



# Basics of Financial Markets

Foreword by Dishant Parikh

RAJIV SINGH

# GROWTH







# FOREWORD

*Dishant Parikh*



The evolution of India's financial markets over the past decade has been nothing short of transformative. With rapid digitalisation, stronger regulatory frameworks, and a more informed investor base, the financial ecosystem has become vibrant, inclusive, and globally connected. In today's environment, financial literacy is no longer optional. It is essential for anyone aiming to build a secure and prosperous future.

Basics of Financial Markets arrives at a crucial time when structured, accessible, and credible financial knowledge is needed more than ever. This book acts as a simplified and comprehensive guide for beginners, young investors, students, and professionals seeking to understand the foundations of market operations. It breaks down complex concepts into clear, practical insights, helping readers navigate the financial landscape with confidence. What sets this initiative apart is its commitment to making financial education approachable. In a world where information is abundant yet often confusing, such clarity becomes invaluable. The book promotes disciplined learning, informed decision-making, and responsible market participation, qualities essential for sustainable wealth creation.

At Jainam, we have always believed that knowledge is the strongest asset an investor can possess. By empowering individuals with financial awareness, we not only contribute to their personal growth but also to the nation's economic progress. I am confident that this book will inspire readers to begin or strengthen their journey toward becoming informed and capable market participants.

I congratulate the entire team involved in bringing this book to life and extend my best wishes to every reader embarking on this journey of financial learning.

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***Recipients of this book should note that the contents are only for the purpose of imparting knowledge and awareness on Financial Markets.***

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# PREFACE

*By Rajiv Ranjan Singh  
President-Growth*



The Indian financial market is one of the oldest and most dynamic markets among emerging economies. Over the past few years, it has undergone a remarkable transformation driven by structural reforms, rapid technological advancements, and a steadily growing base of informed investors. Backed by strong regulatory oversight and sound economic fundamentals, India's financial ecosystem today plays an increasingly important role not only in domestic economic progress but also in influencing global investment flows.

In the wake of recent global disruptions, from the COVID-19 pandemic to inflationary pressures, supply chain shifts, and geopolitical realignments, the need for strong financial literacy has become more critical than ever before. As India continues its trajectory as one of the world's fastest-growing major economies, investors need to understand how financial markets operate and the vital role they play in enabling long-term wealth creation.

This book, *Basics of Financial Markets*, has been created for readers who wish to build a solid foundation in the financial market. It guides beginners through the essential principles, structures, and mechanisms that drive market functioning, presented in a simplified and lucid manner. The objective is to help readers navigate the complexities of the financial system with greater clarity, awareness, and confidence. At Jainam, our constant endeavour is to demystify finance and make market knowledge accessible to everyone—especially young and aspiring investors. Through this book, we aim to inspire individuals to begin their journey toward becoming informed, responsible, and empowered participants in the financial markets.

As we continue to evolve along with the market, we firmly believe in the timeless wisdom:

“Learn all you can, for knowledge is the best investment that pays the highest dividends.”

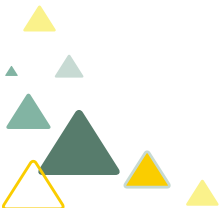
Every effort has been made to ensure that the content is clear, concise, and accurate. However, we recognise that continuous improvement is a part of growth.

We sincerely welcome constructive feedback and suggestions from our readers.

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# Introduction to Investments

# Introduction to Investments

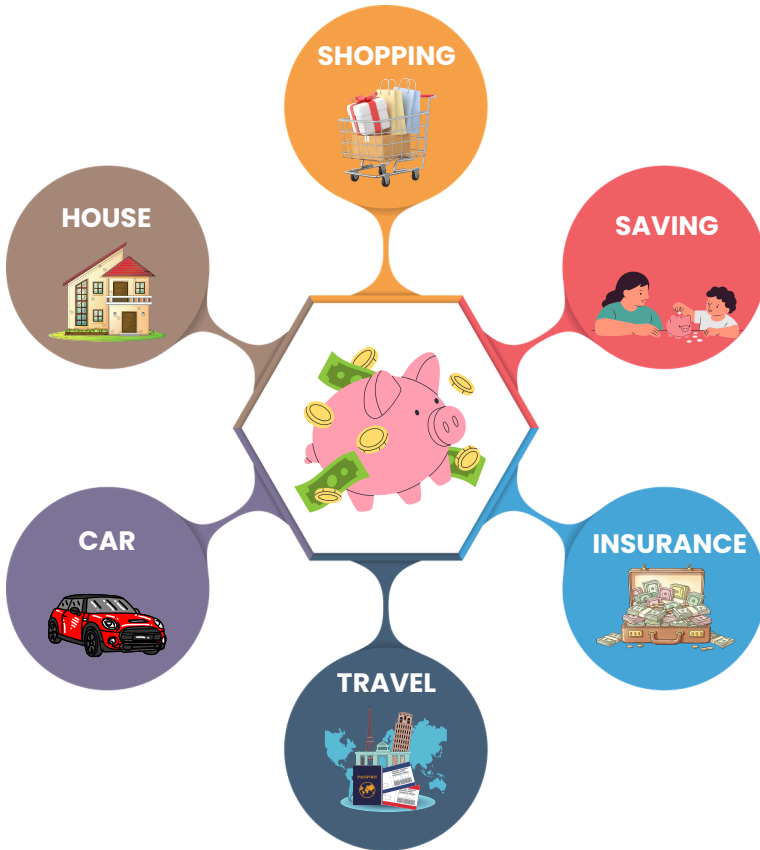
## Why should one invest?

The answer to this question is to create wealth which eventually helps individuals to fulfill their financial goals for future needs. So, what is investing and how does it help individuals in creating wealth? Investment is defined as an asset or item that is procured in anticipation that it will generate returns or capital appreciation in the future. Many people talk about investing their money in certain asset classes in order to meet their financial objectives. The investment can either be done in fixed deposits, equities, gold or even real estate.

Among all asset classes, fixed deposit is the most widely invested asset class among the investors. That's mainly because of its nature of being risk free and it also gives fixed return as interest to its investors. But in the current scenario, mere savings in fixed deposits may not work for an individual in order to meet the long-term goals.

The lifestyle, necessities and standard of living of people have also evolved with the passage of time. So in order to meet all the requirements, it has become very essential to plan an alternative investment plan accordingly. Most individuals are dependent on a single source of income and there are various needs that are either immediate, medium or long-term in nature. As said by Warren Buffet, "Never depend on one source of income, but make investments to create another source." For instance, when one moves from one goal to another with

current accumulated savings, one would be left with minimal savings for long-term goals. Hence, it is important to not only keep money in savings bank account, but also invest in asset classes that will help in creating wealth over a long period time.



One of the golden rules of investing says, if investment is started early, one might be in for a surprise in the later years. It's all because of the compounding factor which works along with the investments. Yes, some people also call it as the eighth wonder of the world because of its power of multiplying money over a period of time.

Let's consider an example for better understanding of this.

Pranav and Rohit are friends, both are 30 year old. Pranav invests Rs. 1,000 every month for his retirement and gets an annual return of 12% on his investments and collects a neat corpus of Rs. 35 lakh at the end of 30 years. On the other hand, Rohit does nothing for 20 years.

He suddenly realizes 10 years before his retirement that he has no savings left for retirement and goes on investing Rs. 12,000 every month for the next 10 years. He also manages to get annual return of 12% on his investments and succeeds in accumulating a corpus of Rs. 27 lakh for his retirement.

So, Pranav got higher returns? Pranav is merely saving Rs. 1,000 every month, while Rohit is investing Rs. 12,000 every month. It's possible because of the time and compounding factor which Pranav has got on his investments.

Thus, if you invest in a disciplined manner and give your investments time to grow, you can achieve most of your goals without any hassle.

Apart from the compounding effect, there are other few factors that one should consider while planning for investment such as inflation and time value of money.

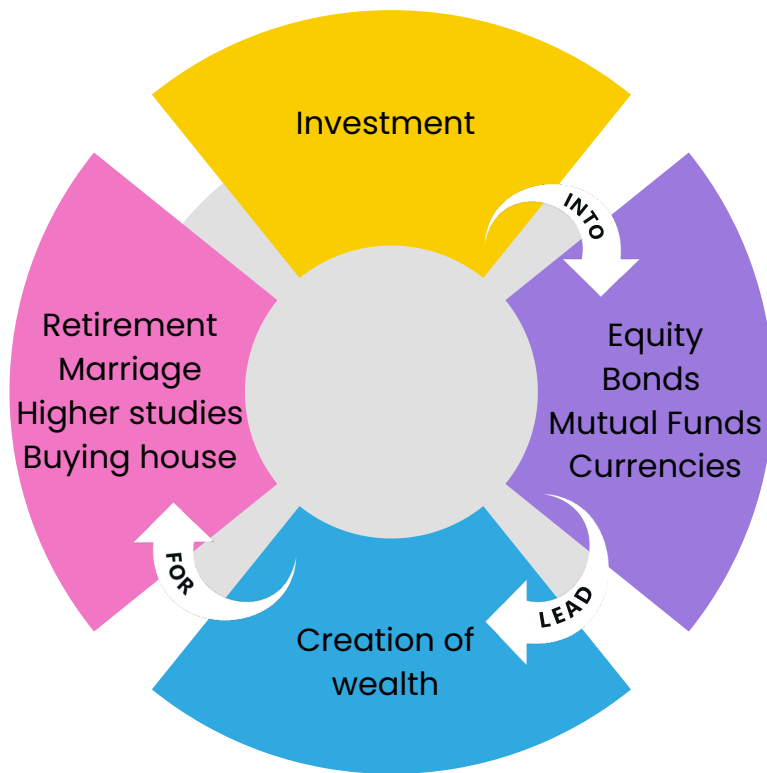
## A. Inflation

Inflation is one such macroeconomic variable that affects everyone. To define it, inflation refers to a sustained rise in overall price levels of goods and services in an economy over a period of time. It poses a risk to the investors because of rising inflation & decreasing purchasing power. For instance, one opts to invest in savings account and gets 4% interest. The point to note here is whether the investment will be profitable, assuming the inflation rate in the economy is around 6%.

Considering the money deposited in the savings account is Rs. 1,50,000. And interest earned on it is around 4%. The investments at the end of 1 year will work out to be like this:

S.No	Particulars	Amount
A	Money invested in savings account	Rs. 1,50,000
B	Interest earned @ 4% in 1 year	Rs. 6,000
C (A+B)	Total value	Rs. 1,56,000
D	Rate of Inflation @ 6% p.a.	Rs. 9,000
<b>E (C – D)</b>	<b>Value of money at the end of year</b>	<b>Rs. 1,47,000</b>

To fight inflation, the key is to invest in an investment option that gives a higher rate of return and in return will help meet goals.



## B. Time value of money

One of the most fundamental concepts in finance is that money has a “time value.” That is to say, money in hand today is worth more than money that is expected to be received in the future. Time value of money is dependent not only on the time interval being considered but also the rate of discount used in calculating the current or future values.

**A rupee today is worth more than a rupee tomorrow. Ideally, if you start early, you will make more than what you will make by investing later.**

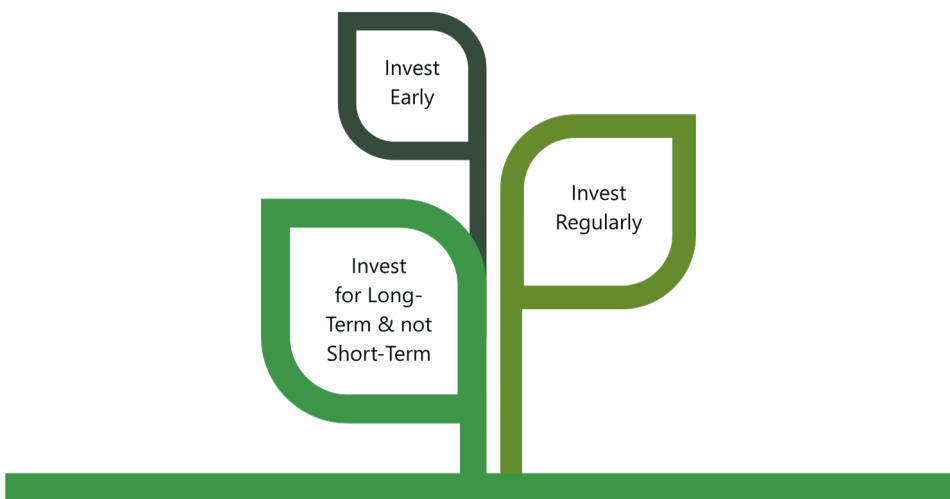
## Cost of money lying idle

Particulars		Amount
Money in savings account		Rs. 1,00,000/-
Interest earned in 1 year (@4% per annum)	+	Rs. 4,000/-
Total value		Rs. 1,04,000/-
Impact of inflation (@5% per annum)	-	Rs. 5,000/-
Actual value at the end of year 1		Rs. 99,000/-

## When should one start investing?

There is no investment duration or age specified for one to start investing. But it is advised, “the earlier one starts, the better”, as one can take the advantage of compounding returns on their investments.

The three golden rules of investing are as follows:



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- a. **Invest early** – Time allows to take risk. It is broadly observed that ones who begin to invest late are more cautious towards their approach. Investing early allows the investor to be open towards investment risks, as they have time on their side which allows the investments to grow.
  - b. **Invest regularly** – A disciplined approach of investing allows an investor to exponentially increase returns on investments. Just like the compounding factor allows an investor to reinvest income at the same rate of return which grows along with the initial amount invested. Hence, longer the period on investment, higher the returns accumulated on the investments made. Thereby creating sense why one has to start investing early.
  - c. **Invest for long-term and not short-term** – Investment is a long-term process i.e. the longer one stays invested, the better are the returns on the investment. But how long an investor wants to stay invested depends entirely on how soon an investor would like to use the returns on the investments made.

## Key footsteps to be followed while investing

The following are 12 important steps that an investor should look into before making any investments:

- Obtain the written document explaining the investments in detail
- Read carefully and understand such offer documents
- Verify the legitimacy of such investments

- Find out the cost and other charges associated with the investments
- Evaluate the risk and return profile of the investments
- Know the liquidity and safety aspects of the investments
- Check whether the investments match the specific goals
- Compare investments with other investment options available
- Check if the new investment is best of all considered options and also compatible with existing investments
- Deal only through an authorized intermediary
- Before investing, seek all the clarifications about the intermediary and further any investment related doubts
- Consider other investment options available, whether it matches the requirement; and if satisfied, go on with making investments.



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# Financial Markets

## Financial Markets

A financial market is a platform that facilitates the exchange of financial instruments. It serves as a place where buyers and sellers come together to trade various assets such as equities, bonds, debentures, currencies, and derivatives.

Financial markets operate through mechanisms that ensure transparency in pricing, basic regulations, transaction costs and fees, and other market forces that help determine the value of securities. These elements allow for fair and efficient pricing, benefiting all participants. The key participants in financial markets include:

- Borrowers, who issue securities to raise funds for various purposes.
- Lenders, who purchase these securities to earn returns.
- Financial intermediaries, who assist and facilitate the trading of securities between borrowers and lenders.

Through these interactions, *financial markets enable capital to flow efficiently between those who have funds and those who need them, supporting economic growth and investment.*

### What are the functions of financial markets?

The main functions of financial markets are:

- a. It provides an interaction between the investors & borrowers.
- b. It provides pricing information resulting between the buyers and sellers in the market when they trade financial assets.
- c. It provides security to dealing in financial assets.
- d. It provides liquidity by providing a mechanism for an investor to sell the financial assets.
- e. It provides low cost of transactions and information.

## Components of Financial Markets

Financial markets are made up of several key segments, each serving a unique purpose in facilitating the flow of capital and managing risk:

1. **Capital Markets:** These markets help raise long-term funds by offering different financial instruments:
  - Stock markets enable businesses to raise capital by issuing shares or common stock, while also providing a platform for their subsequent trading.

- Bond markets allow organizations to secure financing by issuing bonds, which can then be traded among investors.
2. Commodity Markets: These markets provide a platform for the buying and selling of physical goods like metals, agricultural products, and energy resources.
  3. Money Markets: Designed for short-term debt instruments, money markets offer avenues for borrowing and lending with maturities of less than one year.
  4. Derivatives Markets: These markets offer financial contracts such as options and swaps that help investors and businesses manage and hedge against financial risks.
  5. Futures Markets: Futures markets facilitate trading through standardized forward contracts, allowing participants to agree today on the purchase or sale of products at a specified date in the future.
  6. Insurance Markets: These markets support the redistribution and management of various risks by offering insurance products that protect against unforeseen events.
  7. Foreign Exchange (Forex) Markets: Forex markets enable the trading of foreign currencies, assisting in global trade, investment, and currency risk management.

## Types of financial markets

The Indian financial markets are classified into two types:

**Money Markets**

**Capital Markets**

- a. **Money market** - The money market refers to the segment of the financial market where short-term financial assets, which are close substitutes for money, are traded. These instruments typically have a maturity period not exceeding one year and are designed to meet the short-term funding requirements of businesses, governments, and financial institutions.

The instruments traded under these markets are considered as close substitute for money, meaning, a financial asset that can be swiftly and easily converted into cash with minimal transaction costs and without undue effort. This characteristic ensures that participants can access liquidity as needed, enhancing financial efficiency.

Money markets are known for their high liquidity, as securities in this space are traded in large volumes. They play a crucial role in redistributing cash balances in accordance with the liquidity needs of market participants. Common instruments in this market include call money, commercial papers, certificate of deposit, and treasury bills each serving specific purposes within the broader money market framework.

- b. **Capital market** - A capital market is a marketplace where long-term securities, such as equity and debt instruments, are bought and sold. Its primary objective is to facilitate the raising of capital on long-term basis, typically over one year, supporting both businesses and governments in financing their growth and development.

These markets serve as a vital platform where public and private entities can offer stakes to investors in exchange for funds.

Capital markets are broadly classified into two segments – the primary market and the secondary market. The primary market is where newly issued securities, like initial public offerings (IPOs), are introduced to investors for the first time. In contrast, the secondary market provides a space where investors can trade existing securities among themselves, ensuring liquidity and efficient price discovery.

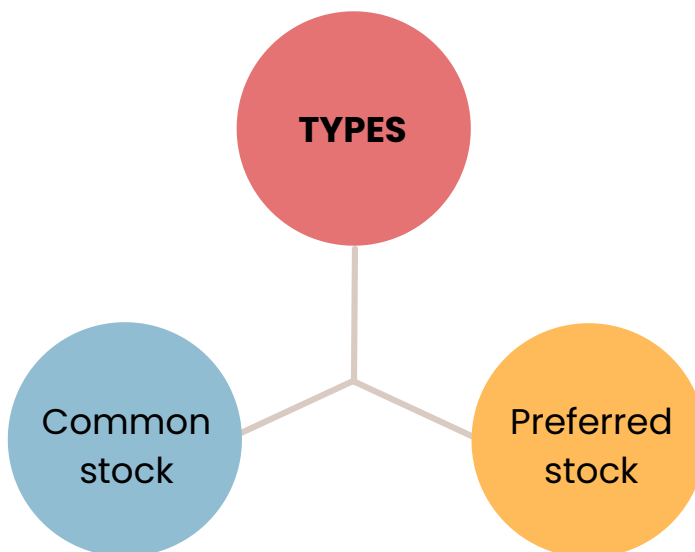
Transactions within these markets are distinct in the primary market, interactions occur directly between issuers and investors, whereas in the secondary market, transactions take place among investors themselves. Together, these markets play a critical role in the functioning of modern financial systems by enabling access to capital and investment opportunities.

Pointers	Money market	Capital market
Definition	It is a segment of financial market where short-term borrowings take place.	It is a segment of financial market where long-term borrowings take place.
Maturity period	Lasts for a period less than or up to one year.	Lasts for a period of more than one year.
Financial instruments	Commercial papers, Treasury bills, Certificate of deposits, etc.	Shares, bonds, debentures, etc.
Basic requirement	Liquidity adjustment	Putting capital to work
Risk	Risk involved in these instruments is low.	Risk involved in these instruments is high.
Liquidity	High	Low
Return on investments	Low	Comparatively high
Purpose	Short-term credit required for small investments.	Long-term credit required to establish business, expand business or purchase fixed assets.

Liquidity is a crucial aspect of securities that are traded in secondary markets. Liquidity refers to the ease with which a security can be sold without a loss of value. Securities with an active secondary market mean that there are many buyers and sellers at a given point in time. Investors benefit from liquid securities as they can sell their assets whenever they want. An illiquid security may force the seller to get rid of their asset at a large discount.

Financial markets have many constituents based on the various segments of stocks. Stocks are classified based on various aspects.

### A. On the basis of ownership



## Common stock and preferred stock

Common stock represents complete ownership in a company; whereas, preferred stock holders have just partial ownership. Common stock offers more potential over the long-term than any publicly traded investment.

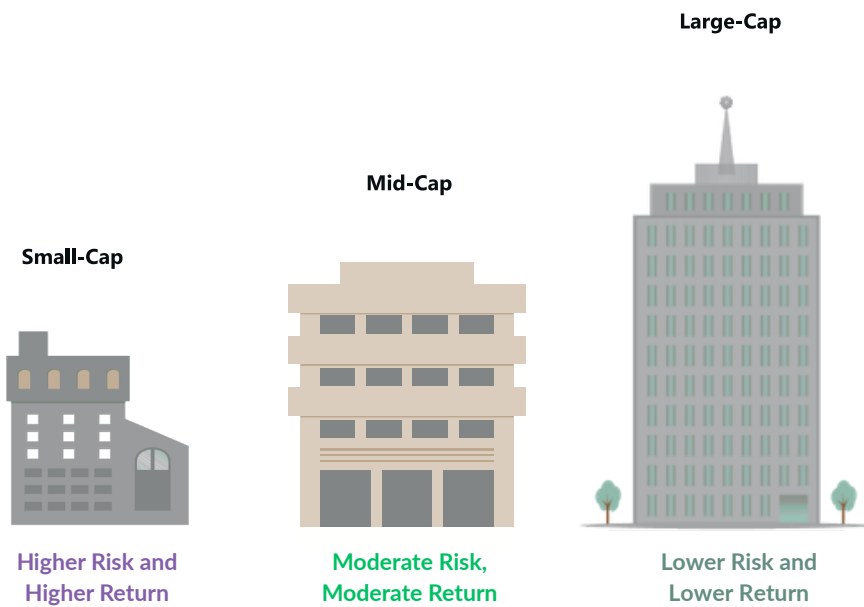
Preferred stocks have fixed amounts paid by way of dividends as they enjoy greater priority at the time of distribution of surplus by the company. These stocks are less risky and therefore, payouts are generally lower than common stocks.

## B. On the basis of Market Capitalization

Stocks are also classified based on the market capitalization of the company. Market capitalization is calculated by multiplying the share price by the total number of issued shares. Large-Cap stocks, Mid-Cap stocks and Small-Cap stocks are the three main categories of stocks.

- **Large-Cap stock (1st to 100th):** These are stocks of companies whose market capitalization is ₹20,000 crore and above. They are well-established, financially strong, and have a significant presence in the market.
- **Mid-Cap stock (101st to 250th):** These are stocks of companies whose market capitalization is between ₹5,000 crore and ₹20,000 crore. They are medium-sized companies, moderately risky, and offer good growth potential compared to Large-Cap stocks.

- **Small-Cap stock (251st onwards):** These are stocks of companies whose market capitalization is below ₹5,000 crore. They typically include smaller or emerging companies and carry higher risk, but can offer significant growth potential.





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Risk Involved  
in Financial  
Market

## Risk Involved in Financial Markets

Investing in financial markets offers opportunities for growth and wealth creation, but it also comes with a range of risks that investors must carefully consider. Risk is an inherent part of any investment and refers to the possibility that actual returns may differ from expected outcomes, often resulting in financial loss. These uncertainties arise from various factors, including changes in the economy, inflation, currency fluctuations, and interest rates. Understanding the different types of risks is essential for making informed investment decisions and managing potential downsides effectively. In this chapter, we will explore key risks that can impact investment performance and the overall value of your portfolio.

- **Market Risk:** It is the risk of investment's declining value due to economic developments or other events that effect the entire market. The prices or yields of all securities in a particular market rise or fall due to broad outside influences. This change in price is due to 'Market Risk'.
- **Inflation Risk:** It is the risk of a loss in purchasing power because the value of whether investments does not keep up with inflation. This is sometimes referred to as 'loss of purchasing power'. Whenever the rate of inflation exceeds the earnings on investments, one will run the risk of being able to buy less and not more.

- **Exchange Rate/Currency Risk:** Fluctuations in foreign currency in which an investment is valued compared to home currency may add risk to the value of a security.
- **Reinvestment Risk:** Investors such as bond holders commonly like to reinvest the proceeds after redemption. Decline in interest rate will lead to a decline in cash flow from an investment. Thus, the principal and interest payments are reinvested at lower rates.
- **Credit risk:** It is the risk that the government or the company that issued the bond will run into financial difficulties and won't be able to pay the interest or repay the principal at maturity. In short, how stable is the company or entity to which you lend your money when you invest? How certain are you that it will be able to pay the interest you are promised, or repay your principal when the investment matures?
- **Investment Risk:** It is the probability or chance of occurrence of losses relative to the expected return on any particular investment.
- **Interest Rate Risk:** Interest rate movements in the Indian debt markets can be volatile leading to the possibility of large price movements up or down in debt and money market securities.
- **Liquidity Risk:** This occurs due to the inability to convert a security or asset to cash easily without a loss of capital and/or income.

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- **Social/Political/Legislative Risk:** It is due to changes in legislation and changes in government policies. Instability in the country, change in foreign policies and social changes causing loss of value. Any government policy which results in adverse consequences is known as legislative risk.
  - **Concentration Risk:** This risk is associated when all money of an investor is concentrated in one investment. When one diversifies investments, the risk is spread over different types of investments, industries and geographic locations.
  - **Foreign Investment Risk:** There is a risk involved when investing in foreign companies. When one invests in a foreign company one may face risk, for example risk of nationalization.



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Primary  
Market

## Primary Market

The primary market plays a crucial role in the world of financial markets by serving as a platform where new securities are created and offered to investors for the first time. Hence, it is also called as the New Issue Market. It acts as the bridge between companies seeking funds and investors looking for investment opportunities. When a company, government or a public sector institutions decides to raise capital, it issues shares or bonds in the primary market, allowing investors to directly participate in their growth journey. This market not only helps companies or governments raise the necessary funds for expansions, operations, or debt repayment but also provides investors with the opportunity to become stakeholders at an early stage.

Furthermore, the primary market consists of the public issue and private placement segments. A public issue involves a company or government raising funds from the general pool of investors, whereas a private placement is offered only to a select group of investors, with the sale typically facilitated by an intermediary.

### Features of primary market

- i. This is the market for creation of new long-term capital.
- ii. Primary market is not related to some particular market place but it is the activity of assisting in releasing new issues in order to raise capital.

iii. Here the securities are issued directly to the investors and not through any intermediaries.

iv. External finance for long-term such as loans from financial institutions is not included in the primary market. However, there is an option called “going public” in which unlisted companies in new issue market raise capital for converting private capital into public capital.

### **What is meant by Face Value?**

The nominal or stated value (in Rs.) assigned to a security by the issuer is called as Face Value. For shares, it is the original cost of the stock shown on the share certificate, and for bonds it is the amount paid to the holder on the maturity. For an equity share, the face value can be Re. 1/2/5/10.

### **What does the term Premium & Discount in a security mean?**

Securities are generally issued in denominations of Re. 1/2/5/10 of Face Value per share.

- If the shares are issued at a price higher than Face Value, then the shares are said to be issued at premium.
- If the shares are issued at a price lower than Face Value, then the shares are said to be issued at discount.

## Why do companies need to issue shares to the public?

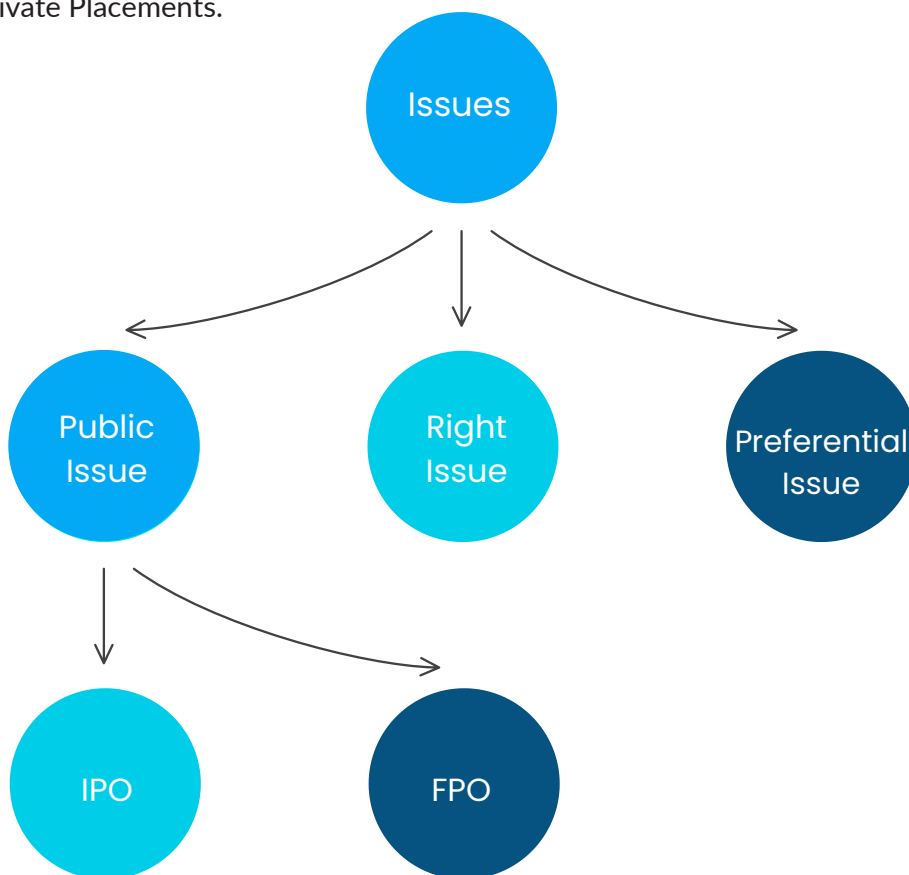
Companies need to raise funds in order to grow, expand operations, and meet their long-term objectives. At the initial stage, businesses typically rely on capital provided by their promoters. In some cases, they also borrow from banks or financial institutions. However, these sources of funds may not be sufficient to support the business's expansion plans, daily operations, and other financial requirements over time.

To overcome these limitations, companies turn to the public for additional capital. By issuing shares through a "public issue," companies invite investors to contribute towards the company's equity. Simply put, a public issue is an offer extended to the public, allowing them to purchase and invest in the company's share capital.

This approach provides companies with the necessary funds to operate efficiently without being overly dependent on loans. It also reduces the pressure of repaying interest and principal amounts, offering greater flexibility to the management. Ultimately, issuing shares to the public helps businesses strengthen their financial foundation and pursue growth opportunities more effectively.

## Different kinds of issues in primary market

The issue in case of primary market can be Public, Rights Issue, Bonus and Private Placements.



**A. Public Issue** – A public issue refers to the process by which a company raises funds by selling its shares to the general public through an offer document. It is one of the most common methods for companies to mobilize capital from investors. Public issues are broadly classified into two types:

- **Initial Public Offer (IPO)** – Like the name says, it is when an unlisted company makes a fresh issue of securities for the first time to the general public. IPO paves way for listing and trading of the issuer's securities in the stock exchange. The term public in this case consists of everybody – individual investors or institutional investors who were not involved in raising capital at the time of initiation of the company and who are interested in buying shares of that particular company. Prior to an IPO, a company is considered to be a private company with relatively smaller number of shareholders from the time initiation of the company.
- **Follow on Public Offer (FPO)** – This occurs when a public company which is already listed on exchange issues additional shares to the investors. Such FPOs are useful and practical for the firms who wish to raise extra capital from the capital markets via stock issues. A company opts for FPO in order to diversify their equity base. Generally, a company initiates the process of FPO only after it has gone through the process of IPO.

**B. Right Issue** – A Rights Issue is a mechanism through which an existing publicly listed company raises additional capital by offering new shares or other securities exclusively to its current shareholders. This method allows shareholders to maintain their proportional ownership in the company without dilution.

The new securities are typically offered in proportion to the number of shares already held by each shareholder. For example, if a shareholder owns 1% of the company's equity, and the company decides to issue 100 new shares through a rights issue, the shareholder would have the right to purchase 1 share.



The main features of a rights issue are:

1. Exclusivity – Only existing shareholders are eligible to participate.
2. Pro-rata allocation – Shares are offered based on the current shareholding ratio.
3. No new shareholder dilution – Unlike other funding methods, no new shareholders are added, so the ownership structure remains intact.
4. Record date – Shareholders recorded on the specified date are eligible to apply for the issue.

Rights issues are a common way for companies to raise funds to support expansion, debt repayment, and working capital while providing existing shareholders an opportunity to increase their investment.

**C. Preferential Issue** – A Preferential Issue refers to the allotment of shares or convertible securities by a listed company to a select group of investors, which may include institutional investors, corporate bodies, or high-net-worth individuals. This method is typically used to raise funds quickly and strategically.

Key characteristics of a preferential issue include:

1. Selective allotment – Shares are issued to a chosen group rather than the general public.
2. Strategic purpose – Companies often use preferential issues to bring in investors who can offer long-term value, such as strategic partners or institutional funds.

3. Additional funds – It is a popular way to raise capital without going through the broader public offering process.

4. Preferential rights – Investors allotted shares through this method may receive certain benefits such as priority in dividend distribution or other financial incentives.

A preferential issue helps companies in raising capital efficiently and aligns with specific business strategies, such as expansion or restructuring, while providing tailored benefits to select investors.

### Difference between Public Issue and Private Placement

A public issue refers to the issuance of securities that is open to the general public and all investors at large, without restricting participation. This method is used by companies to raise capital from a wide investor base. It typically involves greater disclosure requirements, compliance with regulatory frameworks, and oversight by market authorities.

In contrast, a private placement is a method where the issue is offered to a select group of investors, such as institutional investors, banks, or high-net-worth individuals. It is not open to the public and generally involves fewer disclosure requirements, but is subject to applicable regulations to prevent misuse.

According to the Companies Act, 2013, and the associated SEBI guidelines, an issue is classified as public if it results in an allotment to 200 or more investors. A private placement applies when the allotment is made to fewer than 200 investors.

Current implications:

- SEBI (Securities and Exchange Board of India) plays a supervisory role in public issues by prescribing disclosure norms, timelines, and investor protection mechanisms.
- Private placements are governed by provisions such as the Companies Act, SEBI (Issue of Capital and Disclosure Requirements) Regulations, and sector-specific guidelines.
- Private placements are often faster and cost-effective but restricted to qualified investors.
- Public issues involve higher transparency, regulatory scrutiny, and broader investor participation.
- Post-issue reporting and compliance differ based on the nature of the issue.

Both methods serve different purposes — public issues are suitable for capital-intensive projects requiring mass participation, while private placements are preferred for strategic funding or when confidentiality and speed are critical.

## Basic terminologies relating to primary market

### Pricing of the share

Indian primary market ushered in an era of free pricing in 1992. Following this, the guidelines have provided that the issuer in consultation with the merchant banker shall decide the price. SEBI does not play any role in price fixation. The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price.

There are two types of issues, one where company and lead merchant banker fix a price (called fixed price) and other, where the company and the lead manager (LM) stipulate a price band and leave it to market forces to determine the final price (price discovery through book building process).

### **Book Building Process**

Book building is a method used in Initial Public Offerings (IPOs) to efficiently determine the issue price of shares. During the IPO period, bids are collected from investors at different price levels, provided the prices are at or above the floor price set by the issuer. Once the bidding period ends, the final offer price is decided based on the demand from investors.

This process helps in discovering the optimal price for the shares by considering the interests of both the company and investors, ensuring a fair and transparent pricing mechanism.

### **Difference between offer of shares through Book Building and offer of shares through normal public issue**

The price at which securities will be allotted is not known in case of offer of shares through book building while in case of offer of shares through normal public issue, price is known in advance to investor. Under book building, investors bid for shares at the floor price or above and after the closure of the book building process, the price is determined for allotment of shares. In case of book building, the demand can be known everyday as the book is being built. But, in case of public issue, the demand is only known at the close of the issue.

## Cut-Off Price

In a book building issue, the issuer is required to mention either the price band or a floor price in the prospectus. The actual issue price, known as the cut-off price, can be any price within the price band or any price above the floor price. The cut-off price is the final price at which the shares are allotted to investors. It is determined by the issuer and the lead manager after evaluating the demand in the book and the investors' appetite for the stock.

For example, a company announces a price band of ₹100 to ₹120 for its book building issue. After receiving bids from investors, the issuer and lead manager decide on ₹115 as the cut-off price based on demand and investor interest. Investors who bid at or above ₹115 are allotted shares at ₹115.

Note that:

- The cut-off price is not disclosed upfront it is finalized based on the investor demand collected during the bidding process.
- Investors bidding at or above the cut-off price are eligible for allotment.
- It ensures that the shares are priced fairly by balancing investor appetite and issuer expectations.
- The cut-off price helps prevent underpricing or overpricing of the issue.


## Floor price in case of Book Building

Floor price is the minimum price at which investors can place their bids during the book-building process. It is determined by the issuer and the lead managers, and it helps ensure that the issue price does not fall below a certain level. The floor price protects the interests of the company by setting a base price for raising capital while allowing flexibility for investors to bid within a defined price range. Let's say, if the floor price is set at ₹100 per share, investors cannot place bids below ₹100. They can bid at ₹100 or at higher prices within the price band.

## Price band in a Book Built IPO

The prospectus may contain either the floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band cannot be more than 20%. In other words, it means that the cap should not be more than 120% of the floor price.

The price band can have a revision and such a revision in the price band shall be widely disseminated by informing the stock exchanges. This can be done by issuing a press release and also indicating the change on the relevant websites and terminals of the trading members participating in the book building process. In case the price band is revised, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding 10 days. It may be understood that the regulatory mechanism does not play a role in setting the price for issues. It is in the company's discretion to decide on the price or the price band, in consultation with merchant banker. The book should remain open for a minimum of three days.



As per SEBI, only electronically linked transparent facility is allowed to be used in case of book building. Individual investor can use the book building facility to make an application.

### Registrar to an issue

The Registrar finalizes the list of eligible allottees after deleting the invalid applications. It ensures the corporate action of crediting of shares to the demat accounts of the applicants is done and the dispatch of refund orders to those applicable are sent. The Lead Manager coordinates with the Registrar to ensure follow up so that the flow of applications from bank branches, processing of the applications and other matters till the basis of allotment is finalized, dispatch security certificates and refund orders completed and securities listed.

### Prospectus

A large number of new companies float public issues. While a large number of these companies are genuine, quite a few may want to exploit the investors. Therefore, it is important that an investor identifies the company's future potential before applying for the issue. A part of the guidelines issued by SEBI includes the disclosure of information to the public. This disclosure includes information like the reason for raising the money, the way money is proposed to be spent, the return expected on the money, etc. This information is in the form of 'Prospectus' which also includes information regarding the size of the issue, the current status of the company, its equity capital, its current and past performance,

the promoters, the project, cost of the project, means of financing, product and capacity etc. It also contains lot of mandatory information regarding underwriting and statutory compliances. This information helps investors to evaluate short-term and long-term prospects of the company.


### Draft Offer Document

Offer Document refers to the Prospectus (for public issue/offer for sale) or Letter of Offer (for rights issue) filed with SEBI, ROC and Stock Exchanges. It contains all disclosures necessary for informed investment decisions, in accordance with SEBI (ICDR) Regulations.

A Draft Offer Document is filed first with SEBI and stock exchanges. There are now two routes: (a) Traditional (public) route where the Draft Red Herring Prospectus (DRHP) is made public immediately after filing, and (b) Confidential pre-filing route where a Confidential DRHP is filed first, and only after SEBI's initial review, a public version (UDRHPI) is released.

SEBI continues to review the draft and may issue observations or require changes. Issuers/Lead Managers must incorporate these before filing the final Red Herring Prospectus (RHP) / Letter of Offer with ROC/SEs ROC/SEs.

Under the public route, the DRHP is available on SEBI's website for 21 days of public comments from the date of filing/announcement. Under the confidential route, the UDRHP-I (public version) is placed on SEBI's website after SEBI's review, and is also open for 21 days for public comments. The draft offer document is available on SEBI's website for public comments for a period of 21 days from the filing of the draft offer document with SEBI.



Under the confidential route, the IPO must open within 18 months from the date of SEBI's observations on the Confidential DRHP. The public version (UDRHP-I) must be filed within 16 months of SEBI's observations.

### **Abridge Prospectus**

'Abridged Prospectus' is a shorter version of the prospectus and contains all the salient features of a Prospectus. It accompanies the application form of public issues. Generally, the public issues of companies are handled by 'Merchant Bankers' who are responsible for getting the project appraised, finalizing the cost of the project, profitability estimates and for preparing of 'Prospectus'. The 'Prospectus' is submitted to SEBI for approval.

### **Lock-in**

'Lock-in' indicates a freeze on the sale of shares for a certain period of time. SEBI guidelines have stipulated lock-in requirements on shares of promoters mainly to ensure that the promoters or main persons, who are controlling the company and shall continue to hold some minimum percentage in the company after the public issue.

### **Listing of Securities**

Listing means admission of securities of an issuer to trading privileges (dealings) on a stock exchange through a formal agreement. The prime objective of admission to dealings on exchange is to provide liquidity and marketability to securities, as also to provide a mechanism for effective control and supervision of trading.

## Listing Agreement

At the time of listing securities of a company on a stock exchange, the company is required to enter into a listing agreement with the exchange. The listing agreement specifies the terms and conditions of listing and the disclosures that shall be made by a company on a continuous basis.

## Delisting of securities

This means permanent removal of securities of a listed company from a stock exchange. As a consequence of delisting, the securities of that company would no longer be traded in the stock exchange.

## SEBI's role in an Issue

Any company making a public issue or a listed company making a rights issue above Rs. 50 lakh is required to file a draft offer document with the SEBI for its observations. The company can proceed further on the issue only after getting observations from SEBI. The validity period of SEBI's observation letter is twelve months only i.e.; the company has to open its issue within twelve months period.

## Does it mean that SEBI recommends an issue?

The SEBI does not recommend any issue nor does it take any responsibility for the financial soundness of any scheme or the project for which the issue is proposed to be made or for the correctness of the statements made or opinions expressed in the offer document.

SEBI mainly scrutinizes the issue for seeing that adequate disclosures are made by the issuing company in the prospectus or offer document.

## Does the SEBI tag make one's money safe?

The investors should make an informed decision purely by themselves, based on the contents disclosed in the offer documents. The SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue.

However, the investors are generally advised to study all the material facts pertaining to the issue, including the risk factors before considering any investment. They are strongly warned against relying on any 'tips' or news through unofficial means.

## How is the issue price set?

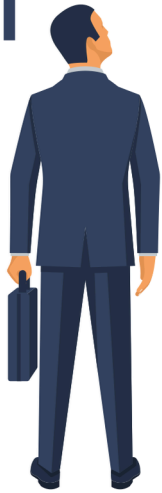
The price of a share is decided through a book building procedure where bids are collected from the investors between the price band decided in consultation with the Merchant Banker. After the bids are collected, the company in consultation along with the Merchant Banker decides the price at which the shares are going to be issued. This price is called cut-off price.

For example: If a company has decided the price band to be Rs. 100–120 per share, Rs. 100 is the floor price and Rs. 120 is the cap price.

*Note: The difference between the floor and cap price cannot be more than 20%.*

**BUY**

**SELL**



//05

Secondary  
Market

## Secondary Market

The secondary market is the platform where already issued securities are bought and sold among investors. Once securities make their debut in the primary market, they subsequently find their way into the secondary market, where trading takes place on a continuous basis. Commonly known as the stock market or stock exchange, it serves as the venue where one investor transfers ownership of securities to another. Such transactions may occur at the prevailing market price or at a mutually agreed price between the two parties.

The secondary market plays a vital role in ensuring liquidity and price discovery, and it encompasses both the equity market and the debt market.

Broadly, the secondary market operates through two distinct mechanisms:

**a. Over-the-Counter (OTC) Market** - The OTC market is an informal trading arrangement where transactions are negotiated directly between two parties. It is a bilateral contract in which the buyer and seller determine the terms of trade, including how and when the transaction will be settled. Such markets provide flexibility but are less regulated than organized exchanges.

**b. Exchange-Traded Market** - In contrast, the exchange-traded market is a formal and regulated marketplace where buyers and sellers come together to transact. Prices are publicly quoted, and trades occur at transparent rates at which participants are willing to buy or sell securities. This structure ensures greater transparency, standardization, and investor protection compared to the OTC market.

S.No	Exchange Traded Market	Over The Counter Market (OTC)
1.	Traded in an organized centralized exchange.	Privately negotiated and have no centralized trading facility.
2.	Exchange is the counter party to all the trades.	The parties involved in negotiations or the trading firms are the counter parties.
3.	Highly regulated and hence less counter party risk.	Unregulated and involves substantial counter party risk.
4.	The exchange traded market involves less price competition and hence higher transaction execution cost for the trading.	OTC promotes heavy competition between counter parties and hence lower transaction execution costs.

## Functions of Secondary Market

a. Secondary market facilitates the liquidity and marketability of the existing securities

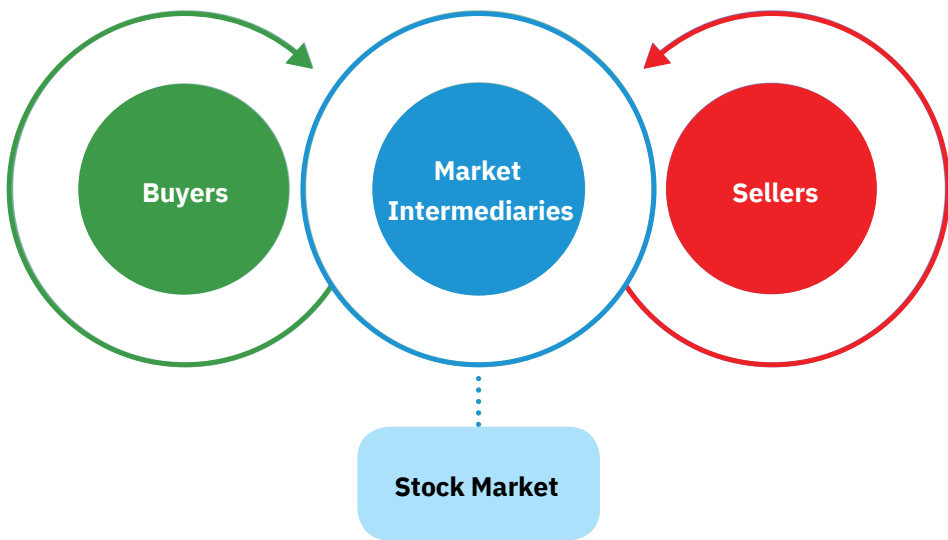
- b. It provides real time valuation to securities on the basis of demand and supply factors. Securities are profitable and growth oriented and companies are valued higher as there is more demand for these securities. These valuations are useful to the investors, government, creditors and any other person having interest in the company.
- c. It ensures a true & fair dealing for protection of the investor's interest.
- d. For the management of the company, secondary market serves as a monitoring and controlled conduit by facilitating value enhancing control activities and aggregating information with the market capitalization.

### Market participants in secondary market:

There are three parties to transaction in secondary market; they are buyers, sellers and intermediaries.

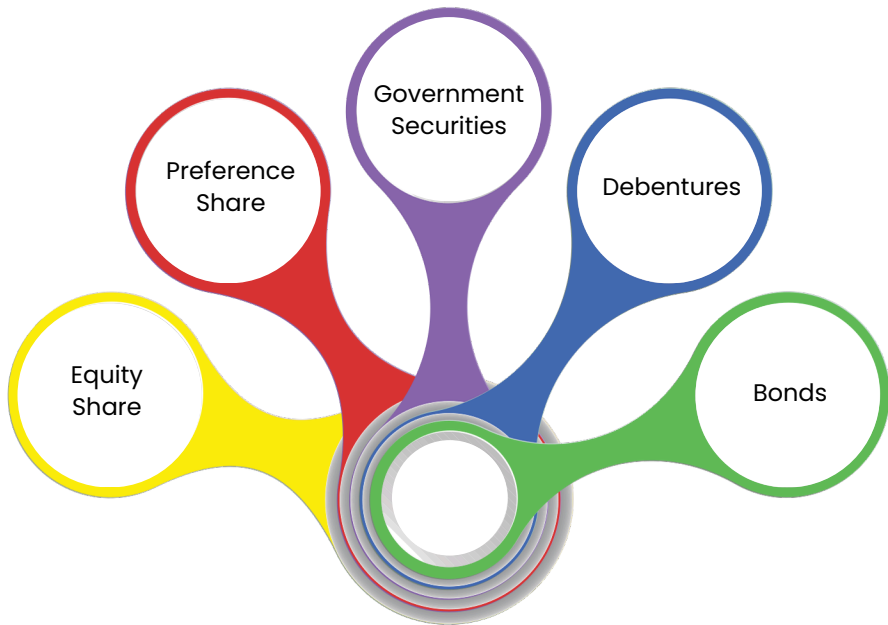
- a. Buyers and sellers include individual retail investors, high net worth individuals, institutional investors like mutual funds, banks, insurance companies and foreign institutional investors.
- b. Intermediaries are stock brokers, depositories and banks that facilitate the movement of securities and money in the secondary market transactions.

## Secondary Market Participants




**What are the different financial instruments that are dealt in secondary market?**

The following are different products that are offered in the secondary market are:



- a. **Equity Shares** – These represent fractional ownership in a company. As a fractional owner, a shareholder undertakes the maximum risk associated with a business. Once issued in the primary market through IPOs or FPOs, equity shares are freely traded in the secondary market on stock exchanges such as NSE and BSE. Investors buy and sell them to gain capital appreciation and dividends.
- b. **Preference shares** – Owners of these securities are entitled to a fixed dividend at a fixed rate before the dividend is distributed to other equity shareholders. They also enjoy priority over the equity shareholders in payment of surplus. But in the event of liquidation their claims rank below the claims of the company's creditors, debenture holders.

- 
- c. **Government securities** - These are risk free interest bearing instruments which are issued by the Reserve Bank of India on behalf of Government of India. These securities have a fixed coupon or interest rate that is paid on specific intervals. Government securities are available in wide range of maturity from short-term, less than one year to long-term up to twenty years.
  - d. **Debentures** - A debenture is one of the capital market instruments which are used to raise medium or long-term funds from the public. It is essentially a debt instrument that acknowledges a loan to the company and is executed under the common seal of the company. The debenture document called the debenture deed contains provisions as to the payment of interest and the repayment of principal amount.
  - e. **Bond** - A debt security is issued either by a company or a government agency. A bond investor lends money to the issuer and in exchange the issuer promises to repay the loan amount on a specified maturity date. The issuer usually also pays the bond holder periodic interest payments.
  - f. **Derivatives** - These are financial contracts whose value is derived from underlying assets like stocks, indices, commodities, or currencies. Common derivatives traded in the secondary market include futures, options, forwards, and swaps.
  - g. **Mutual Fund Units and ETFs (Exchange Traded Funds)** - Units of closed-end mutual funds and ETFs are listed and traded on stock exchanges, giving investors an opportunity to enter or exit at market-determined prices.

## Difference between primary market and secondary market

The difference between the primary market and secondary market are mainly pertaining to types of securities traded, nature of financing and the organizations involved.

Below mentioned are the basic comparisons between the two types of markets:

Point of comparison	Primary Market	Secondary Market
Meaning	The primary market deals with the new issue of securities which are offered to investors for the first time.	Secondary market is a place where the already issued securities or the existing securities are traded in the market.
Also called as	Primary market is also called as New issue market.	Secondary market is also called as After issue market.
Type of purchase	In primary market, the securities are directly issued by the company to its investors.	In secondary market, the securities are transferred or purchased from one investor to another.
Pricing of securities	The prices in the primary market are issued at fixed and as well as at par.	The prices in the secondary market vary depending on the demand and supply of the securities traded.
How many times the security can be sold?	Only once	Multiple times
Financing to companies	Primary market provides financing to the new companies for their expansion and diversification.	Secondary market is not involved in any transaction of providing loan, thus, they do not provide any financing to companies.
Who will gain from the amount on the sale of security?	Company	Investor
Organizational difference	There is no specific physical existence or location.	It has physical existence.



//06

# Market Intermediaries

## Market Intermediaries

Market intermediaries play a key role in the capital market by connecting investors and issuers, making sure transactions are efficient and transparent. They do more than just provide services; they help the market run smoothly and reliably. Their expertise builds trust and keeps funds moving through the financial system. Because the capital market includes many different participants, intermediaries are essential for issuing, trading, and settling securities. To protect investors and keep things fair, the Securities and Exchange Board of India (SEBI) oversees and regulates these intermediaries in both the primary and secondary markets.

### Primary Market Intermediaries

- **Merchant Bankers:** They have an important role to play in public issue management process. They make arrangement with respect to selling, buying or subscribing to securities or acting as manager, consultant, advisor in relation to issue management. The lead managers who are category 1 merchant bankers have to ensure correctness of the information furnished in the offer document. They have to ensure compliance with SEBI's rules and regulations and also follow guidelines for disclosures and investor protection. They enable the prospective investors to make a well informed investment decision.
- **Underwriters:** An underwriter is a person/entity who makes an agreement with a company to subscribe to the securities when shareholders of such company or the public do not subscribe to the securities offered to them.

- **Bankers to an issue:** A banker to issue a scheduled bank carrying on all or any of the activities, namely acceptance of application and application amount, acceptance of allotment or call amounts, refund of application amount, payment of dividend or interest warrants.
- **Portfolio Manager:** The portfolio management company makes an agreement with the client and appoints a portfolio manager to advise, direct or undertake investments decisions on behalf of the client as a discretionary or non-discretionary portfolio manager.
- **Debenture Trustees:** A debenture trustee is a person or entity that serves as the holder of debenture stock on behalf of the investor/client. When a company is looking to raise capital, one method of accomplishing this is by issuing stock in form of debt with the obligation to repay the debt at a specific interest rate.
- **Registrar to an Issue and Share Transfer Agents:** They are entities that register and maintain detailed records of the transactions of investors on behalf of companies. They are appointed by companies to carry on the activities of accepting applications from investors in respect of an issue, maintaining record of all those applications and amounts received from investors. They help in finalizing the list of investors entitled for allotment of securities, processing and dispatch of allotment letters, refund orders or certificates and other related documents in respect of the issue. They also process & confirm dematerialization of securities, transfers and transmission of physical securities.

## Secondary Market Intermediaries

- **Stock Exchange:** It is an entity constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities. The most popular stock exchanges in India are the NSE & BSE.
- **Stock Brokers:** A stock broker is also called a Trading and Clearing Member. He is an authorized member of a stock exchange who acts as an agent on behalf of the clients and buys & sells shares in the market in return for a fee or commission.
- **Clearing House / Clearing Corporation:** It is a subsidiary of a stock exchange that provides services related to clearing & settlement of trades. It manages risks associated to trades. A clearing house is a central counterparty to all trades.

## Other Intermediaries

- **Custodian:** It is a specialized financial organization that holds the securities and other assets of institutional investors. They are responsible for safeguarding customer's securities.
- **Depository:** It holds securities deposited by beneficial owners in electronic form and facilitates transactions.
- **Depository Participant:** It is an agent of the depository. An investor has to open a demat account with the DP which offers depository services to clients.

- **Asset Management Company:** The company which handles the day to day operations and investment decisions of a unit trust / mutual fund. It invests its client's pooled fund into financial market instruments. It provides investors with more diversification and investing options.
- **Credit Rating Agency:** An agency which is engaged in the business of rating securities offered as public or rights issue. They rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default.



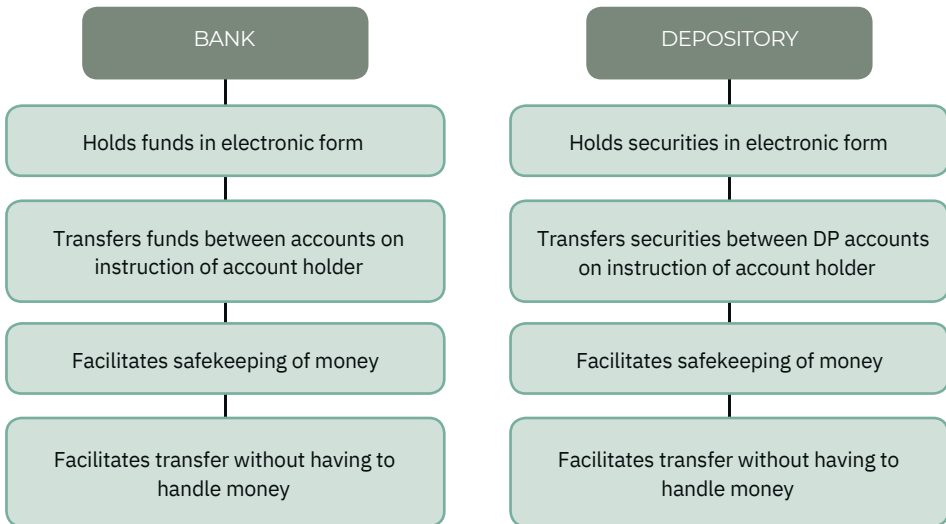
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Depository  
Participants

# Depository Participants

A major reform for the primary and secondary market in India took place with the introduction of depository system. A ‘depository’ is an organization which holds securities (like shares, debentures, bonds, government securities, mutual funds, etc) of an investor in an electronic form and facilitates the transfer of ownership of securities on the basis of settlement dates.

The depository system has brought the concept of paperless trading as the securities are held in the form of electronic accounts. Conceptually, the system of depository is similar to that of a bank account, in which the bank holds money on behalf of the customer who opens an account for utilizing its services. The basic similarity between the bank and a depository are:



## Depository Participant (DP)

A depository participant is a registered agent through which investors can avail DP services. Public financial institutions, scheduled commercial banks, foreign banks operating in India with the approval of the RBI, state financial corporations, custodians, stock-brokers, clearing corporations, clearing houses, Non-Banking Financial Company (NBFC) and registrar to an issue or share transfer agent complying with the requirements prescribed by SEBI can be registered as a DP.

### What is an ISIN?

An ISIN (International Securities Identification Number) is a unique 12-character code for securities like shares, bonds, or mutual funds. It acts as an identity number to help investors and regulators identify each security. For example, Reliance Industries Limited equity shares have the ISIN INE002A01018, where:

- IN – Country code (India)
- E002A0101 – Unique security code
- 8 – Check digit

*Each security has its own ISIN, even if issued by the same company.*

### Beneficial Owner (BO)

The actual investor is the 'Beneficial Owner' (BO) of the securities. All benefits of the dematerialized shares are provided to the BO.

### Dematerialization and Rematerialization

Dematerialization is the process by which physical securities certificates are converted into electronic form. Rematerialization is the process of converting securities held in electronic form into physical certificate form.

### Registrar and Transfer Agent (RTA)

An RTA is an agent of the issuer, acting as an intermediary between the issuer and depository for providing services such as dematerialization, rematerialization, initial public offers (IPO) and corporate actions.

## Which are the depositories in India?

In India, we have 2 depositories National Securities Depository Limited (NSDL) and Central Depository Service Limited (CDSL) which are registered with SEBI.



### a. National Securities Depository Limited (NSDL) -

NSDL was the first depository in India, established in 1996 after the enactment of the Depositories Act. It is promoted by IDBI Bank, UTI, and the NSE. On average, a few thousand demat accounts are opened with NSDL every day. As of August 31, 2025, NSDL has about 4.14 crore active investor accounts. The DP-ID / demat account number for NSDL begins with “IN” (for example, IN300394, IN300126).



### b. Central Depository Service Limited (CDSL) -

CDSL commenced operations in 1999 and was initially promoted by the Bombay Stock Exchange (BSE). As of September 2024, CDSL has approximately 13.73 crore beneficiary owner (demat) accounts and several hundred Depository Participants. The DP-ID / demat account number under CDSL is numeric, with 16 digits in total.

## Services provided by a Depository

- Opening demat accounts
- Dematerialization and Rematerialization of securities, maintaining record of securities held by the BO in the electronic form



- Settlement of trades by delivery or receipt of securities from/in BO's accounts and settlement of off-market transactions between BOs
- Receive electronic credit of securities allotted by issuers under IPO or otherwise on behalf of demat account holders
- Receiving non-cash corporate benefits such as allotment of bonus and rights shares or any other non-cash corporate benefits given by the issuers in electronic form on behalf of its demat account holders
- Pledge dematerialized securities & facilitating loans against shares
- Freezing of the demat account for debits, credits, or both

## What are the benefits of participating in depository?

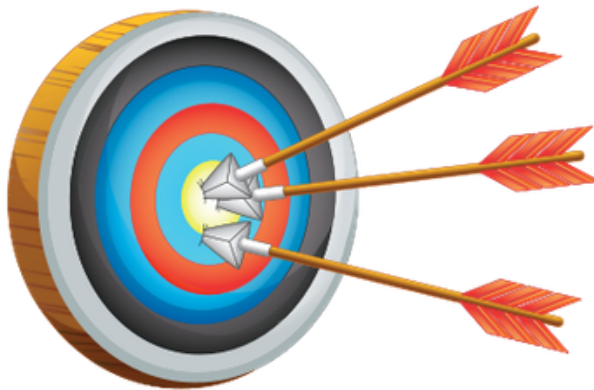
- Safe and easy way to hold securities
- Immediate transfer and no stamp duty on transfer of securities
- Eliminates risks associated with physical certificates such as bad delivery, fake securities, delays, thefts, etc.
- Reduces paperwork involved in transfer of securities and transaction cost.
- No lot problem, single share can be traded
- Avail nomination facility
- Change of address recorded with the DP gets updated with all companies in which investor holds securities electronically, eliminating the need to correspond with each of them separately
- The DP is a better intermediary for transmitting securities and investors need not correspond with the companies
- Automatic credit into demat account of shares, arising out of bonus/split/consolidation/merger etc.
- Holding investments in equity and debt instruments in a single account

## Trading and Settlement

The procedure for buying and selling dematerialized securities is same as the procedure for buying and selling physical securities. The difference is in the process of delivery (in case of sale) & receipt (in case of purchase) of securities.

### In case of purchase:

On the payout day, the broker receives the securities in his account. The broker then gives instructions to the DP to debit his account and credit the BO's account. The BO gives a receipt instruction to the DP for receiving the credit by filling the appropriate form.



### In case of sale:

BO has to give a delivery instruction through Delivery Instruction Slip (DIS) to the DP, instructing to debit his account and credit the broker's account. DIS should reach the DP's office at least 24 hours before the pay-in, failing which, DP will accept the instruction only at the BO's risk.



## Delivery Instruction Slip (DIS)

DIS may be compared to the cheque book of a bank account. It must be filled to transfer securities to another account (BO or broker).

Precautions to be taken at the time of submitting DIS:

- Always ensure and insist with DP to issue DIS book and submit DIS instruction
- Request slip (contained in the previous booklet) duly complete in all respects to the DP
- Make sure that DIS numbers are pre-printed and DP takes acknowledgment for the DIS booklet issued to investor
- Always ensure your account number (client id) is pre-stamped. If it is a joint account, all the joint holders have to sign the instruction slip
- Do not leave signed and/or blank DIS with anyone. Think of DIS book as a cheque book. Keep it safely
- If only one entry is made in the DIS book, strike out remaining space to prevent misuse
- BO should personally fill target account id and all details in the DIS.
- If the DIS booklet is lost/stolen/not traceable, the same must be intimated to the DP immediately in writing. On receipt of such intimation, the DP will cancel the unused DIS of the said booklet.

## Transmission of dematerialized securities

Transmission is the process by which securities of a deceased account holder are transferred to the account of surviving holders/nominee/ legal heirs. The process of transmission for dematerialized holdings is far more convenient when compared to physical securities, as in the case of the latter all the legal heirs/nominee/surviving joint holder have to independently correspond with each company in which securities are held. The transmission formalities for all securities held in a demat account can be completed by submitting documents to the DP.



//08

Factors  
Affecting  
Market

## Factors Affecting Market

### **Gross Domestic Product**

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. Put simply, GDP is a broad measurement of a nation's overall economic activity. GDP is commonly used as an indicator of the economic health of a country, as well as a gauge of a country's standard of living. Since the mode of measuring GDP is uniform, GDP can be used to compare the productivity of various countries with a high degree of accuracy. The GDP number is released on a quarterly basis.

### **Purchasing Manager's Index (PMI)**

Purchasing Manager's Index is an economic indicator which provides an insight into how the private sector companies in the economy are performing. The index is prepared by tracking output, new order, employment and price of products across key sectors.

There are 2 parts to the PMI numbers which are released on a monthly basis:

- The headline PMI number shows the snapshot of the health of the economy.
- The sub-indices provide the key economic drivers such as inflation, exports, employment and inventories.

However, the Purchasing Managers' Index has a base value of 50 and:

- Any number above 50 indicates that the economy or the health of that particular sector in the economy is improving.
- Any number below 50 indicates that the economy or the health of that particular sector in the economy is deteriorating.


In India, the PMI number are released for:

1. Manufacturing
2. Services

## Interpretation

If the PMI for any sector has a number of more than 50, then it means that sector is expanding or activity in that sector is expanding. The businesses in the economy will increase their output only when they expect increased demand in future. A rise in consumer demand will boost company's sales, revenue and profitability. A company's profit in turn transforms into wealth for shareholders.

Higher profitability will also attract shareholders to a company, thereby boosting demand for its shares and driving up share prices.



A market or an index will move up when the companies share prices are increasing, as the market is an average of how all the companies in an index/economy are performing.

## **Inflation**

When prices of goods and services increase in an economy, it is said that the economy is experiencing inflation. Inflation is thus the rate of increase in the general price level over a period of time. Inflation is usually measured over a year and is expressed in percentage terms.

Inflation can be high, moderate, or low. If the general price level falls, inflation turns negative; this phenomenon is called deflation. High inflation and deflation are both not desirable for an economy.

High inflation hurts consumers as it reduces their purchasing power. On the other hand, deflation leads the producers of goods and services to slow down their activities because they get a lower price for their products than earlier. This reduces their profits or even forces them to incur losses. As a result, economic growth slows down.

## **How do we measure Inflation?**

Here we are trying to understand how, in general, the price level of products keeps on increasing and decreasing in the market, as we cannot take into consideration only one product or commodity to understand how much inflation is there in the economy. Therefore, indices have been created to measure how much inflation exists in the economy.

**1. Consumer Price Index:** It is an index of the prices of essential commodities in the retail market. The index comprises of a basket of essential commodities purchased by an average consumer. This index is measured on a monthly basis.

**2. Wholesale Price Index:** It is the index of the prices prevailing in the wholesale market. The index is measured on a monthly basis. The concept of tracking inflation from wholeseller point of view is to determine at what price the bulk of transactions are taking place at the primary stage.

## Interest Rates

Interest rates in a country are determined by the central bank through its monetary policies. To be precise, the size and rate of growth of money supply determines the interest rate that is prevailing in the country. Interest rates rise when the money supply is more in the economy and falls when the money supply is less.

**Cash Reserve Ratio (CRR)** – CRR is a specified minimum fraction of the total deposits of customers, which commercial banks have to deposit as reserves either in cash or as deposits with the central bank.

**Statutory Liquidity Ratio (SLR)** – SLR is a specified minimum fraction of the total deposits of customers, which banks have to maintain with them in the form of liquid assets. To put it in simple words, apart from Cash Reserve Ratio (CRR), banks have to maintain a stipulated proportion of their net demand and time liabilities in form of liquid assets like cash, gold and unencumbered securities. Treasury bills, dated securities issued under market borrowing programme market stabilization schemes (MSS), etc. also form a part of the SLR.

**Repo Rate** - Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of fund. Repo rate is used by RBI to control inflation.

- In the event of increased inflation, the central bank increases repo rate as this acts as a disincentive for banks to borrow from the central bank. This ultimately reduces the money supply in the economy and thus, helps in arresting inflation.
- The central bank takes the contrary position in the event of a fall in inflationary pressures. Repo and reverse repo rates form a part of the liquidity adjustment facility.

**Reverse Repo Rate** - Reverse repo rate is the rate at which the central bank borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country.

- An increase in the reverse repo rate will also decrease the money supply and vice-versa, other things remaining constant. Higher rate means that commercial banks will get more incentives to park their funds with the RBI, thereby decreasing the supply of money in the market.

**Open Market Operations (OMO)** – Open market operations are conducted by the RBI with sale or purchase of government securities (G-Secs) to monitor the liquidity in the economy.

- The central bank sells government bonds to suck out liquidity from the system and buys back government bonds to infuse liquidity into the system.
- These operations are often conducted on a day-to-day basis in a manner that balances inflation while helping banks to continue to lend.

**Marginal Standing Facility (MSF)** - The MSF rate is the rate at which banks borrow funds overnight from the RBI against approved government securities. This came into effect in May 2011. Under the MSF, currently banks avail funds from the RBI on overnight basis against their excess statutory liquidity ratio (SLR) holdings. Additionally, they can also avail funds on overnight basis below the stipulated SLR up to 2.5% of their respective net demand and time liabilities (NDTL) outstanding at the end of second preceding fortnight.

## How RBI tries to control Inflation?

The RBI tries to control inflation by monitoring the policy rates (CRR, SLR, repo rate, reverse repo rate), which are also called interest rates. If there is a scenario of higher inflation, by increasing the interest rates, the RBI either reduces the liquidity in the economy or increases the lending rates.

To understand how increasing the lending rate eases inflation, we need to see how the interest rate affects demand. When interest rates are low, people tend to consume more and finance their consumption by borrowing. However, if interest rates are raised, people would refrain from borrowing to finance consumption, leading to a decrease in demand.

Lesser demand means low prices. This is how increasing interest rates lower inflation.

- Extremely high or low inflation rate is bad for an economy. High inflation with associated high volatility in relative prices causes investors to shorten their investment horizon, thereby hurting the growth. On the other hand, deflation causes a downward spiral of contracting output. As consumers start postponing purchases, it causes industries to reduce production.
- Inflation needs to be regulated at times when it is not at the desirable rate. The most common measure of regulating inflation rates is through monetary policies and interest rates.
- In a low inflation and low growth regime to give necessary push, the central bank resorts to a decrease in interest rates. This leads to an increase in consumer spending and at the same time an increase in the investment in the economy. The central bank hikes interest rates, if inflation is rising at an alarming pace.

## Foreign Institutional Investment

Foreign Institutional Investor (FII) refers to an institution established or incorporated outside India which proposes to make investment in securities in India. They enhance the liquidity situation in our economy by participating into the secondary markets. They transact in huge volumes on a day to day basis .

Eg: Every FII will act as a buyer for a seller in the market and as a seller

for the buyer in the secondary market. If FIIs do not participate in the secondary market, the liquidity decreases in the market; thereby reducing the participants in the market.

## Foreign Direct Investment

A foreign direct investment (FDI) is an investment made by a company based in one country, into a company based in another country. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies. The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

### Interpretation

If the FDI in an economy is increasing, fresh liquidity or cash is coming into the economy:

Eg: When the company started its business, all the capital was put in by the promoter of the company. Now after FDI is permitted, the promoter sells shares to the foreign investor. The amount of cash which is flowing into the economy to purchase the shares in the company was not there in the economy. This is the additional liquidity which is getting attracted into the economy. In this way, the liquidity situation in our economy is enhanced, and when the FDI limits are revised upwards.



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Investment  
Products  
Available in  
Market

## Investment Products Available in Market

Investors are always looking for investment options to deposit their money, until the need for them arises. With the growing economy, investors today have a variety of investment opportunities, such as short-term investments and long-term investments. It is quite obvious that investors may get confused as to which asset class will work out for them, whether one should invest in short-term or long-term investment plans.

Always choose the investments after considering your financial goals, time frame allotted for goal and finally calculating your risk appetite. As it is said, never invest in something that you don't understand, as there is a risk component which comes along with it.


### **What are short-term investments?**

Any investment option which has a time period of maximum one year are termed as short-term investments. The purpose of short-term investments made by investors is to save the funds for near future; hence these investments are also called as temporary investments.

Generally, the investments in short-term are considered to be low risk and the returns generated from these investments are also low. Ideally an investor should opt for short-term investments in order to meet their short-term goals in the near future.

For example, an investor Mr. A has to accumulate down payment for a new car in a year, plan an international vacation in 6 months, etc. fall under the category of short-term goals. Short-term investments are typically reported as a current asset in the balance sheet and are often grouped under cash and cash equivalents. With this classification, it makes sense why numerous potential buyers easily convert their securities into cash. Below mentioned are some short-term investment options available for investors with short-term investment objective:

- a. **Savings Account** – For most of us, the first association with bank is mostly through savings account only. It is the basic type of account offered by bank or financial institution whereby, allowing you to deposit money, keeping the funds safe and to withdrawing the funds as the need arises. Savings account pay interest on the deposits which helps the investments and money grow gradually. Ideally, banks pay around 4% to 6% of interest rate, depending on the amount and the duration for which money is kept in the bank account.
  
- b. **Bank Fixed Deposit** - This is one of the safest and most traditional investment plans available in the market for investors. Bank fixed deposits are also referred as term deposits. In a fixed deposit, a fixed interest is paid on the principal that is deposited for a stated time period. The interest paid on the investments depends on the tenure which can either be 7 days, 15 days, 45 days or even for 1 year, 3 years or 5 years or as high as 10 years. The banks pay an interest rate of around 5% to 10%.

- 
- c. **Liquid Funds** – These are also called as money market instruments. Liquid funds are a category of mutual funds which invest in money market instruments that matures within 91 days, like certificate of deposit, commercial papers, treasury bills, etc. Unlike most mutual funds, the primary objective of liquid fund is towards protecting the capital of the investor by seeking high liquidity.
- d. **Recurring Deposits** – This type of secured investment option is suitable for investors who wish to invest on a monthly basis. A recurring deposit basically consists of regular monthly deposits along with an interest component. It allows investors to accumulate savings gradually over time. The tenure usually ranges from 6 months to a maximum of 10 years.
- e. **National Savings Certificate (NSC)** - This savings scheme is launched by the Government of India. The interest rate on deposits varies between 7% to 8% (subject to periodic revision by the government). It is a lumpsum investment for a period of 5 years and is eligible for deduction under Section 80C of the Income Tax Act. The minimum amount for investment is ₹1,000 and it is available in the denominations of ₹1,000, ₹5,000, and ₹10,000.

## What are long-term investments?

Investment can be considered as a long-term investment, if the investment horizon is more than one year. In case of these investments, one should select an investment class depending on the money required for their goals. Let's say, Mr. A's long-term goals include purchasing a house, saving for retirement, children's marriage, etc. Investing in these asset classes take a long time. Hence, it is advisable by the investors to give a reasonable amount of time based on the analysis of what it will take to achieve them. The primary objective of long-term investment is capital appreciation on the investments made. In long-term investments, the returns generated from these investments are high. Not just because an investor has to make more money, as they have to beat the inflation in the long run.

Thus, in long-term investment you have to make sure that the returns on investment are greater than the rate of inflation. Below mentioned are some long-term investment options available for investors:

- a. **Public Provident Fund (PPF)** – A public provident fund is a tax saving scheme of the government offered through banks and post office. Thereafter, 15 year tenure can be extended further by a period of 5 years each time. The amount invested in this scheme can either be on lumpsum or monthly basis. The minimum contribution in a financial year has to be ₹500 and maximum investment has been capped to

₹1,50,000. Under this scheme, the interest ranges between 8% to 9%. The interest given on these schemes are tax free at the hands of investor and the deposited amount is deductible U/S 80C of the income tax act. This scheme is suitable for investors who are conservative and not in need of regular income but interested in safety and growth. A PPF account can be opened with any nationalized bank, authorized private bank and post offices.

b. **Direct Equities** – Equities or stocks are shares that are issued by the companies and are brought by the general public, entitling them to be the partial owners of the companies. Equities are considered to be the most popular form of investment because the returns generated are comparatively higher than other asset classes. Investment in stocks has high risk involved. Investment in equities can be done either through primary market (IPO) or secondary market (after listing). One should also note that in case of equity investment, an investor gets return on investment – ROI either in monetary or non- monetary way. Monetary benefit can be in terms of dividends or capital appreciation, while a non-monetary benefit can be in the form of bonus or rights issue.

c. **Bonds** – A bond is a debt instrument in which an investor lends an amount to an entity that can either be a corporate or government which borrows funds for a pre-defined period of time at pre-decided interest rates. Bonds are generally issued by companies, municipalities, states and sovereign governments to raise capital in order to finance their projects and for other funding activities.

d. **Mutual Funds** – Mutual fund pools money from a large number of investors and invest them in securities based on common objectives. Like stocks, mutual funds are also subject to various market risks but are safer as compared to direct investment in equities. The types of mutual funds include equity funds, debt funds, balanced fund, etc.

The above mentioned are some of the long-term and short-term investment options. The selection of any asset class or investment product should be done according to their tax benefit and returns earned so that there is no point of going wrong while investing.



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Why Invest  
in Equity?

## Why Invest in Equity?

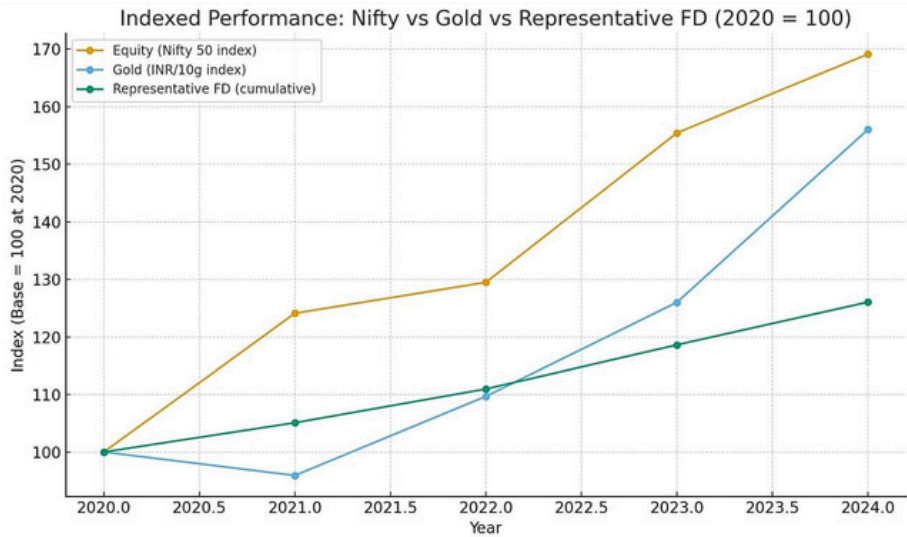
In today's fast-paced financial world, choosing the right investment avenue is more critical than ever. Inflation, economic shifts, global supply chain disruptions, and volatile interest rates are constantly reshaping the returns from different asset classes. Whether you are aiming for steady income, hedging against inflation, or looking for growth, understanding how equities, gold, and fixed deposits compare can help you build a resilient, goal-aligned portfolio. Updated data suggests that while no single asset class is perfect for all situations, combining them thoughtfully gives investors both upside and protection.

### Benefits of investing in equities

Equities v/s other investment options:

- Equity is one of the most liquid asset classes to invest in.
- Equity as an avenue has provided highest returns amongst all asset classes over the long-term.

year	Nifty Close	Nifty index (base=100)	Gold(INR/10g)	Gold index (base=100)	Representative FD rate (%)	FD index (base=100)
2020	13,981.75	100	50,151	100	5.25 (representative)	100
2021	17,354.05	124.119	48,099	95.908	5.1	105.1
2022	18,105.30	129.492	55,017	109.703	5.6	110.986
2023	21,731.40	155.427	63,203	126.025	6.9	118.644
2024	23,644.80	169.112	78,245	156.019	6.25	126.059

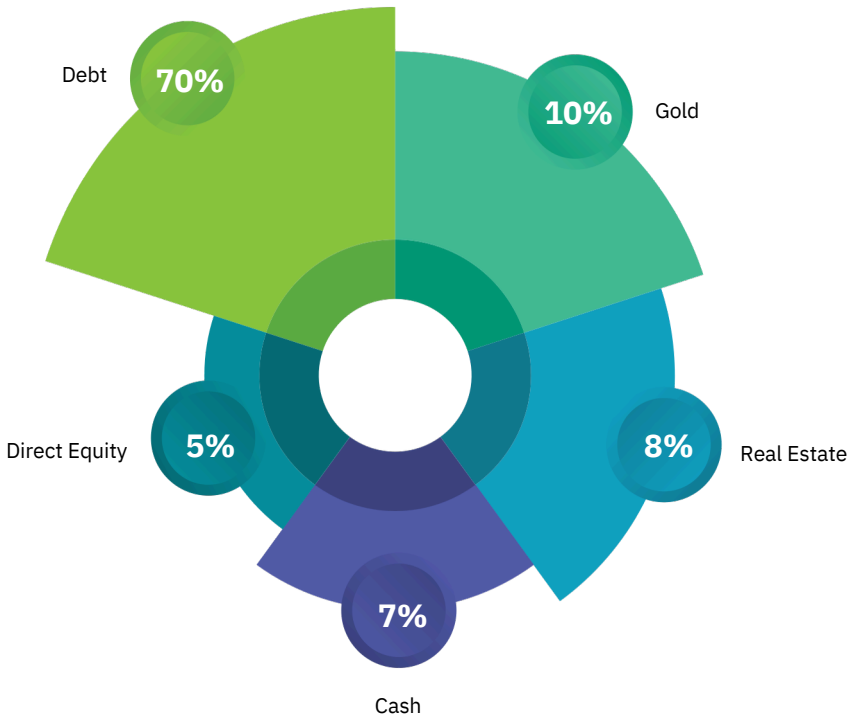


## What is a Portfolio?

A portfolio is a selection of different investment assets classes which is planned depending on the investor's income and expenses, risk appetite and time frame. The investments that are often considered as a part of portfolio include shares, debentures, bonds, mutual funds, gold, real estate, etc.

Let's take a sample portfolio to examine how the asset classes are distributed among the investors. Ms. Nikitha, age 35 is a conservative investor. So, based on her age, current financial position and risk profile an ideal portfolio would look like this:

## Conservative Portfolio



## How investment in stocks generate returns?

Investing in stocks can provide returns in multiple ways, making them one of the most attractive asset classes for long-term wealth creation. The key sources of returns are:

- **Capital Appreciation:** This refers to the increase in the price of a stock over time. When the value of the company grows due to higher revenues, profitability, or improved market perception, the stock price tends to rise. Investors can realize these gains by selling their shares at a higher price than the purchase price.

- **Dividends:** Many companies distribute a portion of their profits back to shareholders in the form of dividends. These payments, whether regular or special, provide investors with a steady stream of income in addition to any price appreciation.
- **Compounding Effect:** Reinvesting dividends and long-term capital gains allows investors to harness the power of compounding. Over time, this reinvestment significantly accelerates wealth accumulation.
- **Share Buybacks:** Some companies return value to shareholders by repurchasing their own shares. This reduces the number of shares available in the market, often driving up the stock price and thereby benefiting existing shareholders.
- **Diversification Benefits:** While diversification itself is not a direct source of return, investing in a well-diversified stock portfolio helps balance risks. By spreading investments across sectors, industries, or geographies, investors reduce the likelihood of large losses from a single company's poor performance and increase the chances of stable, long-term returns.

## Why invest in equity?

For long-term wealth creation investment in equity can be more rewarding. Investment in fixed income instruments such as fixed deposits, saving account and even public provident funds give you a fixed return of approximately 8% to 9% annually. Investments in these asset classes are safe, but it is equally important to see if your investments are adding up blocks in your wealth creation. Usually, this kind of investment is more suitable for investors with short-term goals and for investors looking for safety and regular income.

Thus, in order to grow wealth, investment in fixed income instruments will not be enough. Investing in equity allows to take part in the growth of a company. It is usually recommended to be invested for long-term period in equity investment, as one can see money grow along with the basket of fundamentally strong companies. Hence, one should invest through equities in those companies which in return can help in meeting long-term goals. Equity investments, if held for a long period have the capability to deliver average returns of 15% to 20%.

Going further, it is also important that investments should keep up with the inflation of the economy. For instance, if the inflation is around 5% to 7%. Then investment needs to generate returns more than that. In case of fixed income instrument, post tax returns might not catch up with the inflation

Hence, as said by Peter Lynch,  
**“Know what you own and know why you own it.”**

The following table explains the characteristics of different asset classes.

Asset classes	Equity	Debt Instruments	Gold	Real Estate
<b>Risk</b>	High	Low	High	High
<b>Average Return</b>	15 – 20%	8 – 10%	Market linked	Market linked
<b>Liquidity</b>	High	low	High	Low
<b>Investment Time frame</b>	Long-term	Short-term	Long-term	Long-term
<b>Minimum investment amount</b>	₹500 or Minimum 1 Share	Depends on types of instruments	Current market price of gold	Depends on negotiated terms
<b>Market return types</b>	Variable	Fixed	Variable	Variable
<b>Taxation</b>	Short-term gains taxable at 20%. Long-term gains above 1.25 Lakh are taxable at 12.5%.	Taxable	Taxable	Taxable

Note:

\* In case of equity an investment is considered short-term, if held for less than 12 months

\* Whereas in case of debt instruments investment is considered short-term, if held for less than 24 months

## Market Facts

- The share price of Reliance Industries has grown by ~565-600% over the last 10 years (CAGR ~22%).
- The share price of State Bank of India has grown by ~(approx 360-400%) in the last 5 years (CAGR ~36%).
- The share price of Maruti Suzuki India has grown nearly 140% in the last 5 years, with average return ~17-20% p.a.
- The share price of Lupin has grown ~120% in the last 5 years, with a CAGR around 13-17% depending on the measure.

## Golden Rules of Equity Investment

- Historically, equities have outperformed all other asset classes and it's an important component in each portfolio to generate higher returns.
- Assume we are investing in the business and wait for sufficient time to reap the benefits
- Diversify the investments never put all eggs in one basket. Always invest in quality stocks and never buy a penny / junk stock.
- Avoid chasing the running stock/never try to catch a falling knife. Don't time the market, rather invest regularly in the markets.
- Check the company's past records and closely monitor the investments and take corrective action when things move against the expectations.
- Choose the right broker/investment advisor with good infrastructure & expertise to deliver the best in class services. Poor quality/cheaper services can be a costly mistake.



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Equity  
Market

# Equity Market

## What is a Stock Exchange?

A stock exchange provides a trading platform, whereby the buyers and sellers meet to transact securities. Like any other market, this is where the price of an equity share is decided, depending upon the demand and supply and on the prevailing emotions of all the buyers and sellers.

### Number of stock exchanges:

Currently, there are 8 recognized stock exchanges in India, out of which the two largest in India are National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The following list highlights the functional and non-functional exchanges in India, which either are operative or have been granted exist by SEBI.

Stock Exchanges	
Functional	Non - Functional
Ahmedabad Stock Exchange Ltd.	The Hyderabad Securities and Enterprises Ltd
Bombay Stock Exchange Ltd.	Coimbatore Stock Exchange Ltd
Calcutta Stock Exchange Ltd.	Saurashtra Kutch Stock Exchange Ltd
Multi Commodity Exchange of India Ltd. (MCX)	Mangalore Stock Exchange
Magadh Stock Exchange Ltd	Cochin Stock Exchange Ltd

Metropolitan Stock Exchange of India Ltd	Bangalore Stock Exchange Ltd
National Stock Exchange of India	Ludhiana Stock exchange Ltd
National commodity & derivatives exchange Ltd. (NCDEX)	Guwahati Stock Exchange Ltd
	Madras Stock Exchange Ltd
	OTC Exchange of India
	Pune Stock Exchange Ltd
	Jaipur Stock Exchange Ltd
	U.P. Stock Exchange Ltd
	Madhya Pradesh Stock Exchange Ltd
	Delhi Stock Exchange Ltd

Source: [www.sebi.gov.in](http://www.sebi.gov.in)

## Types of Stock Market Indices

Among the stocks that are listed in the exchanges, there are some similar stocks selected and grouped together to form an index. Indices are broadly categorized on the basis of industry, market capitalization, etc. In other words, they are the barometer of the stock market.

However, it should be noted that the values of the grouped stocks are used to calculate the value of index. Any change in the price of the stock leads to a change in the index value as well. Hence, it is said that an index represents the behaviour of the changes in the market.

### Some of the key indices for exchanges in India are:

- Sensex – Representing 30 companies from BSE
- Nifty 50 – Representing 51 companies from NSE

Some other benchmark indices apart from the above mentioned two are as follows:

Sector	Market Capital	Broad market indices
BSE Bankex	BSE Small cap	BSE 100
CNX IT	BSE Midcap	BSE 500
BSE Auto	Nifty Midcap 50	Nifty 100

## The Concept of Demutualization of Stock Exchanges

Previously all the Indian stock exchanges were owned and controlled by the brokers except NSE and OTC exchange of India. The brokers owned, traded and managed the exchanges collectively. Hence, the ownership rights and the managerial rights often caused a conflict of interest and repeated payment crisis. Therefore, the regulatory authority introduced the concept of demutualization in order to infuse a sense of confidence among the investors.

So what does demutualization of stock exchange mean? It refers to the legal structure of an exchange, whereby the ownership, the management and the trading rights of the exchange are segregated from one another.

The most obvious benefit of demutualization is that it leads to the separation of ownership and control of stock exchange from trading rights of its members, which in return also eliminates the conflict of interest between the exchange and broking members. This reduces the chances of brokers using stock exchanges for their personal gains.

### What is the Nifty Index?

Nifty 50 is the benchmark index for National Stock Exchange (NSE), reflecting the market movement of the top 51 companies of the Indian markets. Nifty is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between the NSE and CRISIL. It comprises of some of the largest and most liquid stocks traded on the NSE based on market capitalization across different industries.

### Market Capitalization

- Here, the weightage to be assigned to a stock while creating an index will be based on the market capitalization.
- Market Capitalization = Total No. of shares outstanding x Current Market Price.

### Free Float Market Capitalization

- Only shares which are freely available for trade in stock market are considered while computing an index through this method.
- Promoter's shareholding is not included while computing the shares which are freely available for trading in the stock market.

- Free Float Market Capitalization = (Total-Promoter) shares outstanding x Current Market Price.
- Here, the weightage to be assigned to a stock at the time of creating an index will be based on Free Float Market Capitalization.

### Price Weighted Average

- Here, the weightage assigned to a stock while creating an index will be based on the current market price of the stock.
- Higher the market price, higher the weightage and vice versa.

### Equal Weighted Average

- It is a type of weighing that gives the same weight, or importance, to each stock in a portfolio or index fund.

## Basic terminologies related to equities

### Equity/Share

- It is the total equity share capital of a company divided into equal units of smaller denominations.
- Stock or share grants are a part of an ownership of a company and represents a proportional claim on the company's assets and earnings i.e., a person who owns 10% of a company's outstanding stocks can claim ownership of 10% of the company's earnings.

## Price/Earning

The Price-to-Earnings (P/E) ratio measures how much investors are willing to pay for each unit of a company's earnings. In simple terms, it tells you "how many rupees an investor pays for every rupee of earnings." It is a key indicator of valuation and investor sentiment about a company.

## Dividend

It is a percentage of the face value of a share that a company distributes to its shareholders from its annual profits.

## Earnings Per Share

The amount of profit generated per share. Calculated as (Net Profits after Tax – Preference Dividend)/Total number of shares outstanding.

## SEBI

Securities Exchange Board of India (SEBI) is the country's capital market regulator. It is tasked with protecting investor's interest and regulating & developing the securities market in India.

## What is Contract Note?

A contract note is a record of any transaction carried out on the stock exchange through a broker. It serves as a confirmation of trade done on a particular day on behalf of the client on a stock exchange. It also helps to settle disputes or claims between the investor and the trading member. This document is received from the broker at the end of the day, if the investor has brought or sold shares through them.

Contract notes are kept in copy, the trading member and the client should keep one copy each. After verifying the details contained therein, the

client keeps one copy and returns the second copy to the trading member duly acknowledge by him. A broker has to issue a contract note to clients for all transactions in the format specified by the stock exchange. A valid contract note should have the following details:

- a. Name, address and SEBI registration number of the member broker
- b. Name of partner/proprietor/authorized signatory
- c. Dealing office address/tel. no./fax no., code number of the member given by the exchange
- d. Contract number, date of issue of contract note, settlement number and time period for settlement
- e. Constituent name/code number
- f. Order number and order time corresponding to the trades
- g. Trade number and trade time
- h. Quality and kind of security bought/sold by the client
- i. Brokerage and purchase/sale rate
- j. Service tax rates, securities transaction tax and any other charges levied by the broker
- k. Appropriate stamps have to be affixed on the contract note or it is mentioned that the consolidated stamp duty is paid
- l. Signature of the stock broker/authorized signatory

**Brokerage that a broker can charge:**

The maximum brokerage that can be charged by a broker to his clients as a commission cannot be more than 2.5% of the value mentioned in the respective purchase or contract note.

**What is an Auction in Equity Market?**


These auctions are conducted by the exchange when, for some reason shares are not delivered by the seller to the exchange on time. So, the exchange buys the necessary quantity in the auction market and gives them to the trading member. The shortages are met through auction process and the difference in price is indicated in the contract note and the price received through auction is paid by the seller to the exchange, which is later to be recovered from the client.

**What is an auction close out?**

Close out is effected for the cases when no offer for a particular security is received in an auction or when member who offer the securities in auction, fail to deliver the same or shortages pertaining to those groups of securities for which auctions are not conducted.

**The concept of growth and value stocks:**

When it comes to investing in equities, we come across the terms such as growth stocks and value stocks, investors often get confused and cannot distinguish between the growth stocks and value stocks. But the way in which they differ is by not how they are brought or sold, rather the difference lies mainly in the way they are perceived in the market.

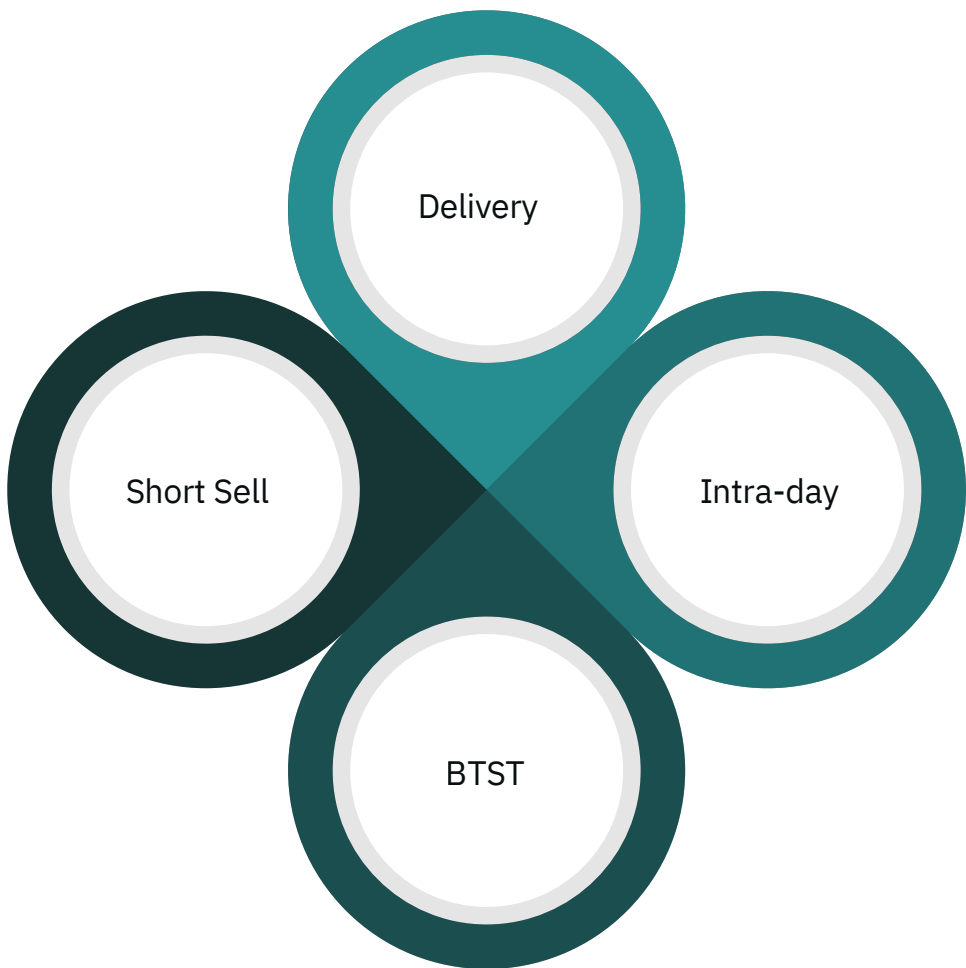


a. **Growth stocks** – As the name suggests, the growth stock investing approach believes in investing in companies which have high growth potential. Growth stocks look into the companies whose potential for growth in sales and earnings are high and when compared with other companies are growing on a faster phase than other companies or other stocks of the same industry. These companies are typically emerging companies and their main goal is to expand and grab the market share, so rather than using cash to pay out dividends or repurchase shares, they plough it back into the company by investing in new facilities or in new research and development of the company. One of the basic assumption on which the growth investing strategy is based, is that companies which have growth potential can fetch better returns in future. Under this approach, investors invest in companies that exhibit signs above average growth, even if the share price appears expensive in terms of metrics such as price on earnings (P/E ratio). Growth stocks ideally have above average price on earnings (P/E ratio) the rationale is that because the company is growing so quickly that their potential future profits justify their high valuation.

b. **Value stock** – Value stock is one of the best known methods for stock selection. The investor believes to be undervalued and hence, invest in those shares that are available at a price below their true value. In other words, the price of that stock is lower than it should be, based on the company's worth. This concept is based on the strong fundamentals of the company, including its assets, earnings, dividends, future growth and the management, as many of these assets may still have value which may be reflected in the stock price. Value stocks are more likely than growth stocks to pay dividend. They have a below average P/E ratio, which are one of the signatures of a value stock.

## Segment in Equity Market

Products offered under the equity segment are:



## 1. Delivery

- 100% capital is required for buying the shares in delivery
- Settlement: Now happens in T+1 for both cash and shares (i.e., 1 business day after the trade; “T” is the transaction day).
- Normal trading hours are from 9.15 am - 3.30 pm
- Brokerage for delivery trades: 0.30% – 0.50% of the transaction value

Particulars	Delivery
Cash Balance	₹1,00,000
Share Price	₹2,000
No. of shares bought	$1,00,000/2,000 = 50$
Brokerage Charges applicable	$₹2,000 \times 50 \times 0.5\% = ₹500$
Amount of Profit if the share price moves up by ₹100/-	$(₹2,100 - ₹2,000) \times 50 - 1,000 = ₹4,000$

*Note : For profit calculation, brokerage has been taken for both buying and selling.*

## 2. Intraday

- Buying and selling of shares happens on the same day.
- Client gets a margin/exposure in intraday, depending upon the VaR (Value at Risk)% of the stock in which he is interested to trade & the cash balance available.
- No. of times exposure/margin available - VaR Multiple =  $100/VaR\%$ .

- If the client has utilized the exposure in intraday segment provided by the broker, then he has to square off his position by 3:10 pm.
- Brokerage charges applicable for intraday segment are 0.03%-0.05% of turnover.

Example: If a client has a cash balance of ₹1,00,000 and wants to buy ABC co. for intraday trading which is trading at ₹2,000 per share, whose VaR (Value at Risk) = 7.5%. Brokerage charges applicable for Intraday will be 0.05% of the total turnover.

	Trade without Margin	Trade with Margin
Cash Balance	₹1,00,000	₹1,00,000
VaR %	7.5%	₹2,000
Share Price	₹2,000	$1,00,000/2,000 = 50$
VaR Multiple	$100/7.5 = 13.33$	₹2,000
No. of shares bought	$₹1,00,000/₹2,000 = 50$	$₹1,00,000 \times 13.33/₹2,000 = 666$ (approx.)
Brokerage applicable	$₹2,000 \times 50 \times 0.05\% = ₹50$	$₹1,00,000 \times 13.33 \times 0.05\% = ₹666.5$
Amount of Profit if the share price moves up by ₹10/-	$(₹2,010 - ₹2,000) \times 50 - 100 = ₹400$	$(₹2,010 - ₹2,000) \times 666.5 - 1,333 = ₹5,332$

Note : For profit calculation, brokerage has been taken for both buying and selling.

**3. Buy Today Sell Tomorrow (BTST)** Ideally, shares are sold after they are delivered to the demat account. If you buy shares today and sell them the next day before taking delivery, it is called BTST. It is part of delivery product.

#### **4. Short-selling**

- When the client sells the shares without holding them in the demat account, it is called short-selling.
- Here, the client is trying to make a profit by looking at the down-trend in the market. Hence, the shares are sold first and then bought back at a lower price.
- Short-selling is only permitted in intra-day, else the client has to deliver the shares, in case they are not bought back before the end of the day.

### **How to go about analyzing the stock of the company?**

When it comes to investing in stocks it is important to understand on what basis is the stock being selected and what is the objective, for instance whether you want to hold the stock for a long period or short period. Based on the investing objective, a stock can be analyzed on fundamental or technical analysis basis.

- a. **Fundamental analysis** – Fundamental analysis is considered to be the corner stone of investing in equities. It is a method of evaluating a stock by attempting to measure its intrinsic value by examining its related economic, financial and other qualitative & quantitative factors.

b. **Technical analysis** - Under this method, the analyst simply studies the trend in share prices based on past history. The underlying assumption of technical analysis is that market prices are a function of the supply and demand for a stock, which in turn reflects in the current valuation of the company. This method believes that the historical price trends are an indication of the future performance. Thus, instead of assessing the fundamentals and financial statements of a company, it relies upon the market trends to predict how the stock will perform.



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# Corporate Actions

## Corporate Actions

A corporate action is an event initiated by a listed company that affects the securities (equity or debt) issued by the company, agreed upon by the company's board of directors and authorized by the shareholders.

### Types of Corporate Actions

- Follow-on Public Offer (FPO)
- Dividends
- Bonus Issue
- Rights Issue
- Buy Back
- Offer for Sale
- Stock Split

#### Follow-on Public Offer (FPO):

- An issue of shares to investors by a public company that is already listed in an exchange to raise further equity capital is called Follow-on Public Offer.
- It is essentially the issue of supplementary shares of a company that is already listed after going through the IPO process.
- The public company either makes a fresh issue of securities to the public or an offer for sale to the investors, through an offer document.

### Dividends:

- Profit of the company distributed as cash among all the shareholders.
- Dividend is distributed on per share basis.
- Dividends are always issued in respect to face value of the share.
- Issue of dividend results in cash outflow to the company.

### Bonus Issue:

- Bonus shares are issued to the existing shareholders out of the profits available with the company.
- Instead of giving dividend, which will result in cash outflow, the company issues bonus shares.
- Results in no cash outflow to the company and no affect on the working capital of the company i.e., capitalization of reserves.

For Example: If the company has announced a bonus issue of 1:1, then every shareholder who holds one share will get one more share for free. But, whenever a bonus share is issued, Market Price of the stock undergoes a change. If the Earning Per Share (EPS) = ₹100, after the bonus shares are issues, one again needs to calculate the  $EPS = \text{Earnings} / \text{No. of shares outstanding}$ .

$$\text{₹10 Lakh} / 20,000 \text{ shares} = \text{₹5 per share.}$$

The P/E ratio represents how many times a company's earnings investors are willing to pay for in order to obtain that amount of profit.

$$\text{Market Price} = \text{EPS} \times \text{P/E} \quad ₹5 \times 10 = ₹50$$

### Rights Issue:

- Rights given to existing shareholders of the company to apply for further shares.
- Results in cash inflow to the company.
- The share issued in rights issue are at a discounted price as compared to the current market price of the share.

### Buyback :

- A company buys back (repurchases) the shares from the general public to reduce the number of shares in the market.
- Companies buy back shares, in order to eliminate threat by shareholders who are looking for a controlling stake. This results in the cash outflow to the company.

### Offer for Sale:

- It is done by the promoters or entities holding more than 10% stake in the company.
- Promoters offer their shares for sale through an exchange which helps the promoters to dilute their stake in the company.

- The cash is received by the promoters and there is no effect on the balance sheet of the company.

### Stock Split:

- Splitting of face value of the company share into smaller denomination.
- The face value of a share can be ₹ 1, ₹2, ₹5, ₹10.
- It does not affect the balance sheet of the company.

Benefits of Equity Investing	
Monetary Benefits	Non-Monetary Benefits
Dividend Capital Appreciation	Bonus Stock Split

**Example:** If Mr. A has started a business in 2006 with an initial capital of ₹1 Lakh and after 10 years the market value of his business stands at ₹ 1 Crore. The profit made by the company is ₹10 Lakh per annum. Number of shares issued=10,000 shares of Face Value 10. Anyone who wants to be a part of his business has to buy some stake at the market price. a 5 Lakh ( 5% of ₹1 crore). Here, it is important to understand that, if someone wants to earn a profit of ₹10 Lakh per annum, one has to buy the company worth ₹1 Crore.

**The Price Earnings Ratio = Market Price / Earnings Per Share**

In our example, there is no market value and earnings per share, rather is a company. So,

$$\text{P/E} = \text{₹1 Cr} / \text{₹10 Lakh} = 10/1$$

This ratio signifies that to earn a profit of 1 rupee per annum, we have to pay ₹10 to buy the investment. If we don't own the investment, then we will not be able to be a part of the earning of the company. The P/E ratio signifies the number of times of earnings we need to pay to earn the profit.

## Comparison of P/E ratio

**Example:** If Mr. A has two options of investments with P/E of 10 and P/E of 20, what should he choose?

**Answer:** P/E states that the no. of times amount has to be paid to be a part of the earnings of the company. Now, the two options state P/E = 20/1 and 10/1, it means that if he wants to earn a rupee, he has to invest ₹20 in option A and ₹10 in option B. So, he can benefit more by investing in option B.

$$\begin{aligned} \text{Earnings per Share} &= \text{Profit after Tax} / \text{No. of shares outstanding} \\ &= \text{₹10 Lakh} / 10,000 = \text{₹100 per share} \end{aligned}$$

In other words, it means the profit earned by the company per share.

Here, the market value per share can be determined by

$$\text{EPS} \times \text{P/E} = \text{₹100} \times 10 = \text{₹1,000.}$$

## Bonus Issue

If the company has announced a bonus issue of 1:1, then every shareholder holding one share will get one more share for free. But, whenever a bonus share is issued, market price of the stock undergoes a change.

When **EPS = ₹100** and a bonus share is issued, one again needs to calculate

$$\text{EPS} = \text{Earnings} / \text{No. of shares outstanding} = ₹1,000 / 20,000 \text{ shares} = ₹5 \text{ per share.}$$

P/E is always a function signifying the number of times of earnings we need to pay to earn that amount of profit.

## Stock Split

$$\text{Market Price} = \text{EPS} \times \text{P/E} = ₹5 \times 10 = ₹50$$

Let's learn the concept of stock split assuming three different scenarios illustrated in the below table:

Scenario	Old Face Value	No. of Share	New Face Value	No. of Share
1	₹10	1	₹5	2
2	₹10	1	₹2	5
3	₹10	1	₹1	10

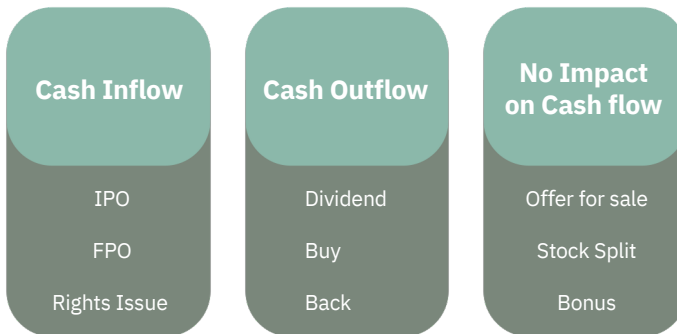
In all the given scenarios, when the stock splits, the value of the total share held by an individual remains unchanged. Considering the first scenario mentioned in the table, an individual has one share of face value ₹10. After stock split, he will have two shares of face value ₹5 each. Now he has more shares, but the total value of shares remained unchanged. The same applies to the second and the third scenario in the table. Similarly, in the case of market value of the company:



The below table will give you an explanation as to how the current market price of each share changes:

Old Face Value	New Face Value	No. of Share	Current Market Price before Split	Current Market Price after Split
₹10	₹5	2	₹1,000	₹500
₹10	₹2	5	₹1,000	₹200
₹10	₹1	10	₹1,000	₹100

## Corporate action and cash flow from a company perspective



### Dates to remember

- **Declaration Date:** Date on which the board of directors declare/announce a corporate action.
- **Ex-Date:** It is the date from which the shares will be traded at a price excluding the benefit of corporate action. Anyone who buys the share on ex-date will not be eligible for the corporate action announced by the company.
- **Record Date:** It is the date on which people holding shares (either in physical or demat mode) will be eligible for the benefit of corporate action.



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Derivatives

# Derivatives

The derivative is a financial instrument which derives its value from the underlying asset. The underlying asset can be equity, commodity, currency, bonds or security. Derivatives are mostly used for hedging the risk which is associated with owning the underlying asset.

Derivative products are classified into four types:

- 1) Forward
- 2) Futures
- 3) Options
- 4) Swaps

*Note: In India trading in derivative products takes place only in Futures and Options.*

## Forward

- It is a contractual agreement between two parties to buy/sell the underlying asset at a pre-determined price on a pre-determined date.
- The terms and conditions of the contract size can be privately negotiated.
- The parties to the contract are obligated to perform their part of the contractual agreement.
- The pre-determined date in a forward contract is the expiry date before which the parties to the contract have to fulfill their obligation.
- These are traded over-the-counter.

## Futures

- It is a contractual agreement between two parties to buy/sell the underlying asset at a pre-determined price on a pre-determined date.
- The terms and conditions of the contract are standardized and are determined by the stock exchange.
- The parties to the contract are obligated to perform their part of the contractual obligation.
- The pre-determined date in futures contract is the expiry date before which the parties to the contract have to fulfill their obligation.
- These are also called as Exchange Traded Forward Contracts.

## Options

- It is a contractual agreement between two parties to buy/sell the underlying asset at a pre-determined price on a pre-determined date.
- There are two parties to the contract,
  1. Buyer – has a right but not an obligation to fulfill his contractual obligation
  2. Seller – has an obligation to fulfill his contractual obligation.
- The terms and conditions of the contract are standardized and are determined by the stock exchange.
- The pre-determined date in options contract is the expiry date before which the parties to the contract have to fulfill their obligations.

## Swaps

- It is an agreement between two parties to exchange cashflow of one party's financial instrument for the other party's financial instrument.
- Swaps are a series of forward contracts.

## Market Participants in Derivatives

- **Hedgers:** They are people who have the risk associated with owning the underlying asset and based on this view, they use derivative instruments to reduce the risk.
- **Speculators:** They try to predict the future movement of the prices of the underlying asset and accordingly take position in derivative contracts.
- **Arbitrageurs:** They take advantage of the price difference of a product in two different markets.

## Significance of derivative markets

- It helps in price discovery based on actual valuations.
- It helps in transfer of risk from those who have low appetite for risk to participants with high risk appetite.
- Shift of speculative trades from unorganized markets to organized markets.

## Forwards

It is an agreement directly made between two parties to buy/sell an underlying asset on a specific date in future, at the terms and conditions decided while entering into the contract.

Example: Mr. A wants to purchase gold today on 1st March at ₹22,000 for 10 grams. If Mr. A agrees to pay the cash and take the delivery of gold, then this transaction is settled in cash. If Mr. A wants to purchase gold after a month, i.e on 1st April then the goldsmith quotes the price as ₹23,500 for 10 grams. When Mr. A and the goldsmith agree for the price it means Mr. A has entered into a forward contract with the goldsmith to buy gold on 1st April at ₹23,500 for 10 grams. After a month, Mr. A can go to the goldsmith and take gold by paying ₹23,500, irrespective of the spot/cash price of gold on 1st April.

Note: Here, the important point to remember is that the cash price of gold on 1st April can be ₹25,000 or ₹20,000. So, there is a chance of a counterparty default on this transaction.

- i. If the cash market price is ₹25,000 then the seller might not want to deliver gold to Mr. A as he can sell the same to someone else at the market price.
- ii. If the cash market price is ₹20,000 then Mr. A would be interested in buying at the market rate and not at the agreed contractual price of ₹23,500.

## Drawback of Forward contracts

- i. **Liquidity Risk:** It is the ability of a market participant to convert his position into cash. In forwards, the contracts are so customized that it would become difficult to find a person who would be interested in the same contracts which have been tailor made to suit someone's specific requirement.
- ii. **Counterparty Risk:** It is an economic loss from the failure of a counter party to fulfill its contractual obligation.

## Futures Contracts

- i. These contracts have been created to overcome the limitation of forward contracts.
- ii. A futures contract is an agreement made through an organized exchange to buy or sell an underlying asset at a future date for an agreed price.

## Futures Terminology

- i. **Spot Price:** The price at which the underlying asset is available for cash in the stock market.
- ii. **Futures Contract Price:** The price at which the underlying asset will be available at a future date. Futures contracts can be classified into two types namely:

1) Index Futures

2) Stock Futures

## Contract Cycle

- i. As the contracts are standardized by the exchange, it decides the period for which the contracts will be available for trading.
- ii. At any given point of time the maximum number of contracts available for trading will be three:
  - a) Near Month
  - b) Mid Month
  - c) Far Month

## Expiry Date

- i. It is the date before which the parties to the contract fulfill their contractual obligation.
- ii. It is the date on which the contract ceases to exist.
- iii. In equity derivative, contracts expire on last Thursday of every month.
- iv. As soon as the near month contract expires, a new contract for the far month is available for trading.

## Weekly Futures & Options Rule:

In addition to the regular monthly expiry, Indian exchanges such as NSE have introduced weekly expiry contracts, mainly for index derivatives like NIFTY, BANK NIFTY, FINNIFTY, and MIDCPNIFTY. Under this system, new contracts are issued each week and they expire on every Thursday. If Thursday happens to be a trading holiday, the expiry is moved to the previous trading day (Wednesday). This weekly cycle gives traders more flexibility to take short-term positions and manage their strategies without waiting for the end of the month.



Example: Suppose you are trading in NIFTY weekly options for October 2025. The contract expiring on Thursday, 9th October 2025 will be the weekly expiry for that week. If 9th October is declared a market holiday, then the contract will instead expire on Wednesday, 8th October 2025. At the same time, the monthly NIFTY futures contract for October will still expire only on the last Thursday of the month, i.e., 30th October 2025.

## Contract Value

The minimum contract value for a derivative contract is ₹ 15,00,000 at the time of introduction, and exchanges must ensure that the contract value remains within the range of ₹ 15-20 lakh by adjusting lot sizes.

## Contract Size/Lot Size

- i. In the cash market, shares traded can be bought and sold in single units.
- ii. In futures market, as the minimum contract value for any derivative contract must be ₹ 15,00,000, depending on the current market price of an index or stock. The stocks exchange determines the lot size to ensure the contract value remains within the range.

## Margin

- i. It is the amount which the parties to the futures contract have to pay to the broker to enter into a futures contract.
- ii. Both the buyer and the seller of the futures contract have to deposit margin amount so as to avoid counterparty risk.
- iii. Margin amount depends upon the volatility of the stock/index. More the volatility, higher the margin amount and vice versa.
- iv. Margin collected consists of two types:
  - **Initial Margin:** It is the amount which a person has to pay to enter into a position in the futures market.
  - **Maintenance Margin:** It is the amount of money which a person has to maintain in the margin amount so that he can hold on to his position in the futures market. Delivery of the shares at a predetermined price by just paying the balance amount of the contract value.

Cash market price Futures	=	1,000
market price Lot Size Initial	=	10,10,500
Margin Cash Balance Cash	=	15%
market price at Expiry	=	₹1,00,000
	=	₹1,050

Particulars	Delivery	Futures
Price	1,000	1,010
Min. no. of shares can be bought	100	500
Amount required	₹1,00,000	₹75,750
Profit if the price moves up by ₹50	₹50 × 100 = ₹5,000	₹50 × 500 = ₹25,000
Brokerage	₹1,00,000 × 0.5% = ₹500	₹75,750 × 0.05% = ₹250
Total Brokerage	500 + 500 = 1000	250 + 250 = 500
Net Profit	₹5,000 - ₹1,000 = ₹4,000	₹25,000 - ₹500 = ₹24,500

*\*Profit here is arrived after deducting brokerage on both legs of the transaction*

- *The client is required to pay only a margin amount to buy futures contract The client gets an advantage*
- *of the price rise on 500 quantity of shares just by paying ₹75,750 and not just ₹1,00,000 as required to buy the shares in the cash market.*

From the above example it can be said that, if the future price of the script increases to ₹1,060 from ₹1,010, then the client will get a profit of ₹50 per share for 500 shares (lot size) i.e. ₹25,000. When compared with delivery the client gets a ROI by 25% on ₹75,750 capital with that of 5% on delivery.

## Mark-to-Market

- It is the daily settlement cycle of the futures contract because of which the counter party risk is totally avoided.
- Here, investor tries to take an advantage of profits on 500 qty. instead of 100 qty. which he can buy with his own cash. If he buys

100 shares then profit/loss will be adjusted according to the market value of investments. In the same way, if the client takes a position of 500 qty. just by paying margin amount, then the profit/loss on the 500 qty. should be adjusted on a daily basis from his initial margin and as and when required from the ledger balance.

## Cost of carry

The difference between the Cash market price and Futures market price.

## Premium or Discount

If the price in the futures market is more than the cash price of the underlying asset – then the futures contract is said to be trading at Premium. If the price in the futures market is less than the cash price of the underlying asset – then the futures contract is said to trading at Discount.

Particulars	Discount	Premium
Cash Market	100	100
Futures Market	95	105

## Settlement of Futures Contract

- The settlement cycle for futures contract is on T+1 basis.
- The daily settlement price for futures contract will be the closing price of the futures market price.

- The final settlement price for futures contract will be the closing price of the underlying asset on expiry.

## Options

- **Strike Price/Exercise Price:** The price at which the buyer and the seller enter in to an options contract to buy/sell the underlying asset.
- **Spot Price:** The price at which the underlying asset is trading in the cash market.

## Premium

The amount of money the buyer will pay to the seller of an options contract. Premium traded on an exchange is for a single unit.

## Option Buyer

The buyer of an options contract is a person who has the right to buy/sell the underlying asset at the strike price, but not the obligation.

## Option Seller/ Option Writer

The seller of an options contract is a person who has an obligation to buy/sell the underlying asset at the strike price.

## Exercising the Options Contract

When a buyer of an option exercises his right to buy/sell the underlying asset at the strike/exercise price, it is called as exercising the contract.

According to expiry, the options contracts are classified into two types: American option and European option.

Type	Can be Exercised	Traded in India
American option	Anytime Before Expiry	Not Traded in India
European Option	On the Expiry Date	Traded in India

## Expiry Date

- It is the last trading day of a contract with a particular expiry.
- The contract cycle for equity/index is three months & currency is 12 months.
- The first month is called near month and the second and third months are the mid and far month, respectively.

## Types and Parties to Options contract

Call Option		Put Option	
Buyer for a call option	Seller for a call option	Buyer for a put option	Seller for a put option
It gives the buyer the right to buy an underlying asset at the strike price.	It is an obligation to sell the underlying asset at the strike price.	It gives the buyer the right to sell an underlying asset at the strike price.	It is an obligation to purchase the underlying asset at the strike price.

Given below is continuation of the illustration if the spot price of the underlying moves to ₹250 and the lot size is 1,000.

Strike Price	Intrinsic Value(IV)	Time Value (TV)	Premium (P)=IV+TV	Breakeven on Expiry
230	20	2	22,000	252
240	10	1	11,000	251
250	0	10	10,000	260
260	0	7	7,000	267
270	0	3	3,000	273
280	0	1	1,000	281

Given below is continuation of the illustration if the spot price of the underlying moves to ₹260 and the lot size is 1,000 qty.

Strike Price	Intrinsic Value	Time Value (TV)	Premium (P)=IV+TV
230	30	1	31,000
240	20	1	21,000
250	10	5	15,000
260	0	8	8,000
270	0	4	4,000
280	0	1	1,000

Given below is the continuation of the illustration if the spot price of the underlying is ₹260 at expiry & the profit/loss on the options contract.

Strike Price	Value of options contract when the spot price was ₹250	Value of options contract when the spot price went up to ₹260	Profit / Loss
230	22,000	31,000	9,000
240	11,000	21,000	10,000
250	10,000	15,000	5,000
260	7,000	8,000	1,000
270	3,000	4,000	1,000
280	1,000	1,000	0

The below given table illustrates the calculation of premium for a put option when the spot price is ₹290 and the lot size is 1,000 qty.

Strike Price	Intrinsic Value(IV)	Time Value(TV)	Premium (P)=IV+T V	Breakeven on Expiry
270	0	3	3,000	267
280	0	5	5,000	275
290	0	8	8,000	282
300	10	7	17,000	283
310	20	10	30,000	280

The below given table is a continuation of the illustration if the spot price of the underlying asset goes to ₹280 when the lot size is 1,000 qty.

Strike Price	Intrinsic Value(IV)	Time Value (TV)	Premium (P)=IV+TV
270	0	5	5,000
280	0	10	10,000
290	10	5	15,000
300	20	4	24,000
310	30	5	35,000

The below table illustrates the calculation of premium when the spot price is ₹290.

Strike Price	Value of options contract when the spot price was ₹290	Value of options contract when the spot price went up to ₹280	Profit / Loss
270	3,000	5,000	2,000
280	5,000	10,000	5,000
290	8,000	15,000	7,000
300	17,000	24,000	7,000
310	30,000	35,000	5,000

## Common points for Call and Put Option

i. In all the option contracts, the buyer has to pay an upfront premium to the seller. If the buyer does not exercise his right the Premium amount paid is the income for the seller of the options contract.

ii. Options can be further classified depending on whether the buyer of an options contract will exercise the contract or not. If he exercises the contract, it will be In-the-Money option. If he does not exercise the contract, it will be either At-the-Money or Out-of-the-Money option.

» **In-the-Money:** The options contracts in which the buyer exercises his right to buy/sell the underlying asset at the exercise price is called In-the-Money options contract. The premium paid for In-the-Money options contract has intrinsic value as well as time value.

» **At-the-Money:** We say the options contract is At-the-Money, when the buyer of an options contract uses his right to exercise the contract or does not exercise the contract, i.e buys the underlying asset from the market directly, it does not make a financial impact. The premium paid for At-the-Money options contract has only time value.

» **Out-of-the-Money:** The options contract in which the buyer does not exercise his right to buy/sell the underlying asset at the exercise price is said to be Out-of-the-Money.

## Valuations of options

The option contract value or the premium amount paid by the buyer of an options contract consists of two parts namely:

- a) Intrinsic Value
- b) Time Value

$$\text{Premium} = \text{Intrinsic Value} + \text{Time Value}$$

**Time Value:** Time value is the amount of money the buyer of an options contract pays over and above the intrinsic value in In-the-Money options contract. Time value can be there in In-the-Money and Out-of-the-Money options contract. Time value of an options contract cannot be negative.

## Settlement of Options Contract

- i. On expiry, the options contracts are settled as per the closing price of the underlying asset in the cash market.
- ii. If the options contract expires as In-the-Money, then profit on exercising the contract is credited to the buyers account.
- iii. If the options contract expires Out-of-the-Money or At-the-Money, the premium amount paid by the buyer is given to the seller as it is their income.



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Mutual  
Funds

## Mutual Funds

A mutual fund (MF) is a mechanism to pool funds from multiple investors and invest these in securities such as stocks, bonds, money-market instruments and other similar assets. Equity investment seems intimidating at times. Mutual funds not only make investments simple but also make an interesting investment option. Every investment has its share of risks and rewards associated with it.

The two factors go hand-in-hand. With mutual fund investment, one has the option to decide on the fund depending on the amount of return expected and the risk appetite. Investors can seek advice from experts while making investment decisions.

Mutual funds have become popular investment vehicles offering various kinds of schemes with different investment objectives. In order to offset potential losses, the funds are well diversified. Mutual funds offer many benefits:

- Professional management of funds
- Diversification of the portfolio
- Low cost of investment
- Highly liquid in nature
- Well-regulated

## Active fund management

These funds are constantly active in the market as the fund buys and sells securities based on the changed perceptions or investment frame from time to time. An actively managed fund offers the potential for much higher returns than any market subject to if the fund manager makes the right investment decisions.

In this case, the fund manager tactically manages money, so when a particular sector is up or is going down, the fund manager moves the money accordingly either to expose to the growth of a particular sector or to shield from the losses, if any.

The two basic investing styles that are popular in mutual fund investing are:

a. **Growth investing** – The primary objective of this investing style is to obtain capital appreciation. In this investment style, the fund manager looks at companies that are expected to give above average earnings or where the future prospects of the company are high.

b. **Value investing** – Under this investment style, the fund manager looks into companies which are currently undervalued in the market and have the potential to increase when the market corrects or based on their valuations.

## Passive fund management

A passive fund management is the opposite of active fund management in which the investors follow a buy and hold strategy. These funds do

not analyze the companies, economy or the market conditions to narrow down the stocks. Instead they invest on the basis of a specified index such as Nifty index, etc. whose performance they seek to track. In such case, the returns generated by the funds are similar to the returns of the index. In case of passive fund management, the element of wrong selection of a mutual fund is very less.

Since the index is the deciding factor in the portfolio of such funds, the fund manager's role is insignificant and the costs involved in these funds are minimal.

## Different types of mutual fund schemes

Schemes according to maturity period

- **Open-ended fund:** An open-ended fund or scheme is available for subscription and repurchase on a continuous basis and do not have a fixed-maturity period.
- **Close-ended fund:** A close-ended fund has a stipulated maturity period. It is open for subscription only during a specific period at the time of launch of the scheme.

## Schemes according to maturity period

- **Growth/Equity Oriented schemes:** The aim of these funds is to provide capital appreciation over the medium to long-term. Typically, such schemes invest a major part of their corpus in equities.
- **Income/Debt oriented schemes:** The aim of these funds is to provide regular and steady income to the investors. Income funds normally

invest in fixed income securities such as bonds, corporate debentures, government securities and money market instruments.

- **Balanced funds:** These aim to provide both growth and regular income. Balanced funds invest both in equities and fixed income securities as per the proportion indicated in their offer documents.
- **Money market and Liquid funds:** These are also income funds and aim to provide easy liquidity, preservation of capital and moderate income. These funds invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc.
- **Gilt Funds:** These funds invest exclusively in government securities which have no default risk. Due to change in interest rate and other economic factors, NAVs of these schemes also fluctuate.
- **Index Funds:** These funds replicate the portfolio of a particular index such as the BSE Sensitive, Nifty 50, etc.

## Sector-specific schemes

These funds invest in the securities of only those sectors or industries as specified in the offer documents. The returns depend on the performance of the respective sectors/ industries.

## Tax saving schemes

These schemes offer tax rebates to the investors under Section 80C of the Income Tax Act, 1961 as the government offers tax incentives for investment in specified avenues,

e.g. Equity Linked Savings Schemes (ELSS). Pension schemes launched by the mutual funds also offer tax benefits.

## Fund of Fund (FoF) schemes

It is a scheme that invests primarily in other schemes of the same mutual fund house or in other mutual funds. By spreading the risk across a wider universe, investors can achieve greater diversification through a single scheme.

## Exchange Traded Fund (ETF)

Exchange traded funds (ETFs) are open ended funds whose units are traded in stock exchange. The units are issued to the investor in a new funds offer (NFO) after which they are available for sale and purchase on stock exchange. Units are credited to the investor's demat account and the transactions post NFO is done through the trading and settlement platforms of the stock exchanges. The units of the ETFs are traded at real time prices that are linked to the changes in the underlying index.

In order to facilitate such transactions in the stock market, the mutual fund appoints intermediaries called authorized dealers, whose job is to offer a price quote for buying and selling units at all times. The benefit of investing in ETFs is that investors can buy and sell units in the stock exchange at real time prices during the day that closely tracks market price and time. Note that the transaction prices may be close to Net asset value (NAV) and not same as NAV. A higher demand for units can push the price of the units higher than the NAV and a lower demand can push the prices below the NAV.

## Risk involved in investing in mutual funds

Like any other investment class, mutual funds also carry a certain degree of risk. Mutual fund investors invest in mutual fund scheme, which in return invests in instruments like equity, debt, gold or any other asset classes. As the market fluctuates the value of the underlying asset classes also move, which is reflected in the Net Asset Value (NAV) of the fund.

Mutual fund investment risk is associated to the term volatility, which refers to the fluctuations of the NAV; higher the volatility, the greater will be the fluctuations in NAV. However, depending on the investment object and category, a mutual fund can be subject to any of the following risks, which could affect a fund's performance:

- a. **Market risk** – If the overall stocks or bond markets fall on the account of overall macro economic factors, then the value of stock or bond holdings in the fund's portfolio can drop, thereby impacting the fund's performance.
- b. **Credit risk** – The risk of a security's issuer or the counter party being unable to meet its obligation on time such as payment of interest or repayment of capital or any other financial obligation. Let's say, when you invest in debt fund there is a risk that a bond issuer may default.
- c. **Non-market risk** – Any negative news about the company can pull down its stock price, which can negatively affect the fund's holding. This risk can be reduced through a diversified portfolio that consists of a wide variety of stocks taken from different industries.

d. **Interest rate risk** – The risk that an investment's value will change due to a change in absolute level of interest rates. Normally, rise in interest rates during the investment period may result in reduced price of the security. A bond price and interest rates move in opposite directions. When the interest rates rise, the bond prices fall, which in return affects the funds negatively.

Though there are numerous risk involved in mutual fund investing, it should not be the only deciding factor. Take a holistic view on the funds and take appropriate measures recognizing your risk profile, investment objective, financial goals, asset allocation and diversify your portfolio wisely in a way that it adds tax efficiency to your investment portfolio.

## Starting new?

### Start small with SIP (Systematic Investment Plan)

Systematic Investment Plan (SIP) in mutual funds functions in a similar manner as a Recurring Deposit in a bank.



The benefits of SIP are stated below:

- **Inculcates disciplined investment:** Being disciplined is the key to successful investment. With SIP options you can commit a certain amount of money to be invested every month. There are a host of AMC's having SIP option in almost all of its scheme offerings.
- **Reach your financial goals:** Planning to buy a car in a year? SIPs help you to fulfill your financial goals with specific, future financial requirement.
- **Power of compounding:** It is always advisable to make small regular investments than to make one large investment. For example, an SIP of ₹2,500 can generate:

Return	5 Years	8 Years	10 Years
12%	2,04,174	3,99,818	5,75,097
15%	2,21,436	4,59,103	6,88,043
18%	2,40,537	5,29,301	8,28,220
20%	2,54,396	5,83,222	9,40,238

- **Advantage of Rupee Cost Averaging:** SIPs allow investors to accumulate stocks at different price levels allowing the benefit of rupee cost averaging.
- **Effortless:** Investing in SIPs is hassle-free and convenient. Simply put a decided amount every month. It is advisable to keep a long-term horizon for your SIPs to reap the best benefits.



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# Analyzing Financials of a Company

## Analyzing Financials of a Company


The need for financial statements is to provide users with information about the financial position and cash flows of an organization. In business, accounting and financial statements serve as the primary means of communicating financial information. The success of any business is reflected in the form of numbers. Investors rely on these statements to make decisions, and managers use them to evaluate performance.

### **What is an Annual Report?**

For most of the stakeholders and investors, an annual report is the single source for getting all relevant information about any company, in other words, annual report acts as a formal financial statement issued by a company on annual basis or at predefined intervals. It is usually published by the end of the financial year and is dated to 31st March.

All relevant information about the company, its past or present performance, the future outlook, detailed financial performance through the financial statements, corporate governance, etc. are compiled in the annual report of the company.

The information given in the annual report helps in assessing the operations and provides the company's view for the coming years and its future prospects. Since the annual report is published by the company, whatever is mentioned in the annual report is said to be official. The investors and



the shareholders are the primary audience for the annual reports. It acts as a link between a company and its shareholders, which is rightly called as the pinnacle of corporate communication.

### What should one look for in an annual report?

While reading an annual report one must concentrate on the following aspects:

- Director's report and Chairman's statement which are related to the current and future operational performance of the company.
- Auditor's report
- Profit & Loss account
- Balance Sheet
- Notes to account attached to the balance sheet

### What is a Balance Sheet and Profit & Loss account?

**Balance Sheet:** A balance sheet is a financial statement that summarizes a company's assets, liabilities and owner's fund at a specific point of time for a specific period. The objective for preparing a balance sheet is to get an idea of a company's financial position. Balance sheet comes in two formats, the traditional format shows assets on the left side, liabilities and owner's equity on the right side, while the vertical format shows the owner's fund on the top, liabilities in the middle and assets in the bottom. Irrespective of the format being used by the company, at the end assets and liabilities plus the owner's fund should be equal.

The balance sheet of any company always shows comparative figures, in simple words, the figures from 31st March of a year is compared with that of 31st March of its previous year.

Likewise, the balance sheet or annual report of any company, the format will be as follows:

Balance Sheet of a XYZ LTD as on 31 March 20XX				
	Particulars	Note No.	Figures at the end of current financial year	Figures at the end of previous financial year
<b>I</b>	<b>Equity And Liabilities</b>			
1	Shareholder's Funds			
a.	Share Capital		xxx	xxx
b.	Reserves & Surplus		xxx	xxx
2	Non-Current Liabilities			
a.	Long-Term Borrowings		xxx	xxx
b.	Deferred Tax Liability		xxx	xxx
c.	Other Long-Term Liabilities		xxx	xxx
d.	Long-Term Provisions		xxx	xxx
3	Current Liabilities		xxx	xxx
a.	Short-Term Borrowing		xxx	xxx
b.	Trade Payables		xxx	xxx
c.	Other Current Liabilities		xxx	xxx

d.	Short-Term Provision		xxx	xxx
	<b>TOTAL</b>		<b>xxx</b>	<b>xxx</b>
<b>II</b>	<b>Assets</b>			
<b>1</b>	<b>Non-Current Assets</b>			
a.	Fixed Assets			
	Tangible		xxx	xxx
	Intangible		xxx	xxx
	Capital Work in Progress		xxx	xxx
<b>b.</b>	<b>Non-Current Investments</b>		<b>xxx</b>	<b>xxx</b>
c.	Deferred Tax		xxx	xxx
d.	Long-Term Loans & Advances		xxx	xxx
e.	Other Non-Current Assets		xxx	xxx
<b>2</b>	<b>Current Assets</b>		<b>xxx</b>	<b>xxx</b>
a.	Current Assets		xxx	xxx
b.	Inventories		xxx	xxx
c.	Trade Receivables		xxx	xxx
d.	Cash and Cash Equivalents		xxx	xxx
e.	Short-Term Loan & Advances		xxx	xxx
f.	Other Current Assets		xxx	xxx
	<b>TOTAL</b>		<b>xxx</b>	<b>xxx</b>

## The Liabilities and Owner's Equity

Liabilities are what a company owes and equity or share capital is the net worth of the company. To define it, liabilities are like economic obligation of the company, such as payment obligations to various stakeholders like suppliers, creditors, etc. The other way to look at the balance sheet is how it shows the liabilities and assets are obtained.

1. **Current liabilities** - Current liabilities are those liabilities which have to be paid off in less than a year. The cash generated from current assets is used to pay off current liabilities as they become due and includes accounts payable (or creditors), accrued expenses, short-term loans, etc.
2. **Accounts payable** - Accounts payable reflects the amount of money the company owes to its creditors or vendors. A company receives goods and services from its suppliers for which it doesn't pay back bills immediately i.e., they might extend their payment period, as most often business to business transactions are done on credit basis. So this means that the creditors or vendors have given a loan to the company. Thus, it can be said that accounts payable shows how much the company owed on the date of balance sheet.
3. **Short-term loans** - Short-term loans are revolving loans for a company. Usually, these short-term loans are secured by the current assets like accounts receivables (debtors), inventories, etc. Any outstanding loan can be categorized under this head, for instance, outstanding bank loans.

4. **Long-term borrowings** - These liabilities are due over a longer time period i.e., long-term borrowing is an obligation that is not due within a period of one year. It can be an amount of money borrowed either by issue of financial instruments such as debentures or fixed deposits or the amount borrowed from a financial institution or bank for a longer duration. Long-term borrowings are classified majorly into two types:

- **Secured Borrowings** – Secured borrowings are the liabilities of the company which are borrowed by pledging or creating a mortgage on their assets. If the company is unable to pay off the debts, then the assets will be sold and debts will be paid off.
- **Unsecured Borrowings** – Unsecured borrowings are the liabilities which the company has borrowed without creating any mortgage on their assets.

5. **Owner's Equity** – The owner's equity is equal to what is left after deducting the liabilities from its assets. It includes the capital provided by the investors and the profits retained by the company over a period of time. The owner's equity can be termed differently, like share capital funds or shareholder's fund, all the three means one and the same. However, the owner's fund consists of two important aspects:

- **Equity share** - The equity shareholders are considered as the real owners of the company who have a right to appoint the management and have a share in the profits. However, the ownership transferred by issuing of financial instruments can either be through an equity share issue or preferential issue. On the other hand, preference shareholders do not have a right in the appointment of the management of the company, but they are entitled for a fixed amount of profits that the company shares with its shareholders.

A share capital of a company can be classified into following:

- » **Authorized Share Capital** - It is the maximum amount of money that the company can borrow by issuing shares.
  - » **Issued Share Capital** - It is the amount of shares which the company has issued to raise money from the general public.
  - » **Subscribed Capital** – It is the part of issued capital accepted by the general public.
  - » **Paid Up share Capital** – It is the amount of money that a company has received from shareholders in exchange for the stock.
- **Reserve and Surplus** – The amount of borrowings and equity share capital are invested into assets to generate future economic benefit. Reserve and surplus consists of the profits made by the company. When a company earns profit it is either reinvested into the business or distributed as dividends. The profit earned by a company is considered to be its liability because the profits are shared only among the shareholders of the company. So it's at the discretion of management whether the profits should be shared with the shareholders or to be utilized in the business for further expansion. The profits earned by the company can be classified into different types and all these are categorized into the balance sheet under a single head called as the reserve and surplus. Some of the accounts where profits are made by the company are:

- » **General Reserve** - It is an account where the profits of the business are transferred. The profit earned is exclusively from business operations.
- » **Capital Reserve** - It is an account where the profits earned on sale of fixed assets by a company are accumulated. Any type of profit the company earns is to be shared with the owners i.e. the shareholders of the company.
- » **Securities Premium** - It is an account where the premium collected on issue of shares is credited. The company issues shares at market price, but the shares have a different face value. And the difference between the Market Price and Face Value is called as Securities Premium.

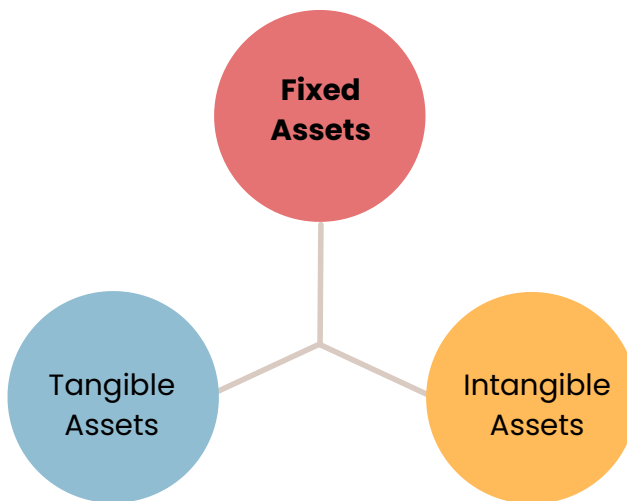
## Balance Sheet – Assets

Assets are what a company owns. For any company, assets can be machinery, equipment, buildings, land, cash, etc. All these assets are majorly classified into – Fixed Assets and Current Assets.

- a. **Fixed Asset** - Fixed assets are by far the largest and the most important non-current asset for any company. Generally these are productive assets and not intended for sale, as they are used over and over again to manufacture the product or warehouse it and so on. Fixed assets' cost are reported on the Balance Sheet at original purchase price.

They are also shown as net fixed assets-valued at original cost minus an allowance for depreciation. The fixed assets are categorized into tangible and intangible fixed assets.

b. **Current Asset** - Current assets are expected to convert into cash in a period of less than a year and majorly include cash and cash equivalents, account receivables (debtors), inventory, prepaid expenses, etc. Current expenses are important to any business because they can be use to fund the day-to-day expenses of the business.



That concludes with the basic overview on assets and liabilities, when we add up the fixed and current assets along with any other assets available by the company we get the total assets in the bottom. Likewise when the owner's equity, long-term borrowings and current liabilities are added, we get the total liabilities.

## Profit & Loss Account

The profit & loss account shows the financial performance of the company over a period of time. It indicates the revenues and expenses during a particular period of time. A profit and loss account is like a report card, as it is always prepared for a specific time period: month, quarter or for a year. Usually, a profit and loss account has three main categories - first is sales, second is cost and expenses and third is profit.

Profit & Loss Account of XYZ LTD for the year ended 31 March 20XX				
	Particulars	Note No.	Figures at the end of current financial year	Figures at the end of previous financial year
A	Income from Operations			
B	Other Income		xxx	xxx
<b>C</b>	<b>Total Revenue</b>		<b>XXX</b>	<b>XXX</b>
Less	Expenses			
	Cost of Raw Material Consumed		xxx	xxx
	Purchase of Raw Material		xxx	xxx
	Work In Progress		xxx	xxx
	Employee Benefit Expenses		xxx	xxx
	Finance Cost		xxx	xxx
	Other Expense		xxx	xxx

<b>D</b>	<b>Total Expenditure</b>		<b>XXX</b>	<b>XXX</b>
C-D	Profit Before Extraordinary Items and Tax		XXX	XXX
Less	Extraordinary Items		xxx	xxx
<b>E</b>	<b>EBITDA</b>		<b>XXX</b>	<b>XXX</b>
Less	Depreciation & Amortization		xxx	xxx
<b>F</b>	<b>Operating Profit or EBIT</b>		<b>XXX</b>	<b>XXX</b>
Less	Interest Expense		xxx	xxx
<b>G</b>	<b>Profit Before Tax</b>		<b>XXX</b>	<b>XXX</b>
Less	Tax Expenses			
1	Current Tax		xxx	xxx
2	Deferred Tax		xxx	xxx
<b>F</b>	<b>Profit After Tax</b>		<b>XXX</b>	<b>XXX</b>
	<b>Net Profit for Year Ending</b>		<b>XXX</b>	<b>XXX</b>

## What should one look for in a Profit and Loss account?

For a company, the profit and loss statement is the most important document presented to the shareholders. Therefore, each company tries to give maximum stress on its representation/misrepresentation. One should consider the following:

- Whether there is an overall improvement of sales as well as profits (operating, gross and net) over the similar period (half-yearly or annual) of the previous year. If so, the company's operational management is good.
- Check the other income carefully, as the company has scope to manipulate. If the other income stems from dividend on the investments or interest from the loans and advances, it is good because such income is steady. But, if the other income is derived by selling any assets or land, be cautious since such income is not an annual occurrence.




- Also, check for the increase of all expenditure items viz. raw material consumption, manpower cost and manufacturing, administrative and selling expenses. See whether the increase in these costs are more than the increase in sales. If so, it reveals the operating conditions are not conducive to making profits. Similarly, check whether the ratio of these costs to sales could be contained over the previous year. If so, then the company's operations are efficient.

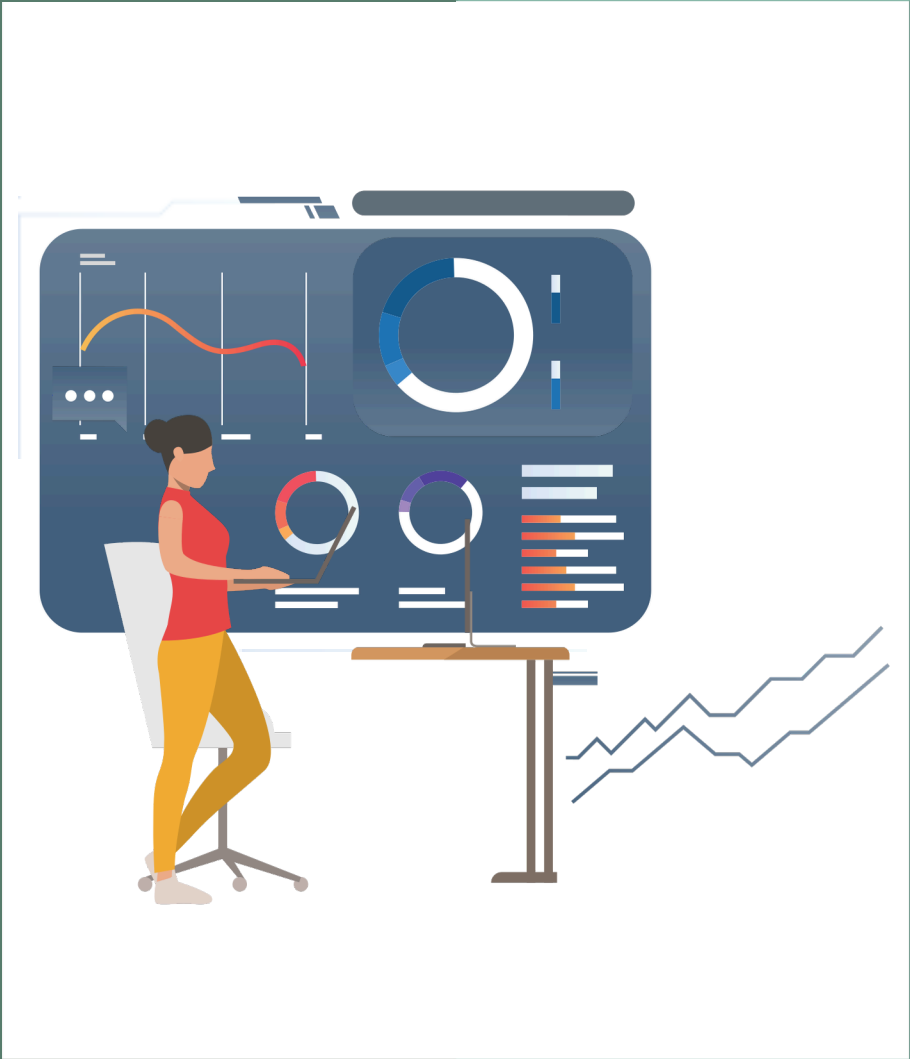
- Evaluate whether the company could make profit from its operations alone. For this, you should calculate the profits of the company, after ignoring all other income except sales. If the profit so obtained is positive, the company is operationally profitable, which is a healthy sign.
- Scrutinize the depreciation as well as interest for any abnormal increase. The increase in depreciation is attributed to higher addition of fixed assets, which is good for long-term operations of the company. High depreciation may suppress the net profits, but it's good for the cashflow. So, instead of looking out for the net profits, check the cash profits and compare whether it has risen. High interest cost is always a cause of concern because the increased debt burden cannot be reduced in the short run.
- Calculate the earnings per share and the various ratios. In case of half yearly results, multiply half yearly earnings per share by 2 to get the approximate annualized earnings per share.

## The difference between the equity shareholder and preference shareholder

Equity shareholders are the owner of the company who has the right to get the dividend as and when declared and also have the right to vote in the annual general meeting in order to pass any resolution. On the other hand, a preferential shareholder enjoys certain preferential rights when compared with equity shareholder such as payment of dividend at a fixed rate during the lifetime of the company and the return of capital on winding



up of the company. Note that a preference shares cannot be traded unlike equity shares and are redeemed after a pre-decided period. And the preferential shareholders do not have any voting rights.



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# Ratio Analysis

## Ratio Analysis

It is a quantitative analysis of information contained in a company's financial statements. Financial Statements include Balance Sheet, Profit and Loss Account, Cash Flow Statement and Notes to Accounts. It is used to evaluate company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. The trend of these ratios over time is studied to check whether the performance of the company is improving or deteriorating.

### Financial Ratios are categorized into

- Liquidity Ratio
- Coverage Ratio
- Solvency Ratio
- Efficiency Ratio
- Profitability Ratio

### Liquidity Ratio

It is a measure of how well the company will be able to meet its short-term obligations/liabilities.

**1. Current Ratio:** The ratio measures a firm's ability to pay off its short-term liabilities with current assets. A higher current ratio is always favorable because it shows that the company can easily make payments for its short-term obligations.

### Current Asset/Current Liabilities

If an investment decision has to be made on the basis of current ratio, then how do we do it? If two different companies A Ltd. and B Ltd. have their current ratio as 3 and 5 respectively.

According to the formula:

$$\text{Current Ratio} = \text{Current Asset} / \text{Current Liabilities} = 3/1 \text{ or } 5/1$$

It means that the company has a liability of a ₹1 and assets worth ₹3 with which they will be easily able to repay the liability of ₹1.

**2. Quick Ratio:** It is a measure of how well the company will be able to meet its short-term liabilities with quick assets. Quick assets are those current assets which can be converted into cash within a period of 90 days.

### Quick Assets/Current Liabilities

**3. Working Capital:** It is the amount required to run the day to day business activities efficiently.

### Current Asset – Current Liabilities

It is the amount which the company would like to maintain with itself to meet its day to day financial obligations.

Example: If the company has current assets worth ₹10 lakh and current liabilities worth ₹15 lakh, then the company will not be able to meet its financial obligation for the extra ₹5 lakh for which the company has to arrange funds. So, this amount required by the company to meet its financial obligation is called Working Capital.

## Coverage Ratio

It measures how well the company is able to service its debt.

**1. Interest Coverage Ratio:** It measures how well a company is able to meet its interest obligation in comparison to its operating income. A higher ratio, means the company is able to meet its interest obligation with ease.

**EBIT/ Interest Expenditure**

If a lender wishes to ensure that the company can easily service the interest portion of the debt, then the lenders will need to find out what is the interest coverage ratio for the company.

Example: If a company has interest coverage ratio of 3:1 it means, Earning before Interest and Taxes (EBIT) is three times of the amount which the company is required to pay as interest.

**2. Debt Service Coverage Ratio:** It measures how well a company is able to meet its interest as well as principal repayments with the operating income. Higher the ratio, better is the position of the company, if it wants to go for further expansion, it will be able to take debt as its source of capital.

$$\frac{\text{Profit after tax} + \text{Depreciation} + \text{other non-cash expenditure} + \text{Interest on term loan}}{\text{Interest Expenditure} + \text{Principal Repayment}}$$

The lender would like to ensure how easily the company can service the interest portion of the debt and the principal amount, for which the lenders will find out the debt service coverage ratio for the company.

Example: If a company has debt service coverage ratio of 3:1 it means, the Earning before Interest and Taxes (EBIT) is three times the amount which the company is required to pay as interest and principal repayment.

## *Solvency Ratio*

It measures whether a company will be able to meet its short-term and long-term liabilities.

**1. Debt Ratio:** It measures the amount of assets being financed by debt. It also shows the ability of the company to pay off its debt by selling its assets, in the long-term, if the company is unable to meet its interest cost and principal repayment.

$$\text{Total Liabilities} / \text{Total Assets}$$

**2. Equity Ratio:** It measures the amount of assets being financed by the owners of the company. A higher ratio, shows the potential creditors of the company that it is less risky and more sustainable to lend to.

$$\text{Total Equity} / \text{Total Assets}$$

**3. Debt/Equity Ratio:** It measures the percentage of amount that is being financed by the company creditors and investors used to invest into the assets of the company. A higher ratio is considered risky as it shows that the investors haven't funded the operations as much as creditors have.

## Efficiency Ratio

It measures how well the company utilizes assets to generate income.

**1. Working Capital Ratio:** It measures the company's ability to pay off its current liabilities with current assets.

**Current Assets / Current Liabilities**

**2. Inventory Turnover Ratio:** It measures how many times average inventory is sold during a period. This shows the company does not overspend by buying too much inventory and wastes resources by storing non-salable inventory. It also shows that the company can effectively sell the inventory it buys.

**Cost of Goods Sold / Average Inventory**

If the cost of goods sold is ₹10,000 and the average inventory during the year is ₹2,000, then the inventory turnover ratio will be 5. This states that the company is able to sell out its inventory 5 times during the year completely because the average inventory maintained by the company is ₹2,000 i.e 1/5 of the cost of goods sold.

**3. Debtor Turnover Ratio:** It measures how many times a company can convert its debtors into cash during a period. A higher ratio shows higher efficiency on the part of the company from a cash flow standpoint of view.

**Net Credit Sales / Average Debtors**

If the credit sales of the company is ₹1,00,000 and the Average Debtors is ₹20,000. Then the debtor's turnover ratio will be 5, meaning, the company is able to recover its total debtors 5 times in a year. This ratio will help the company in understanding the working capital requirement.

**4. Assets Turnover Ratio:** It measures how efficiently the company is able to use its assets to generate sales. A higher ratio shows that the company is using its assets efficiently.

**Net Sales / Average Total Assets**

If a company's Asset Turnover ratio is 5 times, then the company is able to sell goods 5 times the value of its assets. Between two companies with asset ratio 10 and 20, one will invest in the company with Asset Turnover ratio of 20, because the company is able to do sales worth 20 times of its asset value, which states that the company is using its Fixed Assets efficiently.

## Profitability Ratios

It measures a company's ability to generate profit from its operations.

**1. Gross Profit Ratio:** It measures how profitable is a company when it sells its inventory.

$$\text{Gross Profit / Net Sales}$$

Example: If a company has a gross profit ratio of 50%, it means the company is selling a product at ₹100 & the cost for making that product is ₹50.

$$\text{Gross Profit} = \text{Sales} - \text{Cost of Manufacturing a Product.}$$

Higher the ratio better the profit margin for the company to cover all other types of expenditures such as administrative and selling & distribution expenditure.

**2. Net Profit Ratio:** It measures how well a company manages its expenses relative to its net sales.

$$\text{Net Profit / Net Sales}$$

Example: If a company has a net profit ratio of 70%, it means the company is able to sell the product at ₹100 and is able to cover all its expenses in ₹30 and make a profit of ₹70 on selling every unit.

**3. Return on Capital Employed:** It measures how efficiently a company can generate profits from its capital employed. A higher ratio would indicate that more amount of profits is generated for every rupee of capital employed.

**Net Operating Profit / Capital Employed**

**4. Return on Equity:** It measures the firm's ability to generate profit from shareholder's investment.

**Net Income / Shareholder's Funds**

The net profit is earned by the company during a year by using the shareholder's fund. If the company has generated a return on equity of 10% that means the company is able to generate only 10% of its share capital as return for its equity shareholders.



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# Financial Planning

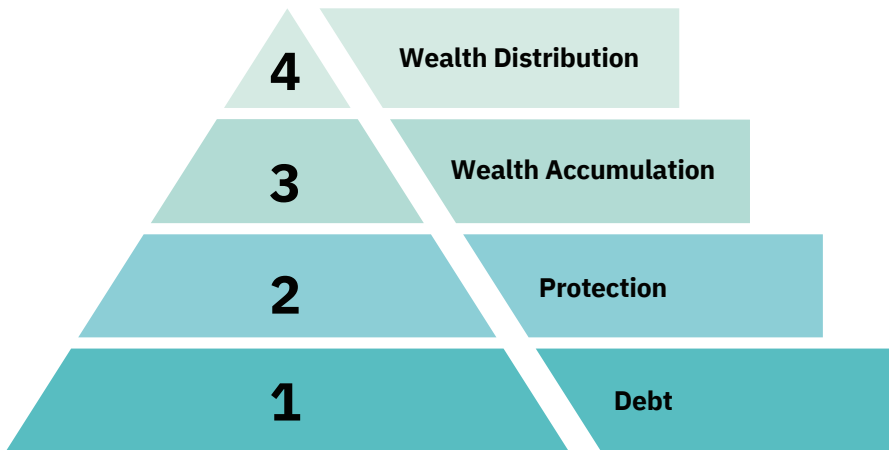
## Financial Planning

Financial Planning is a systematic process of achieving financial goals through need based investments. Goals can be planning vacation, buying a house, children's education, marriage, etc. Financial Planning helps having a systematic approach towards achieving financial goals and planning the investments accordingly, keeping in mind factors such as risk appetite, time horizon and savings.

### Understanding the Financial Planning Pyramid

Life is full of competing priorities where some may plan for it and some may not. For instance, things like buying a house, planning for children's education, marriage and having enough money for comfortable retirement. But certain unexpected expenses like hospital bills or sudden breakdown in car, etc. can strain one's finances. Hence, a financial plan can put an individual in control so that they can stay on track regardless of the ups and downs in life.

Can we start building a house from top to bottom level? No right, like most solid structures, they all start with a solid base, i.e. a firm foundation base. The same applies in case of financial planning as well. As an individual works towards their goal, it is important to start with a strong foundation that is built from their income sources. Planning ahead is important in order to ensure a financially secure future that one can enjoy. If you are not sure how to plan ahead, take a look at financial planning pyramid.




Financial pyramid acts as a navigational tool which is designed to help individuals to create their own personal financial plan. This pyramid illustrates as to which financial matters an individual should address first. So retirement might be a person's long-term goal, which is at the top of the pyramid, but one first needs to navigate a progressive path of short-term plans that logically climb towards it. In other words, one can't advance to the next stage until the previous ones are fulfilled. The pyramid's hierarchical structure illustrates that, greater the risk, the greater the opportunity for reward. The basic rule of the pyramid is to start from the bottom and move up, rather than attempting to address all the aspects at once. However, it should be noted that the higher an individual climbs the less firm will be the footing, but also the bigger is the potential return.

**1.Managing the debt** – A good financial plan is always built upon a solid foundation that appreciates with the importance of having the basics covered before taking a step towards achieving the financial goals. And so the first level is all about clearing the trees for a fresh harvest, in other words getting rid of the debt. Often it happens that most people don't realize that they spend more than they earn and slowly sink into debts. Thus, a sensible forecasting is essential to keep a corpus for financial goals and other known factors such as inflation and other contingencies. We are talking about the extraordinary kind of debt that every individual faces like credit card bills, student loans, car loans, etc., which often hamper the minimum monthly payments of an individual. And so individual dwelling at this level of pyramid needs to handle the budget before advancing to the next level.

**2.Protection** – The individual who has reached this level of pyramid may still have odd debt, but it is manageable and the individual might have gotten a hold on the expense vs. earnings ratio. And also consider contingencies like illness, accident, death, job loss or any other life uncertainties that can cause a massive out of the pocket expense for an individual. Thus, by taking some defensive financial actions, individuals can protect themselves against such economic hits. In this level, individuals are reminded of the importance of maintaining a saving reserve, taking up insurance and continuing with debt reduction. One should not lose the sights of budget at this level as cash flow is critical at protection level.

**3.Wealth accumulation** – In this level, an investor can consider a financial future that extends beyond the basic necessities. The individual who has reached this level has more than enough money to deal with debts, look after all emergency needs and hence now has extra income to start investing.



This level of pyramid is considered to be the most important. The individuals at this level are not saving for retirement, as they are building a diversified portfolio, assessing their risk appetite and establishing new investing goals. With the wealth accumulation one also needs to get a hold on investing related concepts such the principle of compound interest, budget financing & how to choose a broker. Acquiring this kind of knowledge helps the investor to gain confidence to invest assertively. The various asset classes in which investment can take place is bank fixed deposit, retirement funds, bonds, equities, mutual funds, etc.

**4. Wealth distribution** – At the top level of financial planning pyramid, an individual is moved to a surplus and succession stage where the debt is either low or zero, they have enough retirement funds and enough wealth accumulated on their investments. The effort put in by the individuals to accrue wealth during the lower levels of pyramid gets to be joyfully played out in this level. Having built their wealth to a level that sustains their desired lifestyle, it is at this pinnacle point that investor considers how to spend his wealth in the most effective and satisfying way. Understanding the financial planning pyramid is an important part of financial planning as it helps in visualizing certain important stages that we come across in our lives. If an individual climbs the pyramid in a specific order and one level at a time, then he will end up building a solid financial plan and going further will smoothly be able to meet the short- term hardships without jeopardizing on long-term goals.

## Why Financial Planning is necessary?

The need and importance for financial planning arises from the need of meeting the financial goals, which helps in taking an in-depth look towards future financial requirement and goals, including cash flow, debt management, education funds, retirement plans and estate planning. In financial, resources are properly utilized to order to effectively manage the fulfill individual life goals as planning becomes handy for the individuals. Financial planning could help in:

- a. Categorizing and analyzing the risk appetite
- b. Defining the goals by putting numbers to each and every individual goal, in terms of what is achievable and what looks difficult
- c. Mapping the current and future cash flows with individual financial planning goals
- d. Mapping existing assets according to the individual's financial goals
- e. Evaluating whether goals are realistic, especially for the given timeline
- f. Building corpus for retirement
- g. Arriving at the net worth of individual
- h. Looking at the adequacy of insurance

## Factors Affecting Financial Planning

- **Goals:** Financial goals are series of financial events through a lifecycle of an individual where he/she requires money for various activities.
- **Time Horizon:** Every investor sets the time for his/her investment in order to achieve the objective over a set period of time.
- **Risk Appetite:** Risk Appetite or risk tolerance means type of risk an individual is willing to take. There are two types of investor profiles – Risk averse & Risk taker.
- **Finances:** It is an amount saved for the financial goal.

## Benefits of Financial Planning

- ✔ Helps increase cashflow and make good & profitable investment portfolio
- ✔ Helps achieve future needs & financial goal
- ✔ Enables a definite form of financial control
- ✔ Helps in tax savings
- ✔ Helps in wealth creation
- ✔ Helps in securing retirement

## Steps to financial planning

Financial planning is useful when it comes with effective managing of financial resources so that they are properly utilized in fulfilling an individual's life goals. A proper financial planning is done in the following way:

**1. Determining objective** – Financial planning starts with the approach that helps an individual achieve their short-term and long-term objectives within a specified time frame. This step lays more emphasis on the wants and the other needs that will have a direct impact on the investment pattern. In order to build a proper financial plan one first needs to prioritize the goals, set up a time frame for each goal and create an investible surplus.

a. **Prioritizing goals** – To build up a financial plan one has to first identify the short-term and long-term goals. This helps in differentiating one's basic needs from the desire wats. However, short-term goal differ from long-term goals in comparison to the time frame from person to person.

b. **Time frame** – It is a length of time which sees how long an individual expects to hold on to an investment. Time frame determines the income needs and desired risk exposure which aids into security selection. However, a longer time frame provides greater flexibility to collect, grow and preserve wealth.

c. **Set an amount** – After setting the time frame for the goals, it is advisable for the individuals to check how much money they need to save or invest every month to achieve each goal. The assessment of the financial situation

can be done by reviewing cash flows and net worth (assets and liabilities) to see, if there are any areas where expenses can be cut down.

**2. Understanding risk appetite** – To fulfill any investment objective, one should first evaluate the risk appetite. Some of us may be in a better position to take risks, while others may be totally averse to risk. Risk appetite depends on factors such as age, financial commitments and availability of liquid cash. In this step, one has to determine the risk profile and the amount of risk they are willing to take. Generally, risk profile is categorized into three categories as mentioned below:

- a. **Conservative Profile** - A conservative profile looks at the safety of principal apart from regular income. A major portion of investment is allocated to lower-risk securities and debt instruments such as fixed income securities, money market instruments, etc. Usually, an ideal conservative profile consists of portfolio allocation in the following manner: 70% in fixed income or debt securities, 20% in equities, and 10% in liquid cash or cash equivalents.
- b. **Moderate Profile** – A moderate profile aims at taking controlled risk for one looking for safety of principal investment as well as expecting decent returns from investing in other riskier instruments. Generally, a mix of balanced asset classes is recommended so that investors get the benefit of a balanced portfolio. For instance, an ideal portfolio would consist of approximately 50% in fixed income securities, 40% equities and 10% in liquid cash or cash equivalent.

c. **Aggressive Profile**- An aggressive profile is focused on increased wealth creation by investing in riskier instruments and is not risk averse. An ideal aggressive profile would consist of approximately 75% to 90% in equities and the balance in fixed income securities, liquid cash or cash equivalent.

**3. Evaluating the current financial situation** - In this step of financial planning it is important to ascertain the current financial situation with respect to income, savings, living expenses and debts. Prepare the cashflow after deducting the monthly expenses from the income to find out how much money is left for investment. This step also takes into account how much money is already invested towards achieving the goal, as this information helps to assess the present financial position and determine what steps must be taken in order to reach the final objective. In order to do so, one needs to prepare a list of current assets, debt balances and amount spent for various items which will be the foundation of financial planning.

**4. Selecting investment instruments** – There are many investment avenues such as direct equity, mutual funds, bonds, FDs, NCD, PMS, gold, etc., that are available for investing today. Hence, an individual's investment will depend on financial goals, risk appetite, and investment time frame, which determine the type of investment option that one selects at personal discretion. For instance, if you want to invest ₹1 lakh and want regular income without taking any risk, a fixed deposit will be the best investment option. Thus, it is always advisable to choose a specific investment option according to risk tolerance and investment time frame.

**5. Monitoring investments** – Financial planning does not just end by selecting an asset class and investing in it. It involves periodic monitoring to check the progress towards meeting financial goals. This activity requires monitoring and governing the portfolio, making adjustments to ensure that it meets with the financial goals without over exposing to risk as well as ensuring desired returns as expected at the time of investments. Regular reviewing of investments will help in adjusting priorities, aligning financial activities and goals in line with the current financial situation. For instance, with an increase in income one can consider to diversify the portfolio. Likewise, on achieving the target of a particular investment, an individual might consider exiting the particular asset class.

## **What are the key components of financial planning?**

Financial planning is an ongoing process because goals change and so does earnings of an individual. The ultimate aim of having an effective financial plan is to gain the financial clarity in all aspects of life. Thus, financial planning acts as a navigation through which an individual can step towards the hassle free life of financial freedom. To help sort through the myriad of what needs to be done, here is a short description of key financial planning components:


- a. Cash flow planning or money management
- b. Tax planning
- c. Investment planning
- d. Insurance planning
- e. Retirement planning
- f. Debt planning and management

## The concept of diversification and asset allocation in Financial Planning:

**1. Diversification** – Diversifying the investments that an investor holds can help him in mitigating the risk that he faces. The concept of diversification essentially means spreading the risk into different asset classes, such as equities, bonds, cash and real estate. The value of diversification is often underscored by the events in financial markets, such as in case of equity investment a sharp drop in the stock prices can hamper the portfolio of an investor. Every type of investment responds differently to the changes in the economy. So if an investor owns a variety of assets, a decline in one can potentially be balanced by another investment, as it is essential to find a way to balance the risk with optimum returns. The reasons for diversification can be listed as follows:

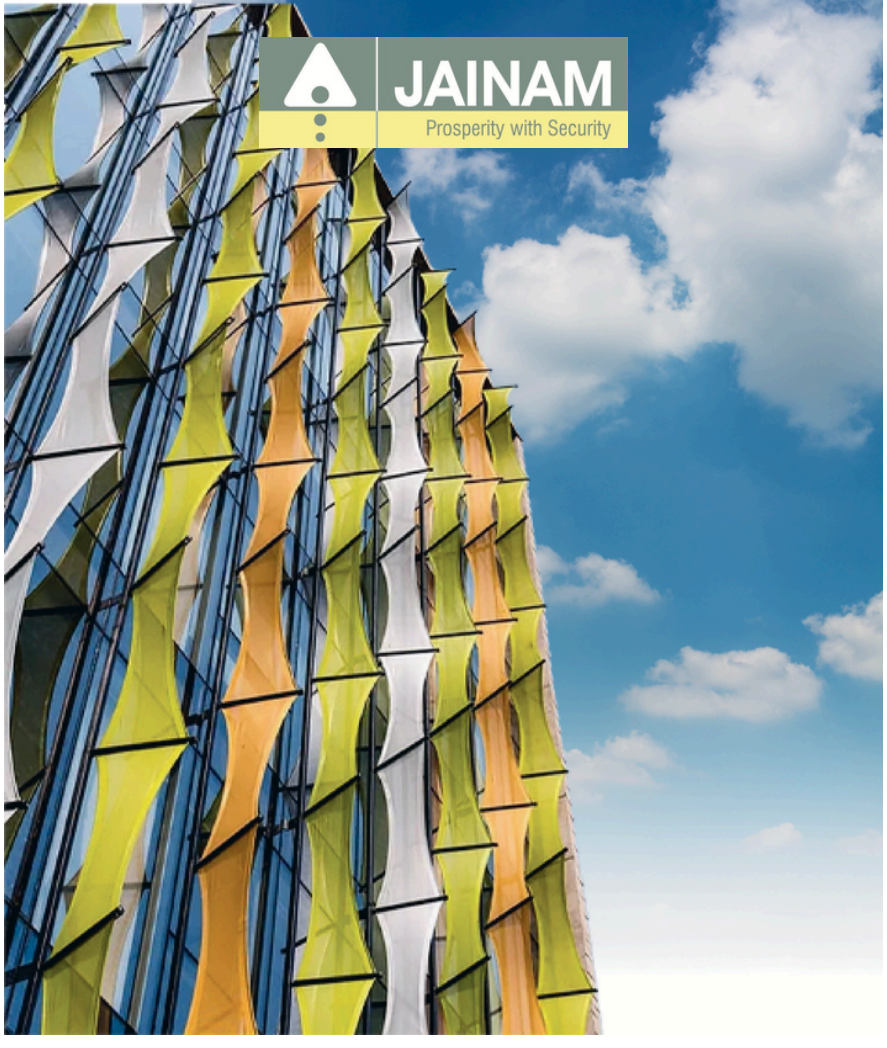
- Not all investments perform well at the same time.
- Diversification helps build a portfolio with risk lesser than that of the individual securities.
- Different types of investment are affected differently by different events and changes in economic factors such as interest rates, exchange rates and inflation rates.

A proper diversification is done by allocating money in various types of investment avenues ensuring that an investor is neither trapped in a low return investment nor is subject to any wild fluctuations due to economic cycles. However, it should be noted that diversification does not guarantee a profit or protect against any loss, it helps in reducing the risk that a particular investment is exposed to, which indirectly helps an individual to work towards their financial goals.



**2.Asset allocation** – Asset allocation is a long-term investment strategy which attempts to balance the risk and reward ratio of an investor by adjusting the percentage of amount invested in a portfolio according to the risk tolerance levels, financial goals and investment time frame of an investor. It is based on the premise that all the asset types have unique characteristics that often prompt them to respond differently to various Economic and financial developments. Higher risk assets such as equities are the investment options that are considered for long-term financial plan; however, they fluctuate in value and expose the portfolio to risk. On the other hand, fixed income instruments are less risky but tend to provide more conservative returns. It should be noted that asset allocation does not a profit or protects a loss for any investment.

It is thus important for an investor to discuss the financial picture including the securities held in other accounts, real estate property, collectibles or any other assets with the financial advisor before developing a financial plan. This is done to ensure that the total asset allocation is appropriate to meet with the investor’s financial objectives and risk tolerance levels.

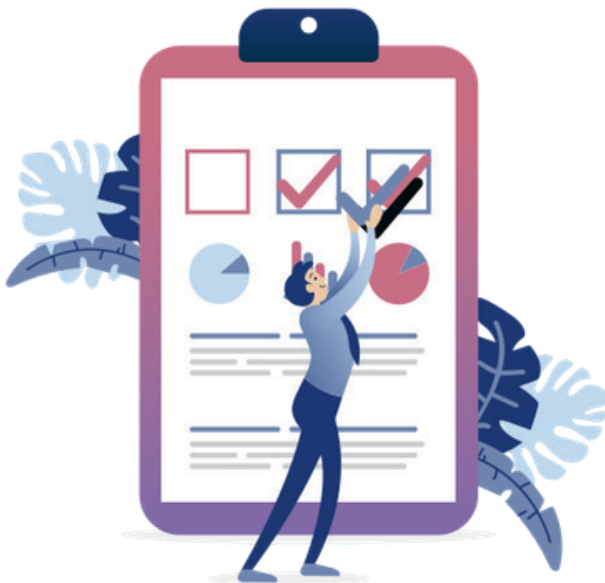


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Why  
Jainam?

## Why Jainam?

At Jainam Broking, we bring over 20 years of experience in delivering seamless, transparent, and innovation-led services to investors across segments. We offer a complete ecosystem that supports every stage of the trading and investment journey through our wide range of solutions, including equity, commodity, PMS and AIF, mutual funds, debt products, insurance, institutional services, and expert advisory. We take pride in building user-friendly technology through platforms like JLite, JPlus, Strike, SmartDelta, and Smart Greek, empowering clients with fast execution, advanced analytics, automation, and real-time market insights. With a clear mission and vision, we remain committed to supporting every investor with trust, innovation, and a growth-focused approach.



## Awards & Achievements



### Guinness World Record

Recognised for the Largest Financial Investment Lesson with 5,293 participants (2025)



### MCX Leading Member Award (2025)

Honoured as a top-performing member in options trading.



### BSE Best Performer Award (2024)

Recognized for exceptional performance in equity derivatives.



### HDFC Bank Excellence Award (2023)

Awarded for best technology adaptation in cash management services.



### e4m MarTech India Award (2024)

Winner for best use of martech in live events.



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Honoured as the regional retail member of the year.

## Value Added Services

### Jainam JPlus

A smart investment platform to manage trading, investing, and portfolio tracking all in one place.

### Jainam JLite

A fast and easy trading app designed for smooth and secure transactions.

### Smart Tools & Analytics

Tools like SmartGreek and SmartRMS that help traders make informed decisions.

### Central Advisory Desk (CAD)

Our dedicated team of equity advisors offers reliable insights and expert guidance to support your investment decisions.

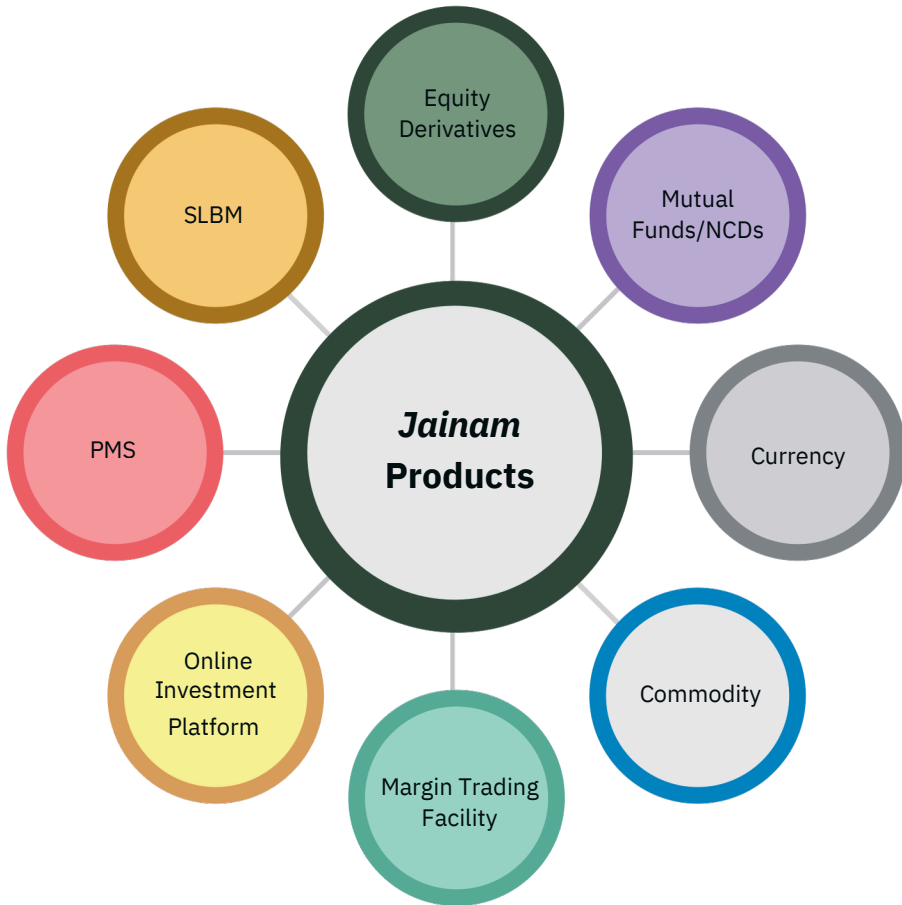
### Research & Insights

Expert research reports and market updates to help investors stay ahead.

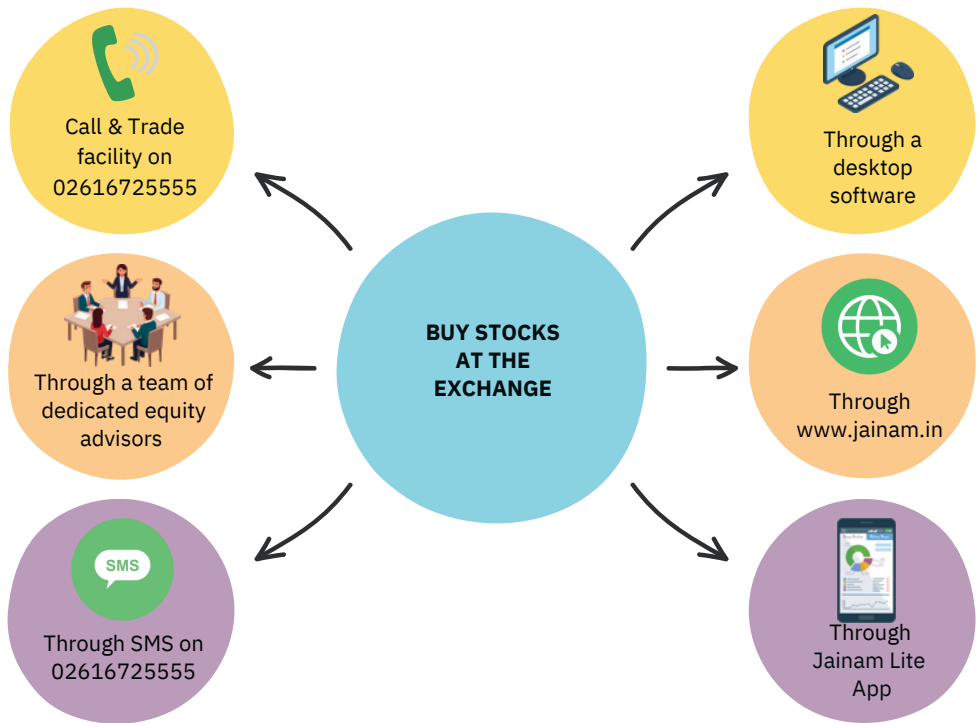
### Dedicated Client Support

Personalized assistance through a strong service network across India.

## Products Offered by Jainam



## Jainam offers clients the benefit to trade in various ways



<b>RBI</b>	Reserve Bank of India
<b>ROC</b>	Registrar of Companies
<b>NSE</b>	National Stock Exchange
<b>NSDL</b>	National Securities Depository Limited
<b>DP</b>	Depository Participant
<b>IPO</b>	Initial Public Offer
<b>DIS</b>	Delivery Instruction Slip
<b>BTST</b>	Buy Today Sell Tomorrow
<b>OFS</b>	Offer for Sale
<b>ELSS</b>	Equity Linked Saving Schemes
<b>CRR</b>	Cash Reserve Ratio
<b>GDP</b>	Gross Domestic Product
<b>WPI</b>	Wholesale Price Index
<b>PMI</b>	Purchasing Managers Index
<b>FDI</b>	Foreign Direct Investment
<b>ADR</b>	American Depository Receipt
<b>CDs</b>	Certificate of Deposits
<b>EPS</b>	Earnings per Share
<b>ROCE</b>	Return on Capital Employed
<b>ISIN</b>	International Securities Identification number
<b>MSF</b>	Marginal Standing Facility
<b>CSO</b>	Central Statistical office

<b>SEBI</b>	Securities Exchange Board of India
<b>RTA</b>	Register and Transfer agents
<b>BSE</b>	Bombay Stock Exchange
<b>CDSL</b>	Central Depository Service Limited
<b>BO</b>	Beneficial Owner
<b>FPO</b>	Follow on Public offer
<b>LM</b>	Lead Manager
<b>ROI</b>	Return on Investment
<b>SIP</b>	Systematic Investment Plan
<b>FOF</b>	Fund of Fund
<b>SLR</b>	Statutory Liquidity Ratio
<b>IIP</b>	Index of Industrial Production
<b>CPI</b>	Consumer Price Index
<b>FII</b>	Foreign Institutional Investors
<b>NSCCL</b>	National Securities Clearance Corporation Limited
<b>GDR</b>	Global Depository Receipt
<b>EBIT</b>	Earnings Before Interest and Taxes
<b>ROE</b>	Return on Equity
<b>P/E</b>	Price/ Earnings
<b>SE</b>	Stock Exchange
<b>OMO</b>	Open market Operations
<b>OPEC</b>	Organization of Petroleum Countries

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