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Capital Markets

long term securities

Chapter 31

Module D

Capital markets facilitate long-term investment through sophisticated financial instruments, channelling savings into productive investments that fuel economic growth.

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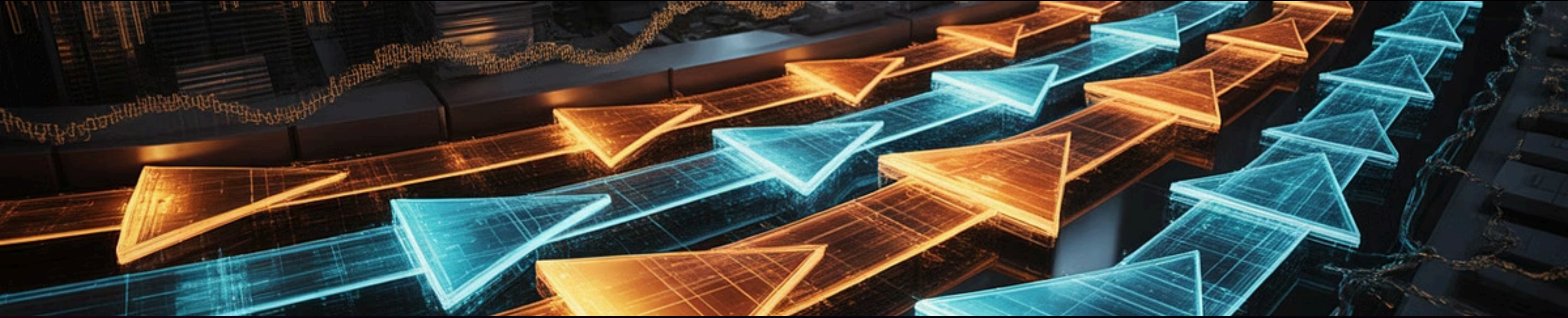

Structure of Capital Markets

Primary Market

IPO

FPO

New securities issued directly to investors

Secondary Market

Trading of existing securities between investors

SEBI Regulation

Ensures transparency, fairness, and investor protection

The Role of SEBI

Regulatory Functions

- Protects investor interests across all market segments
- Ensures transparency and fair trading practices
- Oversees both primary and secondary market operations
- Establishes compliance standards for market participants

The Primary Market

New Issuance

Securities issued for the first time to raise fresh capital

Direct Transaction

Between issuing company and investors

Fixed Pricing

Companies determine initial security prices

The Secondary Market

Investor-to-Investor Trading

Previously issued securities change hands between market participants

Market-Driven Pricing

Prices determined by supply and demand dynamics

Equity & Debt Markets

Encompasses both share trading and bond markets

Promoter

Bank

ABC

CP

Financial Products in Capital Markets

Equity Shares

Ownership instruments with voting rights and profit participation

Preference Shares

Priority securities with fixed dividends and asset claims

Ownership securities

Debentures

Debt instruments offering fixed interest returns

Government Bonds

Secure, sovereign-backed investment instruments

Debt securities

₹1000

5 years

10%

Equity Shares

₹100	100	100	100	100	1000+pc
0	1	2	3	4	5

Key Characteristics

- Represent ownership stake in company
- Voting rights in shareholder meetings
- Variable dividends based on profitability
- Permanent, non-redeemable capital
- Highest risk, highest potential return

~~₹1400~~

Preference Shares

Secondary owner

Priority Status

Fixed dividends paid before equity shareholders

Limited Control

Restricted voting rights in company decisions

2020 21 22

Multiple Types

Cumulative, convertible, participating, and redeemable variants

Debtors

Debentures

XYZ

Loan Capital

Represents borrowed funds, not ownership

Holders are **creditors**, not owners

Fixed Interest

Regular interest payments regardless of profit

Pre-determined coupon rate

Multiple Variants

Secured, convertible, redeemable, and registered types

Investor

Creditors

₹100

₹250

Convertible

equity

Government Securities (G-Secs)

RBI Issuance

Issued by Reserve Bank on behalf of Government of India

Safe Investment

Sovereign guarantee with minimal default risk

Low Risk Return

Periodic Returns

Regular coupon payments throughout tenure

Fiscal Tool

Used for government fiscal management and investor safety

Key Market Terms

1 → 3

Securities Transaction Tax (STT)

Tax levied on stock exchange transactions

Rolling Settlement

Trades settled on daily basis, typically T+2 cycle

Pay-In/Pay-Out Day

Transaction delivery and payment completion cycle

Broker → Payment → Exchang

Broker → secu

SLS

Owner

borrowing fee

Borrower

Securities Lending & Auction

Securities Lending

Investors temporarily lend shares for a fee

Facilitates short selling and market liquidity

Regulated mechanism with defined tenure

Auction Mechanism

Resolves failed delivery obligations

Protects buyer interests on exchange

Ensures settlement completion

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Public Issues in Primary Market

XYZ Co. — MB → IPO

IPO 1st

Initial Public Offering

FPO 2nd

Follow-on Public Offering

Rights Issue

Existing shareholder priority

Bharti Airtel 10:1

Bonus share

Private Placement

Select investor offering

IPO vs FPO

Initial Public Offering (IPO)

- First-time issue by unlisted company
- Transforms private firm to public entity
- Requires extensive regulatory compliance
- Significant milestone for companies

Follow-on Public Offering (FPO)

- Additional issue by already listed firm
- Raises further capital for expansion
- Dilutes existing shareholding
- Simpler than IPO process

Pricing of Issues

Price Determination

- Set by issuer and merchant banker
- SEBI does not fix or approve prices

Two Methods Available

- **Fixed Price:** Single predetermined price 200
- **Book Building:** Price discovered through bidding process within specified range

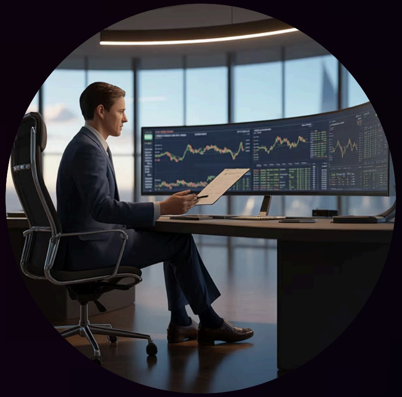
[200 - 450]

Types of Investors

Non-Institutional Investors

Retail Investors

Individuals investing up to ₹2 lakh per issue



Qualified Institutional Buyers

Banks, mutual funds, insurance firms, and FIIs

QIB

High Net Worth Individuals

HNIs investing above ₹2 lakh threshold

Eligibility Criteria for IPO

₹3Cr

Net Tangible Assets

Minimum requirement across preceding three financial years

₹15... Cr

Average Pre-Tax Profit

Out of immediately preceding three years

₹1Cr

Net Worth

In each of the preceding three full years

XYZ

IPO

100

7500

use

ASBA Facility

Applications Supported by Blocked Amount

1. **Application**

   Investor applies for IPO shares

2. **Blocking**

   Funds blocked in bank account

3. **Allotment**

   Shares allocated to successful applicants

4. **Debit**

   Amount debited only upon allotment

Benefits: Increases efficiency, enhances transparency, and eliminates refund delays

No refund delay

Better transparency

Mutualization

Owner → Ownership

Company

Demutualization

Stock Exchanges in India

BSE (1875)

Bombay Stock Exchange — India's first and Asia's oldest stock exchange

NSE (1992)

National Stock Exchange — India's first fully electronic trading platform

Regional Exchanges

MSEI, OTCEI supporting small businesses and regional market access

As Co. registers

SEBI

Depository System

Electronic Storage

Securities held in dematerialised (Demat) form

Conversion Facility

Dematerialisation and rematerialisation available

Efficient Settlement

Faster, safer, and more transparent transactions

The depository system has revolutionised Indian capital markets, eliminating physical certificates and significantly reducing settlement risks.

Demat / Dematerialization

- Rematrization.

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