is offer buying, higher the ratio is like upper selling, so it like over value. So, based on the industry, based on the company, one can have the price earning ratio to be higher price, books value ratio will high or low for that matter.

So, depending on the industry trained, one can say an average is, let say 9, and some price earning ratio in other company is 10, so obviously it is overvalued. If it is 8 for the company, average is 9 for the industry then, it is actually undervalued.

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So, these are indicators, these are things which can help us decision making that whether can go for buying the share or go for selling the share.

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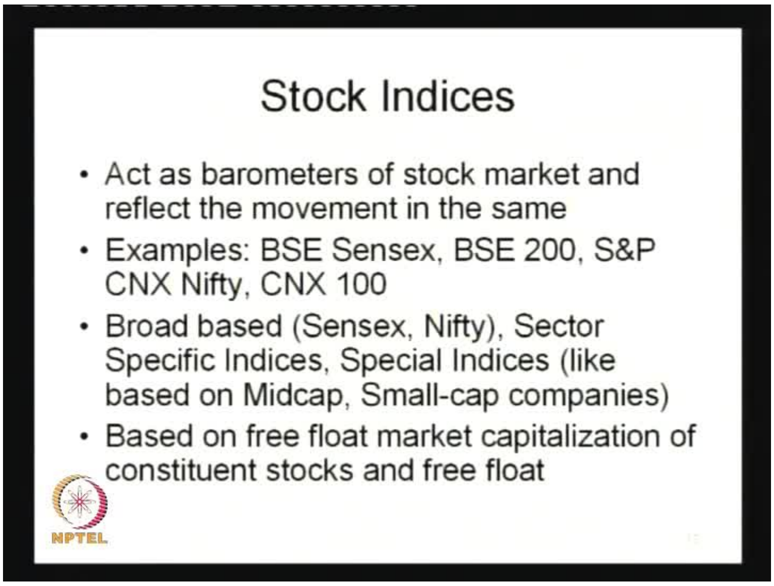

Then, we have the barometer of the stock market, it is called stock indices, which act as a barometer of stock market and reflect the movement in the same. There are examples of stock market indices like BSE sensex, it come to under 30, which was setup in 1979, the BSE 200, S and P CNX Nifty are known, popular known as a Nifty which is the base 1995. The sensex and nifty are broad based, there are sector specific indices, the special indices like midcap based company indices and small cap company based indices. And these are based on something called free float market capitalization of the Indians constituents stocks, free float is that float that this particular shares are actually issued to the non-institution investor, written investor, not to the promoters (( )) their available for trading in the market.

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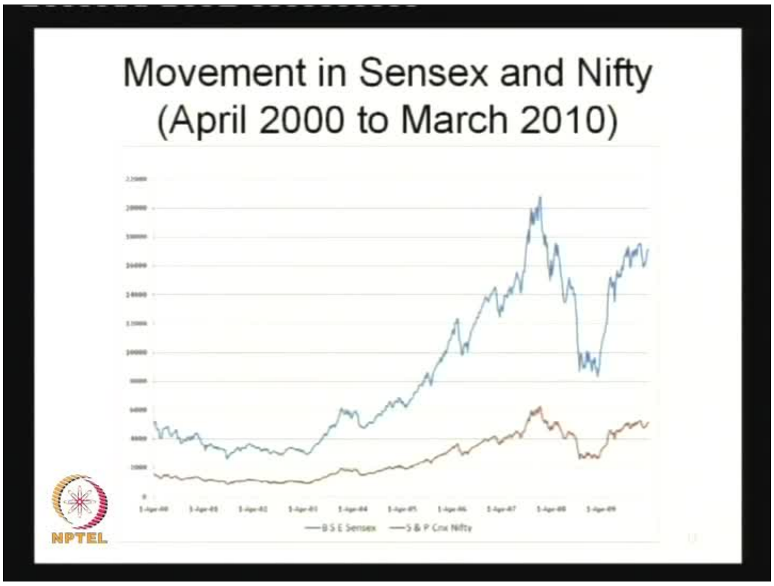

So, the sensex base is 100 and Nifty is the base is 1000 in 1995, sensex base 100 in 1979, One can see this particular chart which talks about the movement of sensex, the blue line talks the sensex and the red line is a Nifty, and it is from 2000 - passing 2002 - today's date is the 17 th march 2010 that has been given there the price, how it has been actually moving.

So, you can see that is a fall, up and down, up and down, there is up here peak, there is a 2007-8 around 8. Then, it has come down, and again now it has come down, so around 17, 18000, this is the price sensex is moving and something between around 5000, the Nifty is moving at this point of time.

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Then, we have got another market called debt market; the debt market is the market where fixed income securities are various types and features are issued. And there is a market in the debt market, what is the instrument that traded, that is, called as instruments issued by central government and state government, instruments issued by municipal corporation, instruments issued by the government bodies, instruments issued by financial institutions market and public sector units, public limited companies, it also deals with something structured instruments like securitized based instruments.

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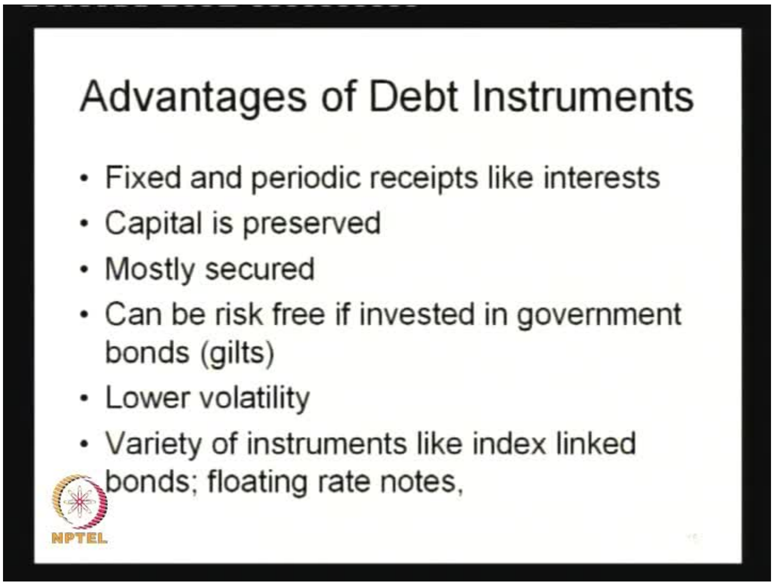

And what are the advantage about the debt instrument is that, there are investors can get fixed and periodic receipts of interests, capitalized preserved for the investor or mostly the debentures are secured, can be risk free, it is issue by the government, it has a lower volatility compared to the equity instruments. There is a variety of instruments like index linked, where the interest is linked to the particular index, it could be the consumer price index or whole sale price index, which protects the inflation for unharm body floating rate, now it is which you get more interest when you got up upward trade in the market, you get low interest when there is a downward trade in the market.

So, debt instruments are supposed to be substitute for the loan of the company and debt instruments also can be terribly market. There is a whole sale debt market segment in the stock exchanges, where this debt instruments can be traded whether this instruments are issued by government of India or state government or the corporate, instruments can be short term or long term or debt instruments also liquid in the format.

Though there may not be retail investment partition is must, in case of debt instruments, but there is a lot of participation by the banks, financial institutions in the debt instrument trading. In fact, the debt market in size and volume is much, much, bigger than the equity market, but it is not that prominent to the retail investors. But the markets mechanism is, it facilitates trading between the holder of the debt instruments, so that it can go to the person who like to or institution like to buy this particular instrument. And debt market instruments give lot of liquidity of the particular, says, investor or the holder, and that is one of the reason, and also it takes care this risk and volatility, this particular debt market is much lower than the corporate, other from security may like a equity shares; thank you.