Unit 5 Equity market:

Equity Market meaning:

An equity market is a market in which shares are issued and traded, either through exchanges or over-the-counter markets. Also known as the stock market, it is one of the most vital areas of a market economy because it gives companies access to capital and investors a slice of ownership in a company with the potential to realize gains based on its future performanceEquity Culture in India:

Indian investing investment of their savings is finding an investment instrument that gives a high, guaranteed return with no risk or low risk, & high liquidity. This is perhaps been most obvious reasons for subdued participation in equity and stocks. The equity culture in India has not witnessed much change in last 15 years when we compare it to GDP growth in rupee term.

Equity Culture in India

Household Saving Distribution-Equity Culture.India has a savings to GDP ratio of 30% which is the highest in the world. It is a nation of savers and investors where more than 50% of the population is under 25 years of age. It is also a country that has distinction of having 85% of the household savings parked in fixed deposits. Country's household invests a meagre 7% in shares and equity mutual fundsIPO Definition:

IPO is an abbreviation of Initial Public Offer. When a company is going for a process of getting listed on the stock exchange and publicly traded, IPO is the first public offering, it is the main source of the company in acquiring money from the general public to finance its projects and the company allots shares to the investors in return.

FPO Definition:

FPO is an abbreviation of a Follow-On Public Offer. The process of FPO starts after an IPO. FPO is a public issue of shares to investors at large by a publicly listed company. In FPO, the company goes for a further issue of shares to the general public with a view to diversifying its equity base. A prospectus is offered by the compy

Non-Dilutive offering

and let's compare IPO and FPO. For a company to run and grow, requires fund flow. Not just a start-up but even well-established companies require funds in order to continue with their ongoing process and to expand their business. Many times for the owner of the company, it is not possible to provide continuous supply of funds therefore, issuing share to the general public is the most convenient way for a company to raise capital.

Key Difference: IPO vs. FPO

IPO is the first public issue of the shares of a private company that is going public whereas FPO is the second or subsequent public issue of the shares of an already listed public company
IPO is released with an intention to raise capital through public investment whereas FPO is offered with an aim to inflow subsequent public investment. An IPO is generally riskier than FPO as in IPO an individual investor does not know about what may happen with the company in the future. On

the other hand in FPO, the investors are aware as the company is already listed on stock exchange. Therefore, the investors can study the past performance and make assumptions about the company's future growth prospectsTypes of IPO:

Fixed Price Issue

Book Building Issue

The initial price offer can be made through the fixed price issue or book building issue or a combination of both.

Fixed Price Issue

In the fixed price IPO process, the Company along with their underwriters evaluate the companies' assets, liabilities, and every financial aspect. Then they work with these figures to fix a price per issue to achieve the target funds. This price which is fixed per issue is printed in the order document. The order document justifies the price with qualitative and quantitative factors. The demand for securities is known only after the issue is closed. The oversubscription levels are high in the fixed price offerings, sometimes several hundred times.

Book Building Issue

Compared to the developed countries, the concept of book building is new to India. In the book building issue, the price is discovered during the process of IPO. There is no fixed price, but there is a price band. The lowest price in the band is referred to as the 'floor price' and the highest price is referred to as the 'cap price'merchant bankers play a decisive role in the determination of issue price

for public issues. Issue price of securities is determined by the issuing companies in

consultation with the merchant bankers, called issue managers. It is determined in the

light of legal and regulatory framework of a country. Till 1992, pricing of public

issues were regulated by Capital Issue (Control) Act, 1947 in the country. Now, with

the repeal of this Act, the issue price of securities is determined by the relevant

provision of Companies Act, 1956 and Securities and Exchange Board of India

(SEBI) Act, 1992.

During the era of Controller of Capital Issues (CCI), the task of issue

managers regarding determination of issue price of securities was limited, as the issue

price was strictly determined on the basis of formula provided by CCI. After the

liberalization of Indian economy in 1992, the concept of free pricing of public issues

was introduced. The issuing companies were made free to determine the issue price of

their securities. As the issuers are not well versed about the prevailing market

conditions, they are more dependent upon lead merchant bankers to determine the
issue price of shares. So, pricing of public issues has become a complex and
challenging job for merchant bankers which demands the best skill and expertiseMethods of Pricing of Public Issues

Various policies and methods used for pricing of equity issues followed during
the pre and post reforms periods are explained below:

6.1.1 Pricing Regulations during Pre Reforms Era

Raising of capital by companies in India from securities market was free from
all controls until the Second World War. During the Second World War, the colonial
Government needed to raise funds in order to support the war efforts. Thus, under the
Defence of India Rules, it put restrictions requiring the issuer to obtain the prior
permission of the Govt. before going to the public. This was continued even after
independence and was formally incorporated in the Capital Issues (Control) Act,
1947.

The office of Controller of Capital Issues (CCI) in the Ministry of Finance,
Government of India, administered the Act. Under the Act, Central Government's
permission was required with regard to (i) the timing of the issue (ii) the size of the
issue and (iii) the price at which securities were to be issued.

6.1.2 CCI Formula for Valuation of Equity Shares

Till mid 1992, Indian capital market was under the direct control of Central
Govt. through CCI. The new companies were allowed to issue shares at the face value
only and the existing companies with sound financial structure could issue shares at
premium. There were strict norms for the issue of rights shares and bonus shares.
he pricing of equity issues by unlisted and listed companies, CCI provided a formula
for the 'fair value' of equity shares. This formula was based on the:

(i) Net Asset value (NAV),

(ii) Profit Earning Capacity Value (PECV), and

(iii) Market Value (MV), in case of listed companies.

The NAV, as at the latest audited balance sheet date was calculated on the
basis of the total assets of the company and deducting there from all debts, dues,
borrowings and liabilities including current and likely contingent liabilities and

preference capital, if any. This NAV calculated from the assets side of the balance sheet in the above manner was cross checked with equity capital plus free reserves & surpluses, less the likely contingent liabilities.

The Price Earning Capacity Value (PECV) was calculated by capitalizing the average of the after tax profits at the following rates:

(i) 15% in the case of manufacturing companies.

(ii) 20% in the case of trading companies, and

(iii) 17.5 % in the case of 'Intermediate companies', that is to say, companies whose turnover from trading activities was more than 40% but less than 60% of their total turnover.

In case of listed companies, the market price of equity shares will be the guiding force for determining the issue price of equity shares to be issued. In such cases, the market price was taken cognizance of in the following manner:

(i) The average market price was determined taking into account the stock market quotations in the preceding three years(after making appropriate adjustments for bonus issues and dividend payments as under:

(a) The high and low of the preceding two years: and

(b) The high and low of each month in the preceding 12 months.

The conservative CCI formula, which used to calculate the 'fair value' on the basis of accounting information, was critised on a number of counts. This often resulted in extreme under pricing and heavy over subscription. The heavy under pricing deterred the companies from going to public. Consequently, very few issuers took initiative to issue equity shares to the public. Debt played a major role in financing the projects and the primary equity market could not develop significantly.

The Capital Issues (Control) Act, 1947 and CCI was repealed in May 1992.

With this, Government's control over issue of capital, pricing of the issues, fixing the price rates of interest etc. red herring prospectus is issued to potential investors, but does not have complete particulars on the price of the securities offered and quantum of securities to be issued.[1] The front page of the prospectus displays a bold red disclaimer stating that information in the prospectus is not complete and may be changed, and that the securities may not be sold until the registration statement, filed with the market regulator, is effective.[2] Potential investors may not place buy orders for the security, based solely on the information contained within the preliminary prospectus. red herring prospectus is issued to potential investors, but does not have complete particulars on the price of the securities offered and quantum of securities to be

issued.[1] The front page of the prospectus displays a bold red disclaimer stating that information in the prospectus is not complete and may be changed, and that the securities may not be sold until the registration statement, filed with the market regulator, is effective.[2] Potential investors may not place buy orders for the security, based solely on the information contained within the preliminary prospectus. Sweat equity is a party's contribution to a project in the form of labor, as opposed to financial equity such as paying others to perform the task. Sweat equity has an application in business, for example, where the owners put in effort and toil to build the business, in real estate where owners can perform D.I.Y. improvements and increase the value of the real estate, and in other areas such as an auto owner putting in their own effort and toil to increase the value of the vehicle.

The term sweat equity explains the fact that value added to someone's own house by unpaid work results in measurable market rate value increase in house v

ESOP

An employee stock ownership plan (ESOP) is an employee benefit plan that gives workers ownership interest in the company. ESOPs give the sponsoring company, the selling shareholder, and participants receive various tax benefits, making them qualified plans. Companies often use ESOPs as a corporate-finance strategy and to align the interests of their employees with those of their shareholders. rights issue or rights offer is a dividend of subscription rights to buy additional securities in a company made to the company's existing security holders. When the rights are for equity securities, such as shares, in a public company, it is a non-dilutive(can be dilutive) pro rata way to raise capital. Rights issues are typically sold via a prospectus or prospectus supplement. With the issued rights, existing security-holders have the privilege to buy a specified number of new securities from the issuer at a specified price within a subscription period. In a public company, a rights issue is a form of public offering (different from most other types of public offering, where shares are issued to the general public). Sometimes Right issue can give privileges to people like director, employees those are having some ownership in company to buy the issues. rights issue or rights offer is a dividend of subscription rights to buy additional securities in a company made to the company's existing security holders. When the rights are for equity securities, such as shares, in a public company, it is a non-dilutive(can be dilutive) pro rata way to raise capital. Rights issues are typically sold via a prospectus or prospectus supplement. With the issued rights, existing security-holders have the privilege to buy a specified number of new securities from the issuer at a specified price within a subscription period. In a public company, a rights issue is a form of public offering (different from most other types of public offering, where shares are issued to the general public). Sometimes Right issue can give privileges to people like director, employees those are having some ownership in company to buy the issues.

Secondary Market:

The secondary market is where investors buy and sell securities they already own. It is what most people typically think of as the "stock market," though stocks are also sold on the primary market when they are first issued. The national exchanges, such as the New York Stock Exchange (NYSE) and the NASDAQ, are secondary markets .

Stock exchange board of india

stock exchange is an organised and centralised market for the purchase and sale of industrial and financial securities of all descriptions, viz., Stocks, Shares, Debentures etc.

It is a market for transactions in old securities. Practically, it is a place where the buyer of a security may find a seller who is ready to sell his holdings at a fair and reasonable price provided the security has been listed.

Evolution and growth of sebi :

According to the Securities Contracts (Regulations) Act of 1956, a stock exchange is 'an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities'.

Functions and Services of Stock Exchange:

The stock exchange is almost indispensable for the proper functioning of corporate enterprise.

Its economic functions and services are enumerated:

(a) Ready market for securities;

(b) Evaluation of securities;

(c) Convincing place for transfer of ownership of securities;

(d) Safeguards for investors and encouragement of savings;

(e) Flow of capital into industry,(f) Liquidity of securities;

(g) Facility for speculation;

(h) Flow of savings into sound undertakings; and4.1. Evolution and Growth of Stock Market in India

Stock market in India has a long and chequered history. Bombay Stock

Exchange, the first stock exchange of the country was established as early as in 1875,

predating the Tokyo Stock Exchange by three years. Over these years Indian stock

market has passed through diverse fortunes. The historical evolution of Indian stock

market through four distinct phases is described in this section.

4.1.1. Early Beginnings

The stock market in India dates back to the 18th century when the securities of

the East India Company were traded in Mumbai and Kolkata. Stock broking was not

very popular in those days and in Mumbai, during 1840 and 1860, there were only half

a dozen brokers recognised by the banks and merchants. The securities traded were

mainly shares, debentures and bonds representing titles to property or promises to pay

issued on the condition of transfer from one person to another.

The real beginning of trading in corporate securities came in 1850 when the

Companies Act, introducing joint stock companies with limited liability, was passed.

The following period witnessed rapid development of commercial enterprises, which

made investments in stocks and shares popular. In Mumbai and Kolkata, shares of

banks, cotton mills and loan securities of East India Company were being transacte in large volume.

Stock exchange in India:

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, and settlement process.

Major Developments in the Stock Exchange:

Insider Trading

Depository or Paperless Trading

Conversion of Shares into Dematerialized Form

Surveillance on Price Manipulation

Regulation of Stock Brokers

Forward Trading and Badla

Options and Derivatives

Regulation of Mutual Funds

Regulation of Foreign Institutional Investors (FIIs)

Buy back of Shares

Bombay on Line Trading (BOLT) System

Stock Exchange: Development # 1. Insider Trading:

Insider trading had become an extremely sensitive and controversial subject in the stock market in India.

Any person in power whether an officer or director who had access to information of private matters of the company relating to expansion programs of the company, changes in policies, amalgamations, joint contracts, collaboration or any information about its financial results was

making full use of his position to give an advantage to relatives, friends or known persons by leaking out information leading to frauds and rigging of price relating to securities.

SEBI has laid down guidelines by prescribing norms handling information which may be considered sensitive. Price forecasts, changes in investment plans, knowledge of mergers and acquisitions, information about contracts are not to be disclosed. The staff and officers who have such sensitive information are to be identified in each company. Controls are to be made on the handling of sensitive information.

Insider Trading Regulations in 1992 notified by SEBI prohibited insider trading, as it is unfair upon investors. Persons who posses price sensitive information because they have connections with a company take advantage of the situation to 'peg up' or 'down' prices of securities to their advantage.

The TISCOs case is an example, whereby there was intense activity in trading volume of shares between October 22, 1992, and October 29, 1992, as there was insider information on poor performance of the companies' working. Profits of the company had declined.

After having brought trading under their control the prices of shares brought about a sharp fall in the prices from October 29 to Nov 6, 1992. Insiders had manipulated the market. When a probe took place, the presence of insider information was considered to be the main problem area. As a result of this case, Insider Regulation took place in November 1992, to avoid creation of problems for small investors.

The SEBI is empowered to prosecute any company which does not comply with the act and the persons are liable to penalty and fine or imprisonment if they violate the laws. From time-to-time SEBI can give directions to the officers. Of the company, scrutinize records and documents and conduct an investigation of books and accounts on the complaint of an investor.

Stock Exchange: Development # 2. Depository or Paperless Trading. The Depository Act was passed in 1996 allowing dematerializing of securities and transfer of security through electronic book entry to help in reducing settlement risks and infrastructure bottlenecks. The dematerialized securities will not have any identification numbers or distinctive numbers.

The National Securities Depository Ltd., was set up in Nov. 1996. Trading of new Initial (NSDC) public offers was to be in dematerialized form upon listing. An exclusive feature of the Indian Capital Market is that multiple depository system has been encouraged.

Hence, there are two Depository Services. The other depository system is also registered. It is called Central Depository Service Ltd. (CDSL). Debt instruments however, are not transferable by endorsement delivery.

Dematerialization of securities is one of the major steps for improving and modernizing market and enhancing the level of investor protection through elimination of bad deliveries and forgery of shares and expediting the transfer of shares. Long-term benefits were expected to accrue to the market through the removal of physical securities. Stock market indices: is a procedure of measuring certain stocks. They are used to measure the performance of the certain portfolios.The prime use of the indices is to understand the trends of the marketSome of the notable indices in India are as follows:

a. Benchmark indices like NSE Nifty and BSE Sensex

b. Broad-based indices like Nifty 50 and BSE 100

c. Indices based on market capitalization like the BSE Smallcap and BSE Midcap

d. Sectoral indices like Nifty FMCG Index and CNX IT

Functions of SEBI:

We can classify the functions of SEBI into three categories:-

Protective functions

Developmental functions

Regulatory functions

sebi functions

1. Protective Functions:

As the name suggests, the main focus of this function of SEBI is to protect the interest of investor and security of their investment

As protective functions SEBI performs following functions:

(i) SEBI checks Price Rigging:

Price Rigging means some people manipulate the prices of securities for inflation or depressing the market price of securities. SEBI prohibits such practice to avoid fraud and cheating which can happen to any investor.

(ii) SEBI prohibits Insider trading:
AnMandatory Documents for Death Claim

Claimant's statement / Claim intimation form - Download Form

For Lender Borrower Group (only for Credit Life policies) - Claimant's statement / Claim intimation form - Download Form

For Affinity / Employer-Employee Group - Claimant's statement / Claim intimation form - Download Form

Copy of Death certificate issued by Local Municipal Authority

Copy of Claimant's Photo Identification Proof & Current Address Proof - List of Photo ID and Current Address Proof

Cancelled Chequey person which is connected with a company such as directors, promoters, workers etc is called Insiders. Due to working in the company they have sensitive information which affects the prices of the securities.Such information is not available to people at large but Insider gets this key full knowledge by working in such company. Insider can use this information for their personal benefits or make a profit from it, such process is known as Insider Trading.

For Example - Managers or Directors of a company may know that company will issue Bonus shares to its shareholders at a particular time and they purchase shares from market to make a profit with bonus issue.

SEBI always restricts these types of practices when Insiders are buying securities of the company and take strict action to avoid this in future.

(iii) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI always restricts the companies which make misleading statements which are likely to induce the sale or purchase of securities by any other person.

(iv) SEBI sometimes educate the investors so that become able to evaluate the securities and always invest in profitable securities.

(v) SEBI issues guidelines to protect the interest of debenture holders.

(vi) SEBI is empowered to investigate cases of insider trading and has provision for stiff fine and imprisonment.

(vii) SEBI has stopped the practice of allotment of preferential shares unrelated to market prices.

(vii) SEBI has stopped the practice of making a preferential allotment of shares unrelated to market prices.

2. Developmental Functions:

(i) SEBI promotes training of intermediaries of the securities market.

(ii) SEBI tries to promote activities of stock exchange by adopting a flexible and adaptable approach in following way:

(a) SEBI has permitted internet trading through registered stock brokers.

(b) SEBI has made underwriting optional to reduce the cost of issue.

(c) An Even initial public offer of primary market is permitted through the stock exchange.

3. Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.

(ii) These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.

(iv) SEBI registers and regulates the working of mutual funds etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

Other Functions

1. Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to issue, trustees of the trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment adviser and such other intermediaries who may be associated with securities markets in any manner.

2. SEBI also perform the function of registering and regulating the working of depositories, custodians of securities. Foreign Institutional Investors, credit rating agencies etc.

3. Registering and regulating the working of Venture Capital Funds and collective investments schemes including mutual funds.

4. Promoting and regulating self - regulatory organizations.

5. Calling for information form, undertaking inspection, conducting inquiries and audits of the stock exchange, mutual funds and intermediaries and self - regulatory organizations in the securities market.

6. Calling for information and record from any bank or any other authority or boars or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which are under investigation or inquiry by the Board.

7. Conduct research on any matter described if any.

8. Calling information from any agency, institution, banks etcObjectives of SEBI:

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.

2. To protect the rights of investors and ensuring safety to their investment.

3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.

4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.