# Bonds

→ Debt security

→ An instrument which gives,

① Possibility of earning more than FD

② With some risk exposure.

→ It is a fixed income security which allows a lender to lend a predetermined amount of funds and be eligible for interest on those funds.

→ Features of Bonds.

① Coupon Rate
- Rate of interest

② Tenure
- Time Span

③ Maturity
- Coupon Payment Dates
→ Date declared by issuer of the bond

④ Date of Redemption
- Date of repay the funds.
- Scheduled maturity date

⑤ Redemption Value
- Par value of a debt security
- Par value means face value

ⓐ Redemption @ PAR
ⓑ Redemption @ DISCOUNT
ⓒ Redemption @ PREMIUM

- Risk of investing in Bonds
① Interest Rate Risk
② Default Risk
③ Re-investment Risk
④ Call Risk
⑤ Inflation Risk
⑥ Liquidity Risk
⑦ Market Risk
⑧ Event Risk

- Types of Bonds
① Convertible bonds
② Municipal Bonds
③ Corporate Bonds
④ Mortgage Backed Securities (MBS)
⑤ Asset Backed Securities (ABS)

- Owners of Bonds
① Debt-holders
② Creditors
③ The issuer

# Capital Market

- It is a market for long term funds
- Securities exchanges happens between buyer and seller and those securities have maturity more than a year.
- Platform for trading debt and equity securities.
→ Consists of primary and secondary market.

① Primary Market
- Issuance of new securities

② Secondary Market
- Platform for trading of previously issued securities.

- Primary market provides new capital
- Secondary market provides necessary liquidity.

- Investors in capital market
① Insurance companies
② Foreign Portfolio Investors
③ Mutual Funds
④ Commercial Banks
⑤ Non-Banking Financial Institutions
⑥ Provident Fund
⑦ Pension Fund

- Instruments in capital market
① shares
② Bonds
③ debentures
④ mutual Funds
⑤ Public deposits

- Capital Market Classification
① Industrial securities markets
 ↳ primary market (IPO, FPO)
 ↳ secondary Market
② Government securities market

# IPO Process
① Hire an investment bank
② Registration for the IPO
 ↳ Create Draft Red Herring Prospectus
 ↳ Registration statement (DRHP)
③ SEBI verification
④ Application to stock exchange
⑤ Roadshow (Promotion of IPO)
⑥ Pricing the IPO
 ↳ Fixed Price IPO
 ↳ Book Building IPO
⑦ IPO and Allotment takes place
⑧ Listing in the stock exchange

# Dividend

- Share of profits that is distributed to shareholders.
- Return/Reward that shareholders receive for their investment in company.
- Types of dividend

① Cash dividend
- Paid out in cash and reduces the cash reserves of a company.

② stock dividend
- shares of the company are distributed to shareholders at no cost.
- Usually done in addition of a cash dividend, not in place of it.

- Important dates

① Declaration Date
- Board of directors announces dividend
- Board also announce date of record and payment date

② Date of Record
- Ex-dividend date
- Day when the stock holders are entitled to the dividend payment.
- Only the owners of shares on or before that day will receive dividend

③ Payment Date
- Dividends are distributed to shareholders

→ Dividend Policy
- Policy dictates the amount of dividend paid out by the company to its shareholders and the frequency with which dividends are paid out
- When company makes profit
  ① They can keep the profit to themselves
  ② They can distribute the money to shareholders in form of dividend.

- Types of dividend Policies
① stable dividend
② No dividend
③ Regular dividend
④ Irregular dividend

# Life Cycle of Equity

- In capital market, every trade undergoes a lifecycle.
- Starts with the placing a buy/sell order for execution and ends when a trade is settled. This is called lifecycle of equity

- Participants in Trade Life Cycle
① seller
② Buyer
③ Broker
④ Stock Exchange
⑤ Clearing House
  ↳ NSCCL
  (National securities Clearing Corporation Limited)
⑥ Depository
  ↳ CDSL
  ↳ NSDL

- Stages in Trade Life Cycle
① Execution
- Aggreement on trade happens between buyer and seller
② Clearing
- Arrangement for transfer of shares and cash between buyer and seller
③ Settlement
- Actual exchanges of shares and cash between buyer and seller.

- T+2 settlement cycle is followed in India.
- It takes 2 days to complete trade life cycle
  From initiation → To settlement.

- Representation

Buyer → Broker → stock Exchange ← Broker ← seller