**CAPITAL MARKET ….. Long Term**

Capital Market is a part of financial market where buying and selling of long term debt or equity takes place.

The main role of capital market is providing a platform where long term funds are raised.

This fund raising exercise through the capital market is tapped by the governments, banks and corporate through the capital market.

Therefore, the organizations which need money can raise funds with the help of the capital market by issuing shares and debentures.

**Shares**: Shares represent ownership in a company. When you buy shares of a company, you become a part-owner of that company. The more shares you own, the more of the company you own. Shareholders typically have voting rights in the company's decisions, such as electing the board of directors. Additionally, they may receive dividends, which are a portion of the company's profits distributed to shareholders.

**Debentures**: Debentures are a type of loan that a company takes from the public. When you buy a debenture, you're essentially lending money to the company. In return, the company promises to pay you back the money at a specified future date, along with periodic interest payments until then. Debenture holders are creditors of the company, meaning they don't have ownership rights like shareholders but have a legal claim on the company's assets if it fails to repay the loan

Capital market acts as a link between savers and investors. It plays an important role in mobilizing the savings of the investors and channelizing them for productive purposes.

Therefore, a vibrant capital market benefits both the investor as well as the corporate form of organization and it is an important indicator of economic health of a country.



Securities and Exchange Board of India (SEBI) act as a watchdog to protect investors against market manipulation, unfair trading and fraud amongst others.

The job of SEBI is to protect the interests of investors and guide them to make wise investment decisions. The task of SEBI is also to ensure that the companies follow it’s rules, regulations and guidelines diligently and help to make the Indian Capital Market transparent and investor friendly

In simple terms, SEBI (Securities and Exchange Board of India) is like a guardian for investors and a supervisor for companies in the Indian stock market. Its main job is to make sure that investors are safe and informed when they buy or sell stocks, and it also ensures that companies play by the rules and operate transparently. So, you can think of SEBI as a watchdog that looks out for both investors and companies, making the market fair and friendly for everyone involved.

BSE in July 1875

Ahmedabad Stock Exchange in 1884.

## Indian Capital Market – Before 1990’s

Indian Capital Market was very inactive till 1990.

The requirements of loan term loan of corporate sector were funded by Development Financial Institutions (DFI’s) namely IDBI, IFCI, ICICI, LIC, UTI, GIC etc.



Working capital requirements were funded by the Commercial Banks through an elaborate network of bank branches spread all over the country.



The structure of interest rate was entirely controlled. But, three important legislations, namely, Capital Issues (Control) Act 1947, Securities Contracts (Regulation) Act, 1956, and Companies Act, 1956 (Now, Companies Act, 2013) were somehow managed to give a proper structure for the development of capital market in India.

1. **Term Loans for Companies**: When big companies needed money for long-term projects like building factories or buying equipment, they got loans from special financial institutions like IDBI, IFCI, ICICI, LIC, UTI, GIC, etc. These institutions were set up to help companies grow.
2. **Working Capital Loans**: Companies also needed money for everyday expenses like paying employees and buying supplies. They got these short-term loans from regular commercial banks, which have branches all over the country.
3. **Controlled Interest Rates**: The government decided how much interest companies had to pay on their loans. They did this to keep things stable.
4. **Laws for the Stock Market**: There were three important laws that regulated how companies could sell shares and raise money from the public: the Capital Issues (Control) Act 1947, the Securities Contracts (Regulation) Act, 1956, and the Companies Act, 1956 (which is now called the Companies Act, 2013). These laws helped make sure the stock market worked properly and protected investors.

## Indian Capital Market – After 1990’s

The Indian capital markets have witnessed a major transformation and structural change during the past three decades, since the early 1990’s.

The Financial Sector Reforms in general and the Capital Market Reforms in particular were initiated in India in a big way from 1991 – 1992 onward. These reforms have enabled the capital market to improve its efficiency, to enhance transparency in market operations, to check unfair trade practices and bring the Indian capital market in accordance with the International Standards.

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

The incorporation of National Stock Exchange was happened in 1992.

The Securities and Exchange Board of India (SEBI) was set up in 1988 and acquired the statutory status in 1992. Since 1992,

SEBI has emerged as an autonomous and independent statutory body with definite mandate such as:

1. to protect the interests of investors in securities,
2. to promote the development of securities market, and
3. to regulate the securities market.

## Functions of the capital market

The major functions of capital market are:

1. To mobilize resources for investments.
2. To facilitate buying and selling of securities.
3. To facilitate the process of efficient price discovery.
4. To facilitate settlement of transactions in accordance with the predetermined time schedules.

## Major constituents of the capital market

1. SEBI (regulator)



1. Stock exchanges
2. Clearing corporations (cc)/ clearing houses (ch)
3. **Depositories** ( NSDL & CDSL) and depository participants ….many, these are banks
4. Custodians
5. Stock-brokers and their sub-brokers



1. Mutual funds



1. Merchant bankers
2. Credit rating agencies
3. Financial institutions
4. Foreign institutional investors
5. Non-banking institutions
6. Issuers/ registrar and transfer agents
7. Investors

## Segments of capital market

## Primary Market ….. IPO Or Issue of Further shares directly by the company. Where money goes to the company

Primary market is a market where buying and selling of new securities are taken place for the first time.



In other words, the market, where the first public offering of equity shares or convertible securities by a company take place which is followed by the listing of a company’s shares on a stock exchange is called a primary market.



It is also known as ‘initial public offering’ (IPO).

Issue of further capital by companies whose shares are already listed on the stock exchange also comes within the ambit of Primary market.

Imagine you have a company that's already selling its shares on the stock exchange. Now, let's say the company wants to raise more money by selling more shares. This process is called issuing further capital.

Various intermediaries operate capital market. They provide a variety of services. For example, merchant bankers, brokers, bankers to issues, debenture trustees, portfolio managers, registrars to issues and share transfer agents, etc. They are also regulated by SEBI. Their contribution is immense in the development of capital market.



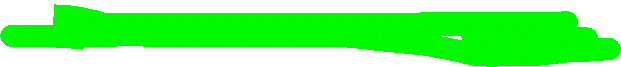
## Secondary Market ….. Once shares & instruments are issued, then buy and sell of shares in stock market ….. Money does not go to the company

Secondary market is a market in which purchase and sale of securities which are already issued to the public for the first time and listed on the stock exchange takes place.

Therefore, secondary markets are called stock exchanges. When the securities are transferred from the first holder to another, the securities are said to be traded in secondary market.



There is direct involvement of the company in the primary market. Whereas, in the secondary market, the company has virtually no involvement since the transactions takes place between the investors.



The primary market provides additional funds to the issuing companies either for starting a new enterprise or for the expansion or diversification of the existing business.

On the other hand, the secondary market does not provide additional funds since the company is not involved in the transaction.

## Participants in the Capital Market

* **Investors:**.
* **Stock Exchange:** Stock Exchange is a place where securities issued by issuer companies are listed and traded.
* **Depository:** A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form. They also provide safekeeping of securities. They also help in other functions like pledge, hypothecation, stock lending and borrowing etc. In India there are two depositories namely National Securities Depository Limited (NSDL) and Central Depository Services (India ) Limited (CDSL).
* **Intermediaries:** Intermediaries are those entities which offer various services in relation to the capital markets. There are various categories of intermediaries such as stock brokers, merchant bankers, underwriters etc.

# CAPITAL MARKET INSTRUMENTS

* Shares (Equity and preference)
* Debentures/ Bonds
* Depository Receipts (ADR’s, GDR’s and IDR’s)
* Derivatives

The above instruments are discussed as below:

1. **Shares:** Share is a type of security, which signifies ownership in a corporation and represents a claim on the part of the corporation’s assets and earnings. As one acquires more shares, his or her ownership stake in the company becomes larger.

There are two main types of shares, equity shares and preference shares. Equity share usually entitles the owner to vote at shareholders' meetings and to receive dividends. Preference shares generally do not have voting rights, but have a prior preference on assets and earnings of the company than the equity shares. For example, an owner of Preference shares receive dividends before equity shareholders and have priority in the repayment of capital in the event of a company going bankrupt or liquidated.

## Different kinds of issue of securities

Different types of Securities issued in the Primary Market

Public Issue

Right Issue

Bonus Issue

Private Placement

Initial Public Offer

Furthur Public Offer

Preferential Issue

Qualified Institutional Placement

**Capital Market Intermediaries**

Investment Banks

Debenture Trustees

Portfolio Managers

Depository Participants

Investment Advisors

Custodians

Investment Funds

Brokerage Firms

## Additional information – not for exam …below

## Public Issue of Shares- Book Building Route

Book Building is a process undertaken to assess a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document.

In book building process, the price at which securities will be issuedto the public is not known while in case of offer of shares through normal public issue, price is known in advance to investor. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue, the demand is known at the close of the issue. The Book should remain open for a minimum of 3 working days.

### Book Building Method

Book building is a method of price discovery. In this method, offer price of securities is determined on the basis of real demand for the shares at various price levels in the market. “Book building” means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities or Indian Depository Receipts, as the case may be, in accordance with SEBI (ICDR) regulations;

In book building method, the final issue price is not known in advance. Only a price band is determined and made public before opening of the bidding process. The spread of price between

floor price and cap in the price band should not be more than 20%. It means that the cap should not be more than 120% of the floor price. Issuing Company appoints a merchant banker as Book Runner Lead Manager (BRLM), who may be assisted by other co- managers and by a team of syndicate members acting as underwriters to the issue.

The BRLM sends copies of Red Herring Prospectus to the Qualified Institutional Buyers (QIBs), large Investors, SEBI registered Foreign Institutional Investors (FIIs) and to the syndicate members. BRLM also appoints brokers of the stock exchanges, called bidding centres. They accept the bids and application forms from the investors. These bidding centres place the order of bidders with the company through BRLM. They are liable for any default, if any, made by their clients, who have applied through them. Brokers/ Syndicate members collect money from clients/ investors. Money received by them at the time of accepting bids is called margin money. Bids can be made through on-line and transparent system of National Stock Exchange and Bombay Stock Exchange depending upon the agreement of the issuer with the stock exchange(s).

A public issue shall be kept open for three working days but not more than ten working days. An issue through book building system remains open for three to seven working days. In case of revision of price band, the issue period disclosed in the red herring prospectus can be extended for a minimum period of three working days. However, the total bidding period shall not exceed ten working days. In other words, in case of a book built issue, bid is open for a minimum period of three working days and maximum period of seven working days, which may be extended to a maximum of ten working days, in case the price band is revised.

#### Difference between fixed price method and Book Building methods of the pricing of public issue.

1. In Fixed price method, price at which the securities are offered and would be allotted is known in advance to the investors while in book building method, a 20 % price band is offered by the issuer within which investors are allowed to bid and the final price is determined by the issuer only after closure of the bidding.
2. In Fixed Price method, demand for the securities offered is known only after the closure of the issue while in book building method demand for the securities offered, and at various prices, is available on a real time basis on the BSE website during the bidding period.
3. In fixed price method, 100% advance payment is required to be made by the investors at the time of application, while in book building method, 10 % advance payment is required to be made by the QIBs along with the application, while other categories of investors have to pay 100% advance along with the application.