

# *Big Investment* *Consultants*

*Equity Trading Basics*

# Business Entities

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- Sole Proprietary Firm
- Partnership – Registered, Unregistered, LLP
- Private Limited Company
- Public Limited Company  
(Private or Government Undertaking)

# IPO Process

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- Selection of Investment Bank or BRLM
- Preparation of Registration Statement
- Getting DRHP Prepared
- The Roadshow / Marketing
- Approval From SEBI / Stock Exchanges
- Decision of Issue Size and Issue Price
- Opening of IPO for Public Bidding (Book Building / Fixed Price)
- Issue Price Determination and Share Allotment
- Unblocking of Funds and Listing

# Security

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- Financial markets facilitate reallocation of savings from savers to entrepreneurs.
- Savings are linked to investments by a variety of intermediaries through a range of complex financial products called “Securities”.
- **Example:** Shares, Bonds, Government Securities, Derivatives of Securities etc.,

# Issue / Cut-off Price

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- The price at which publicly issued securities are made available for purchase by the investment bank underwriting the issue. Includes the underwriter's fee and any management fees applicable to the issue.
- In a Book building issue, the **actual discovered issue price** can be any price in the price band or any price above the floor price. This issue price is called “Cut-Off Price”.

# Face Value

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- The nominal Rupees amount assigned to a security by the issuer.
- For an **Equity Security**, face value is usually a very small amount that bears no relationship to its Market price, except for Preferred stock, in which case Face value is used to Calculate Dividend Payments.
- For a **Debt Security**, face value is the amount repaid to the investor when the bond matures.

# Market Value

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- The price an asset would fetch (running) in the marketplace.
- Market value is also commonly used to refer to the Market Capitalization of a publicly-traded company, and is obtained by multiplying the number of its outstanding shares by the current share price.
- Market value is easiest to determine for exchange-traded instruments such as stocks and futures.

# Premium / Discount in share Issue

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- If Security is issued more than the Face Value, then Extra Price Charged is Premium.
- If Security is issued Less than the Face Value, then Difference Paid Less is Discount.



# Primary / Secondary Market

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- In the Primary Market, securities are offered to public for subscription for the purpose of **raising Capital or fund.**
- Secondary Market is an Equity trading venue in which already **existing/pre-issued securities are traded** among investors.

# Grey Market

● IPO Grey Market is an Unofficial Market where IPO applications or shares are Bought and Sold before they become officially available for trading on the stock exchange.

● Its an Over-the-counter market where dealers may execute orders for preferred customers as well as provide support for a new issue before it is actually issued.

● Note: As IPO Grey Market is Unofficial Over-the-counter market, there are **No Regulations around it.**

# Grey Market

● All transactions are done in cash on personal basis. SEBI, Stock Exchange or Brokers are not involve or back these transaction.

## Grey market trading include :

● Trading (selling or buying) IPO Applications at certain rate (Premium-Kostak-Subject to Sauda) and Trading (selling or buying) allocated IPO shares before they list on stock exchanges.

● Grey market trading is usually done among the small set of people who trust each other as there is no official platform or rules define for these trading.

# Grey Market Premium Method

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- Grey market premium (or grey market price) is a premium amount in rupees at which IPO shares are being traded in Grey Market before they get listed in stock exchange. Grey market premium can be in positive or in negative based on demand and supply of the stock.
- Grey Market Premiums are also attached with words 'Buyer' or 'Seller'. They tell the price either at which buyers are willing to buy shares or the price at which sellers are willing to sell their IPO shares.

# Grey Market Premium Method

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## Example:

Mundra Port and SEZ Limited

Issue Price: Rs 440 per equity share

Grey Market Premium: Rs 400 (Buyers)

● This means buyers are ready to buy Mundra Port shares at  $440+400 = \text{Rs } 840$ .

# Grey Market Kostak Method

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- Kostak (or price of application) is the premium amount in rupees at which IPO applications are being traded in IPO Grey Market. Usually 'Kostak' value is defined as the premium of a maximum lot retail application in an IPO.
- Kostak price is important mostly before issue is close for subscription and final bidding status is available to the IPO investors. Very few IPOs applications are traded after final bidding status is available to the investors.

# Grey Market Kostak Method

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● 'Kostak' is especially for people who do not want to take risk with IPO allotment or listing gains.

**Example:**

**BGR Energy Limited**

Issue Price: Rs 480 Per Equity Share (at upper band)

Lot Size: 14

Grey Market Premium: Rs 350 to Rs 360

Kostak (Rs 100000): Rs 2500 to Rs 2600

● This means BGR applications of Rs 1 lakhs are being traded in IPO Grey Market at Rs 2500 to Rs 2600.

# Grey Market Subject to Sauda

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- In case of 'Subject to Sauda' deal, while selling IPO application in the grey market, buyer and seller agree that deal is only valid if the seller will get the allotment. If the seller doesn't get any shares in IPO process, the deal gets void.
- For example: XYZ is coming up with an IPO at the prices of Rs 100 per share. IPO Shares are expected to list in 15 days. A seller can sell his Retail IPO allocation of Rs 2 lakhs for Rs 5000 on 'Subject to Sauda'.
- If the seller gets an allotment, he will get Rs 5000.
- If the seller doesn't get an allotment, he won't get anything.



# Accounts to be Opened for Trading

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- **Trading Account** — Shares Buying Selling-Money Record Platform
- **Demat Account** — Safe Keeping Shares in Electronic Form
- **Bank Account** — Money Transfer related Transactions

# Broker Selection

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- **Premium Broker** - a full service broker is someone who provides you research, advice, customer service etc.
- **Discount Broker** - one who provides you a platform to buy and sell order at a reduced brokerage. However, they do not provide any other important services like advisory, research, etc.

# Broker Selection Criteria

Particulars	Premium Broker	Discount Broker
<b>Opening Charges</b>	Almost Free or 200-500	Sometime Free or 200-500
<b>AMC</b>	Rs. 0-1500	Rs. 0-1500
<b>Scrip Charges</b>	If AMC paid above 400 then '0' else Rs. 6-50	If AMC paid above 400 then 0 else Rs. 6-50
<b>Intraday Brokerage</b>	0.005%-0.05%	Rs. 9-20
<b>Delivery Brokerage</b>	0.05%-0.50%	Free or Rs. 9-20
<b>Intraday Limit</b>	3X – 50X	2X – 20X
<b>Delivery Limit</b>	2X-10X	NA or Paid Scheme

# Broker Selection Criteria

Particulars	Premium Broker	Discount Broker
<b>Relationship Manager Support</b>	Yes	No
<b>Call n Trade Charges</b>	No	Yes
<b>Fund Transfer Charges</b>	No	Yes (to Bank)
<b>Research /Advisory/ Tips / Picks</b>	Yes	No
<b>Training / Education / Support</b>	Some Brokers Provide	Online / Through Web Content
<b>Online/Offline</b>	Both	Only Online
<b>Convenient to</b>	Fresher / New Bee	Professional Trader Investor

# Trading Platforms

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- **Browser Based**
- **Software Based**
- **Mobile Application Based**

# Online / Offline Trading

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- The act of placing buy/sell orders for financial securities and/or currencies with the use of a brokerage's internet-based proprietary trading platforms.
- Offline trading is the traditional way of transacting the Shares, Commodities and Currencies through a broker probably by means of phone.

# Trading Timings

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## Timings for **NSE / BSE / MSEIL**

- Login – 8:45AM – 9:00AM
- Pre-Opening Session – 9:00AM – 9:15AM
- Normal Market – 9:15AM – 3:30PM
- Post Closing Session – 3:40PM – 4:00PM

# Online Trading

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- Login through User Id and Password
- Create Profile / Marketwatch / Watch list / Scrip List
- Select Exchange **NSE / BSE / MSEIL**
- Add Scrips in Marketwach
- Trade – Buy / Sell



# Trading Platform Important Features

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- Marketwatch
- Buy / Sell
- Order Book for Pending Orders
- Trade Book for Trades Executed
- Position Book for Overall Open / Closed Position
- MBP – Market By Price or Market Depth

# Main Terms in Buy/Sell Window

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● Buy / Sell

● Quantity

● Price

● Trigger Price

● Price Type – Limit /  
Market / SL-L/ SL-M

● Disc Quantity

● Product Type –  
Delivery/Intraday/MTF

● Validity – Day / IOC  
/ GTC / GTD

● AMO

# Buy Sell Product Selection Options

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- **Only with Cash Available** – Delivery / CNC
- **Only for Day** – Intraday / Margin / MIS / Big Trade
- **Delivery With Broker Money** – Margin Plus /  
Delivery Plus / MTF
- Margin Intraday Square
- Margin Trading Facility

# Main Terms in Position Book

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- Buy Quantity
- Sell Quantity
- Average Buy Price
- Average Sell Price
- Buy Value
- Sell Value
- BEP / Net Price
- Total Buy/Sell Qty
- Total Buy/Sell Value
- Net / Open Quantity
- LTP
- MTM
- Realized Gain/Loss
- Product Del / Intra

# Terms in MBP

● Buyers

● Sellers

● LTP / CMP

● O / H / L / C

● % Change

● Absolute Change

● 52 Week High/Low

● Total Buyers Qty

● Total Sellers Qty

● LTQ

● ATP

● Volume

● Value

● Upper / Lower Circuit

# Common Abbreviations used in Platform

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- **LTP** – Last Traded Price
- **LTQ** – Last Traded Quantity
- **LTT** – Last Traded Time
- **CMP** – Current Market Price
- **ATP** – Average Trade Price
- **BEP** – Break Even Price

# Common Abbreviations used in Platform

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- **MTM** – Marking to Market
- **LIFO** – Last In First Out
- **FIFO** – First In First Out
- **CNC** – Cash N Carry
- **MIS** – Margin Intraday Square
- **MTF** – Margin Trading Facility

# Short Selling

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- The selling of a security that the **seller does not own**, or any sale that is completed by the delivery of a security borrowed by the seller.
- Selling short is the **opposite of going long**. That is, short sellers make money if the stock goes down in price.
- Short sellers assume that they will be **able to buy the stock at a lower** amount than the price at which they sold short.



# Auction

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- On account of non-delivery of securities by the trading member on the Pay-in day, the securities are put up for auction by the Exchange.
- This ensures that the buying trading member receives the securities.
- The Exchange purchases the requisite quantity in auction market and gives them to the buying trading member.

# Order Placement Conditions

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## Price Related

- Limit Price
- Market Price
- Stop Loss – Limit
- Stop Loss – Market
- BO – Bracket Order
- CO – Cover Order
- TSL – Trailing SL

## Time Related

- IOC
- Day / GFD
- GTD-Good Till Date
- GTC-Good Till Cancelled

6month

## Quantity Related

- DQ

# Limit Order

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- An order placed with a broker to buy or sell a set number of shares at a specified price or better.
- Limit orders also allow an investor to limit the length of time an order can be outstanding before being canceled.
- Depending on the direction of the position, limit orders are sometimes referred to more specifically as a buy limit order, or a sell limit order.

# Market Order

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- An order that an investor makes through a broker to buy or sell an investment **immediately at the best available** current price.
- A market order is the default option and is likely to be executed because it **does not contain restrictions on the buy/sell price or the timeframe** in which the order can be executed.
- A market order is also sometimes referred to as an **"unrestricted order."**

# Stop Loss Order

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- A stop-loss order is designed to limit an investor's loss on a security position.
- Also known as a "Stop Order" or "Stop-Market Order".
- The one that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price.
- Until then the order does not enter the market.

# Stop Loss Order

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- A sell order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or **falls below the trigger price** of the order.
- A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or **exceeds the trigger price** of the order.

# Stop Loss Order

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- For Example, If for stop loss buy order, the trigger is 93.00, the limit price is 95.00 and the market (last traded) price is 90.00, then this order is released into the system once the market price reaches or exceeds 93.00.
- This order is added to the regular lot book with time of triggering as the time stamp, as a limit order of 95.00

# Basket Order/Trade

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- An order to buy or sell a group of securities simultaneously.
- Basket trading is essential for institutional investors and investment funds who wish to hold a large number of securities in certain proportions.
- As cash moves in and out of the fund, large baskets of securities must be bought or sold simultaneously, so that price movements for each security do not alter the portfolio allocation.



# IOC Order

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- IOC - An Immediate or Cancel (IOC) order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market.
- Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

# Day/GFD Order

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- DAY - A Day order, as the name suggests, is an order which is valid for the day on which it is entered.
- If the order is not matched during the day, the order gets cancelled automatically at the end of the trading day.

# GTC / GTD Order

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- GTC Order or Good Till Cancelled is a conditional request made to Keep the order in System till it is Executed or Cancelled by the Trading Member.
- GTD Order or Good Till Date Order is a conditional request made to the broker (or the system) to keep the order in system till a predetermined date, unless it is executed or cancelled.
- Normally it remains for 30 days. But some brokers allow it to remain up to 90-180 days.

# Disclosed Quantity

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- An order with a DQ condition allows the Trading Member to disclose only a part of the order quantity to the market.
- For example, an order of 1000 with a disclosed quantity condition of 200 will mean that 200 is displayed to the market at a time. After this is traded, another 200 is automatically released and so on till the full order is executed. The Exchange may set a minimum disclosed quantity criteria from time to time.

# Pre Opening Session

Session	Time	Action
Order Entry Period	9:00am - 9:07/08am	The client can place new orders, modify / delete the orders. The order entry can stop randomly between 7th and 8th minute.
Order Matching & Confirmation Period (can be called Price	9:08am - 9:12am	The exchange arrives at the Opening Price, trades the matchable orders @ Opening Price

# Pre Opening Session

Session	Time	Action
Buffer Period	9:12am - 9:15am	Used as transition period between pre open and continuous trading session
Normal Market	9:15 A.M – 3:30 P.M.	Normal Trading resumes.

# Pre Opening Session

● Pre-Open Session is a new innovation on exchange side to arrive at the ideal opening price of a scrip for the current trading session.

Cumulative Buy Quantity	Price Point	Cumulative Sell Quantity	Tradable Quantity
2000	96.0	6000	<b>2000</b>
<b>3500</b>	<b>95.00</b>	<b>4000</b>	<b>3500</b>
4000	93.00	3000	<b>3000</b>
5000	91.50	2000	<b>2000</b>
6000	91.00	1000	<b>1000</b>

# Post Closing Session

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- **Post-market orders are allowed only for Equity trading.**
- **The post-market session or closing session is open from 3:40 PM to 4:00 PM.**
- **During this session, buy/sell orders can be placed in equity only at the market price.**
- **Closing Price will be last Half an Hour Weighted Average Price of Normal Market.**



# Post Closing Session

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● Market / Limit order placed during normal market will no be allowed.

● **Example:** If LTP of Reliance is 1010 and the closing price (Weighted Price) at 3:30 PM is Rs. 1005, between 3:40 PM and 4:00 PM, Buy/Sell order can be placed only at market price, so trade will be executed at 1005 only if enough Buyers and Seller are available.

# Bid / Ask Price - Spread

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- The amount by which the ask price exceeds the bid.
- This is essentially the difference in price between the highest price that a buyer is willing to pay for an asset and the lowest price for which a seller is willing to sell it.
- The spread is the difference between the bid and asking prices for a particular security.

# Volume

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- The number of **shares or contracts traded** in a security or an entire market during a given period of time.
- It is simply the amount of shares that **trade hands** from sellers to buyers as a measure of activity.
- If a buyer of a stock purchases 100 shares from a seller, then the volume for that period increases by 100 shares based on that transaction.

# Zero Sum Game

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- Markets, be it, Equity, Commodities or Forex are all a Zero Sum Game which means that when you loose money, Someone sitting somewhere just Earned it.
- More than 10% of the traders to Bankrupt just because
  - Lack of Education
  - Trading Vs. Investing

# Trading V/s. Investing

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- Traders have to act on the supply and demand Situation.
- Investors focus on Growth, EPS, Takeovers, Fundamentals, Management, etc.
- Trading is on the technical of momentum, demand and supply, market sentiments-Fewer Days- Quick and Continuous Buying-Selling.
- Investment for longer time Period-Months to Years.

# Risk /Reward Ratio

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- A ratio used by many investors to compare the expected returns of an investment to the amount of risk undertaken to capture these returns.
- This ratio is calculated mathematically by dividing the amount he or she stands to lose if the price moves in the unexpected direction (i.e. the risk) by the amount of profit the trader expects to have made when the position is closed (i.e. the reward).

# Penny Stocks

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- A stock that trades at a relatively low price and market capitalization, usually outside of the major market exchanges.
- These types of stocks are generally considered to be highly speculative and high risk because of their lack of liquidity, large bid-ask spreads, small capitalization and limited following and disclosure.

# Circuit Breakers

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- Refers to any of the measures used by stock exchanges during large sell-offs to avert panic selling and during Large Buying to avert Excess Buying.
- Sometimes called a "collar."
- The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%.



# Circuit Breakers

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- These circuit breakers when triggered, bring about a coordinated trading halt in all equity and equity derivative markets nationwide.
- The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the NSE CNX Nifty, whichever is breached earlier.

# Circuit Breakers

<b>Circuit Breaker</b>	<b>Before 1:00</b>	<b>Between 1:00 to 2:30</b>	<b>After 2:30</b>
10%	45 Mins	15 Mins	No Halt
15%	1 Hour 45 Mins	45 Mins (Before 2:00)	Remainder Day
20%	Remainder Day		

# Market Capitalisation

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- The market value of a quoted company, which is calculated by multiplying its current share price (market price) by the number of shares in issue is called as market capitalization.
- E.g. Company A has 120 million shares in issue. The current market price is Rs. 100. The market capitalisation of company A is Rs. 12000 million.

# Nifty / Sensex Index

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- An Index shows how a specified portfolio of share prices are moving in order to give an indication of market trends.
- It is a basket of securities and the average price movement of the basket of securities indicates the index movement, whether upwards or downwards.
- Nifty is the Benchmark Index of **NSE** and Sensex is the Benchmark Index of **BSE** Exchange.

# Market Capitalization Weighted Index

Old Price	Shares in Lakh	Old M Cap	Old Weights	Old Value of Portfolio (Price X Weight)	New Price	New M Cap	New Weight	New Value of Portfolio (Price X Weight)
150	20	3000	0.16	23.94	650	13000	0.31	198.82
300	12	3600	0.19	57.45	450	5400	0.13	57.18
450	16	7200	0.38	172.34	600	9600	0.23	135.53
100	30	3000	0.16	15.96	350	10500	0.25	86.47
250	8	2000	0.11	26.60	500	4000	0.09	47.06
		<b>18800</b>	<b>1</b>	<b>296.28</b>		<b>42500</b>	<b>1</b>	<b>525.06</b>

Market Capitalization (Mcap) = Number of Shares X Market Price

Old Value of Portfolio is Equated to 1000. Therefore, on the Scale new Value of Portfolio would be  $(525.05 / 296.27) \times 100 = 1772.20$

# Price Weighted Index

Stock Name	Stock Price Jan 1 <sup>st</sup> , 1995	Price Weights	Price Weighted Prices	Today's Stock Prices	Price Weights	Price weighted Price
A	150	0.12	18	650	0.24902	166
B	300	0.24	72	450	0.176471	79
C	450	0.36	162	600	0.235294	141
D	100	0.08	8	350	0.137255	48
E	250	0.2	50	500	0.196078	98
	<b>1250</b>		<b>310</b>	<b>2550</b>		<b>532</b>

We equate 310 to 1000 to find the current value, which would be  $(532 / 310) \times 100 = 1717.268$

# Contract Note

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- Contract Note is a confirmation of trades done on a particular day on behalf of the client by a trading member.
- It imposes a legally enforceable relationship between the client and the trading member with respect to purchase/sale and settlement of trades.
- It also helps to settle disputes/claims between the investor and the trading member.

# Exchange

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- The Securities Contract (Regulation) Act, 1956 [SCRA] defines 'Stock Exchange' as any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.
- NSE and BSE were incorporated as a National Stock Exchanges.



# Depository

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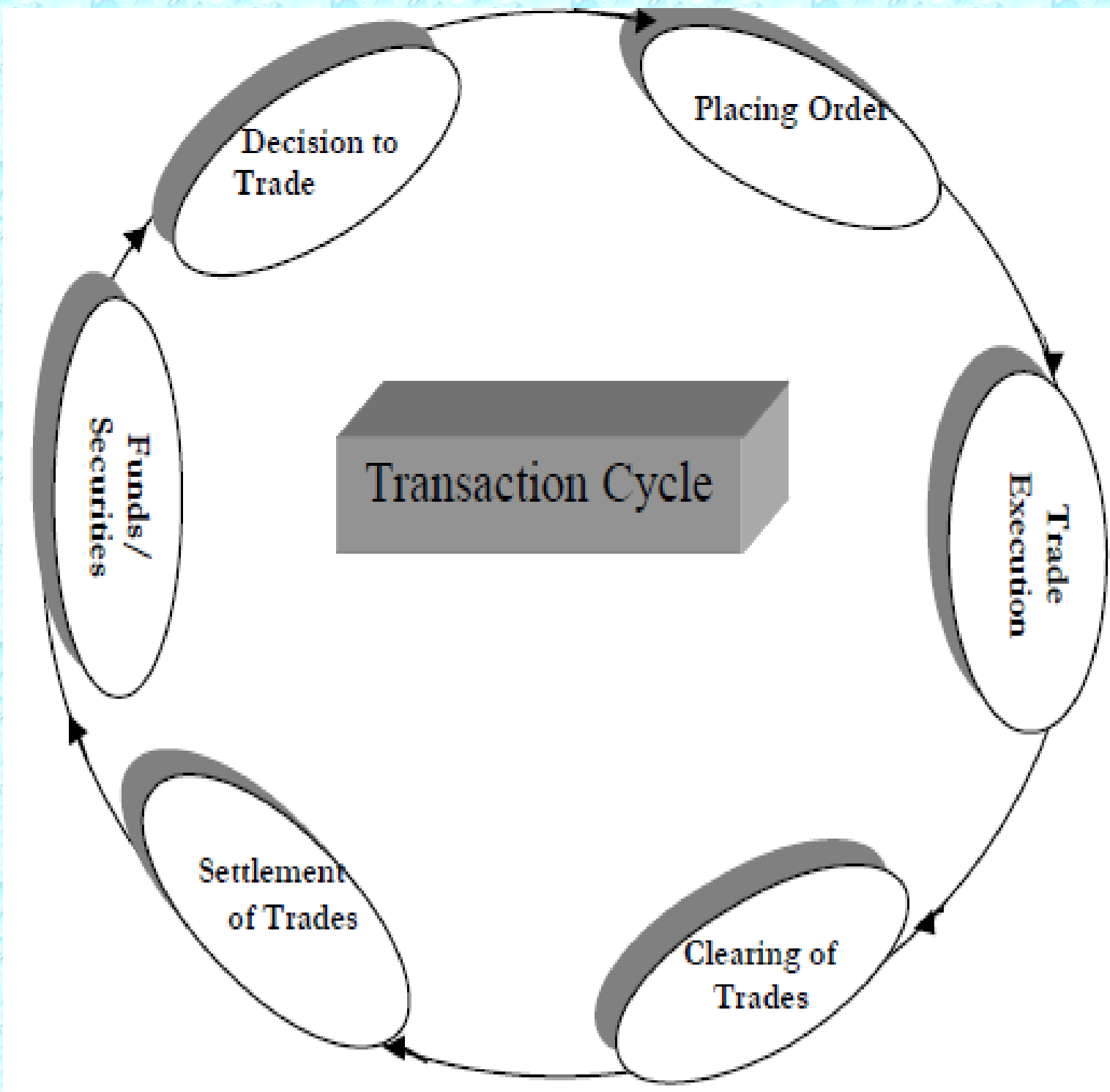
- On the simplest level, depository is used to refer to any place where something is deposited for storage or security purposes.
- More specifically, it can refer to a company, bank or an institution that holds and facilitates the exchange of securities.
- Or a depository can refer to a depository institution that is allowed to accept monetary deposits from customers.

# Clearing Corporation

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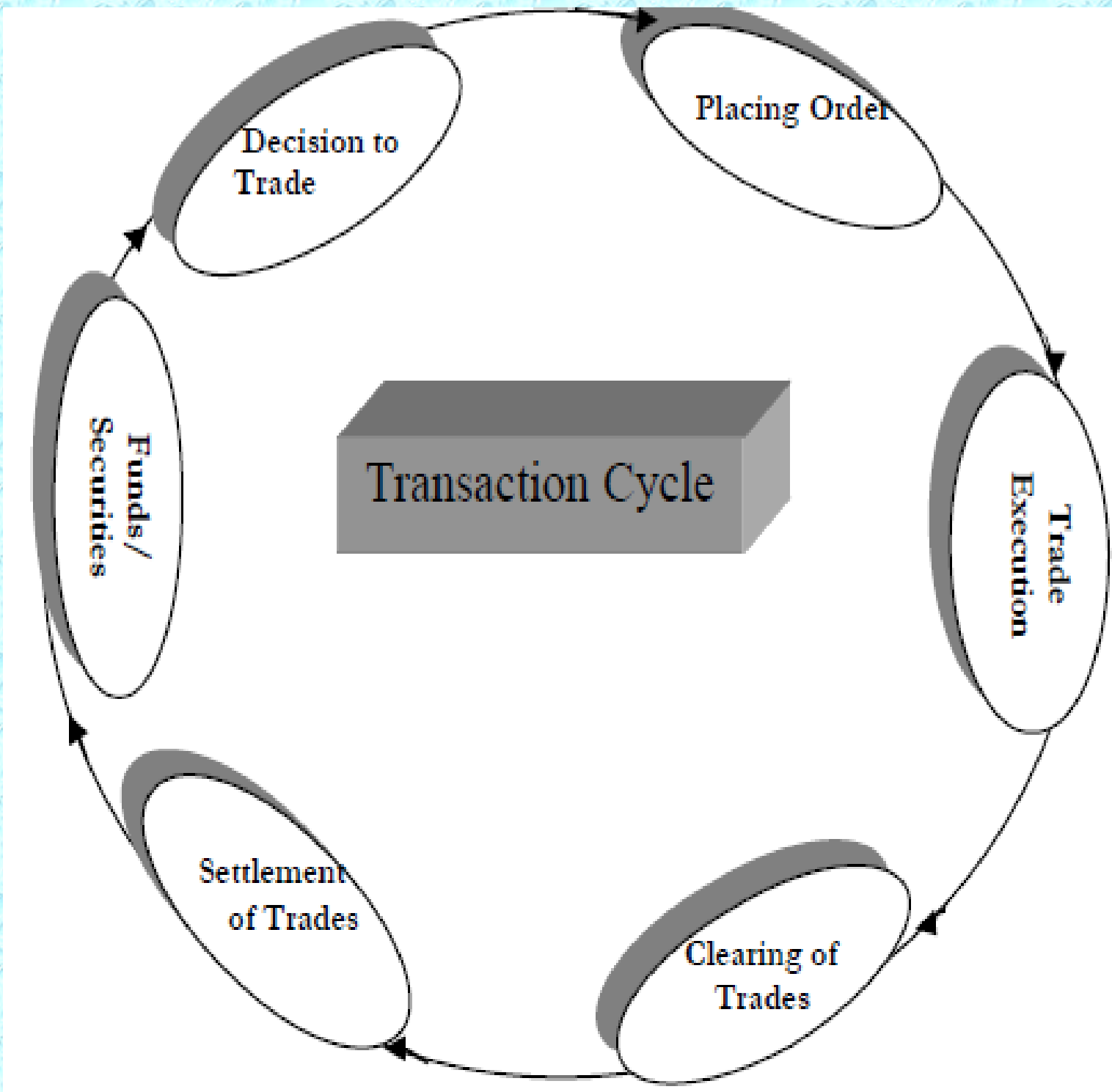
- A Clearing Corporation is a part of an exchange or a separate entity and performs three functions, namely, it clears and settles all transactions.
- Means it completes the process of receiving and delivering shares/funds to the buyers and sellers in the market.
- It provides financial guarantee for all transactions executed on the exchange and provides risk management functions.

# Transaction Cycle



(a) A person holding assets (securities/funds), either to meet his liquidity needs or to reshuffle his holdings in response to changes in his perception about risk and return of the assets, decides to buy or sell the securities.

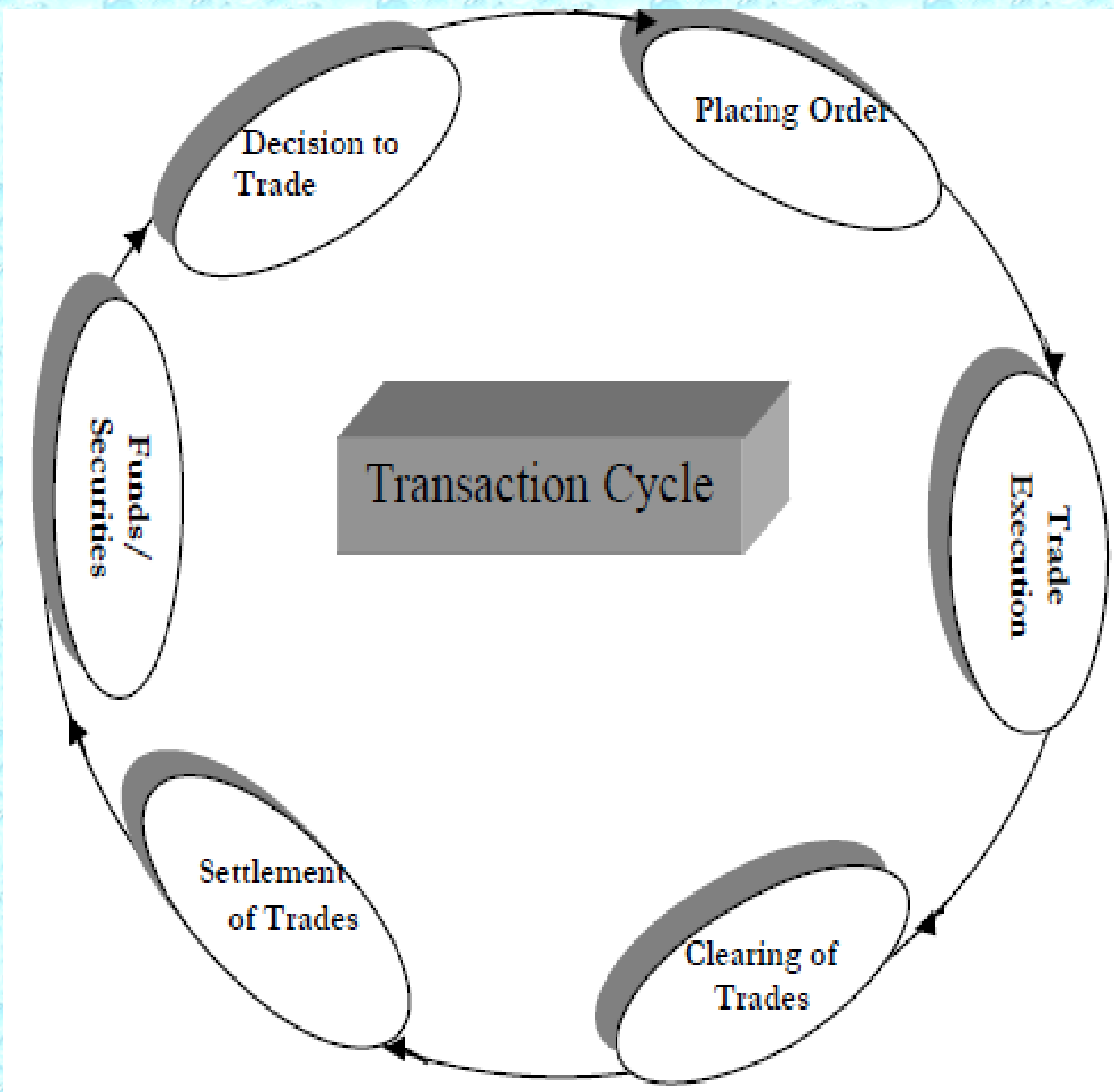
# Transaction Cycle



(b) He selects a broker and instructs him to place buy/sell order on an exchange.

(c) The order is converted to a trade as soon as it finds a matching sell/buy order.

# Transaction Cycle



(d) At the end of the trade cycle, the trades are netted to determine the obligations of the trading members to deliver securities/funds as per settlement schedule.

(e) Buyer (seller) delivers funds (securities) and receives securities (funds) and acquires ownership of the securities.

# Rolling Settlement

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- Under rolling settlement all open positions at the end of the day mandatorily result in payment/ delivery 'n' days later.
- Currently trades in rolling settlement are settled on T+2 basis where T is the trade day.
- For example, a trade executed on Monday is mandatorily settled by Wednesday (considering two working days from the trade day).

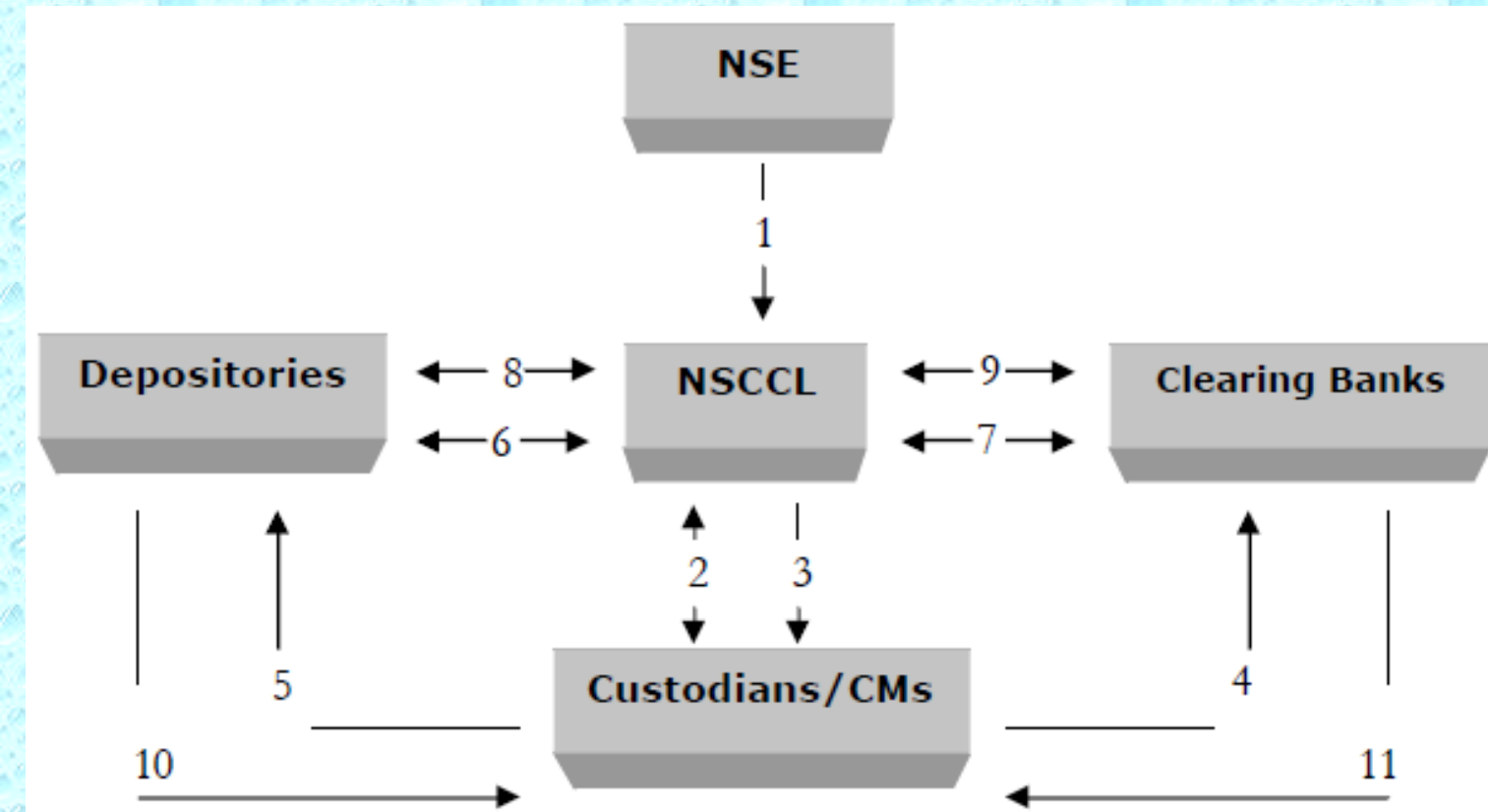
# Custodian

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- A Custodian is basically an organisation, which helps register and safeguard the securities of its clients.
- Also keeps track of corporate actions on behalf of its clients:
  - a. Maintaining a client's securities account
  - b. Collecting the benefits or rights accruing to the client in respect of securities
  - c. Keeping the client informed of the actions taken

# Settlement Process

(1) Trade details from Exchange to NSCCL (real-time and end of day trade file).



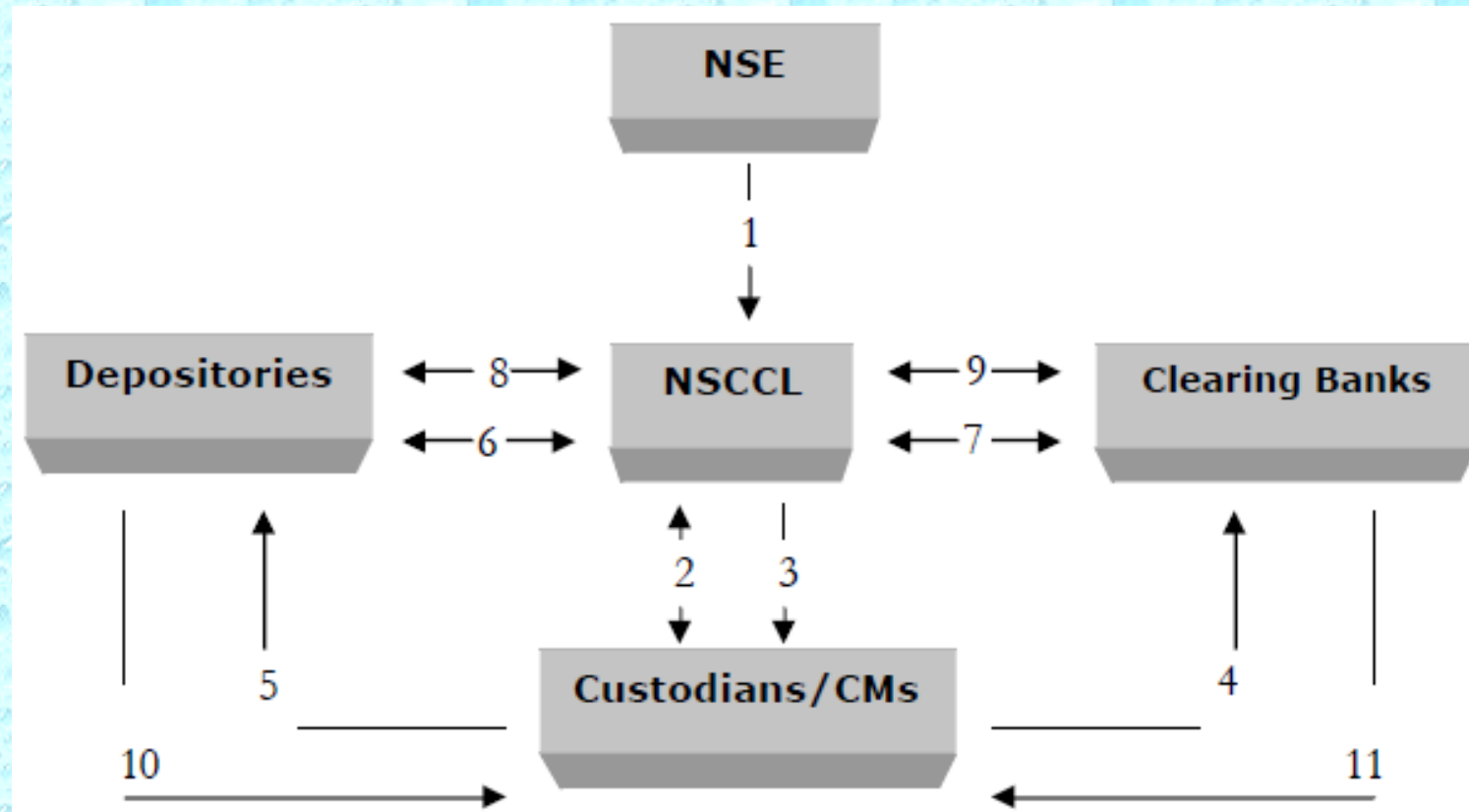
(2) NSCCL notifies the consummated trade details to CMs/custodians who affirm back. Based on the affirmation, NSCCL applies multilateral netting and determines obligations.



# Settlement Process

(3) Download of obligation and pay-in advice of funds/securities.

(4) Instructions to clearing banks to make funds available by pay-in time.

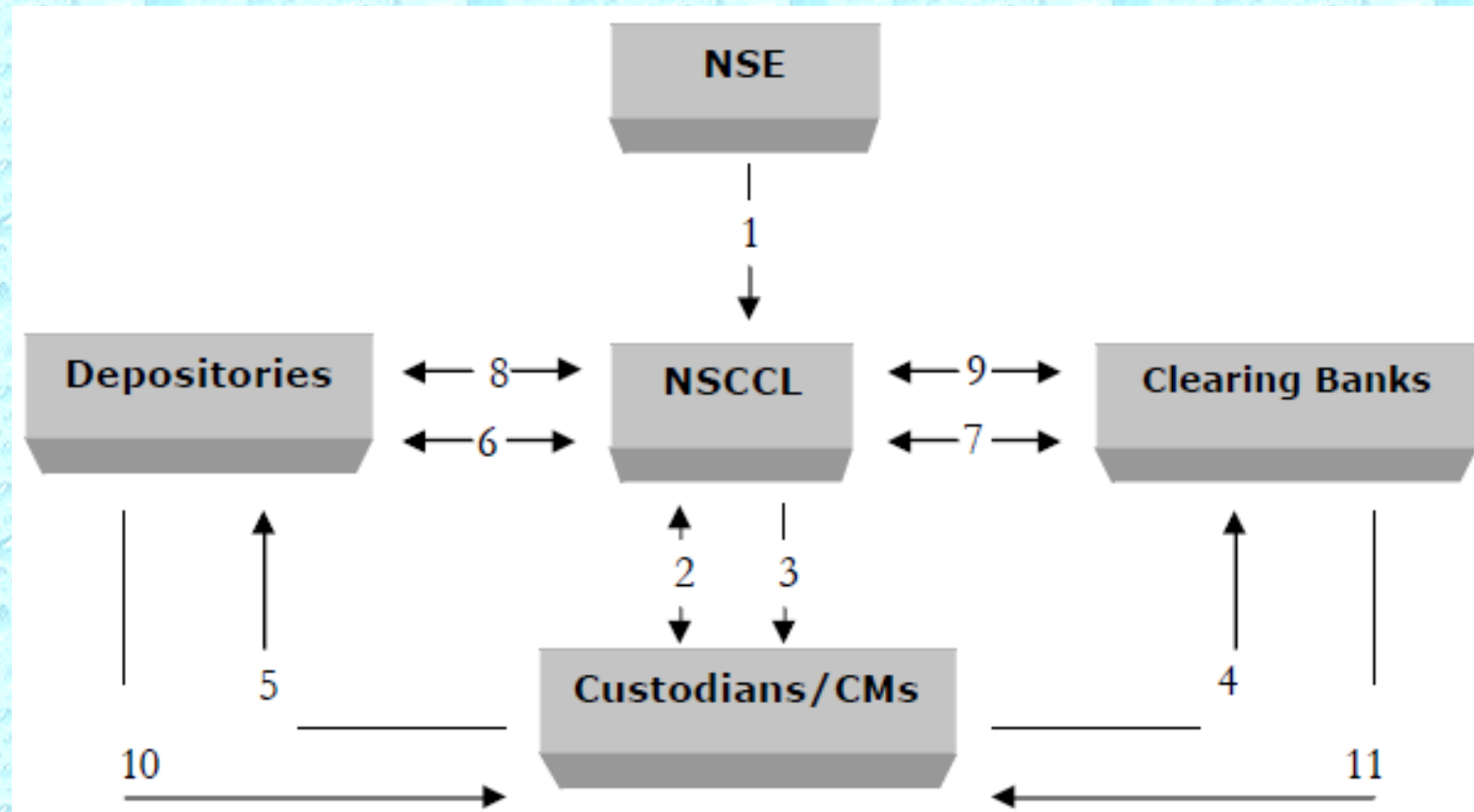


(5) Instructions to depositories to make securities available by pay-in time.

(6) Pay-in of securities (NSCCL advises depository to debit pool account of custodians/CMs and credit its account and depository does it).

# Settlement Process

(7) Pay-in of funds (NSCCL advises Clearing Banks to debit account of custodians/CMs and credit its account and clearing bank does it).



(8) Pay-out of securities (NSCCL advises depository to credit pool account of custodians/CMs and debit its account and depository does it).

(9) Pay-out of funds (NSCCL advises Clearing Banks to credit account of custodians/CMs and debit its account and clearing bank does it).

# Pay-in / Pay-out

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- **Pay-in** day is the day when the securities sold are delivered to the exchange by the sellers and funds for the securities purchased are made available to the exchange by the buyers.
- **Pay-out** day is the day the securities purchased are delivered to the buyers and the funds for the securities sold are given to the sellers by the exchange.

# Dematerialisation / Rematerialisation

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- Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his Depository Participant (DP).
- Electronic holdings be converted into Physical certificates. The process is called Rematerialisation.

# ISIN

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● ISIN (International Securities Identification Number) is a unique identification number for a security.

Examples:

- Reliance : INE002A01018
- TCS : INE467B01029
- HDFCBank : INE040A01026

# Nomination and Transmission

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- Under the provisions, a shareholder, a debenture-holder, a bondholder or a deposit holder can nominate a person, in whom the shares or debentures or bond or deposits would vest, in the event of original investor's death.
- The facility can be availed of by any person whether resident Indian or a non-resident Indian investor.

# Nomination and Transmission

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- The DP has to enter and update the nominee details submitted by the account holder.
- If the account holder is dead, the securities lying to the credit of the account holder may be transmitted to the nominee's account after the DP verifies the identity of the nominee.

# Nomination and Transmission

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- Nomination can be made only by individuals holding beneficiary owner accounts on their own behalf singly or jointly.
- Non-individuals including society, trust, body corporate, Karta of Hindu Undivided Family (HUF), holder of power of attorney **cannot nominate.**



# Pledge and Hypothecation

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- The Depositories Act, 1996 permits the creation of pledge and hypothecation against securities.
- Securities held in a depository account can be pledged or hypothecated against a loan, credit, or such other facility availed by the beneficial owner of such securities.

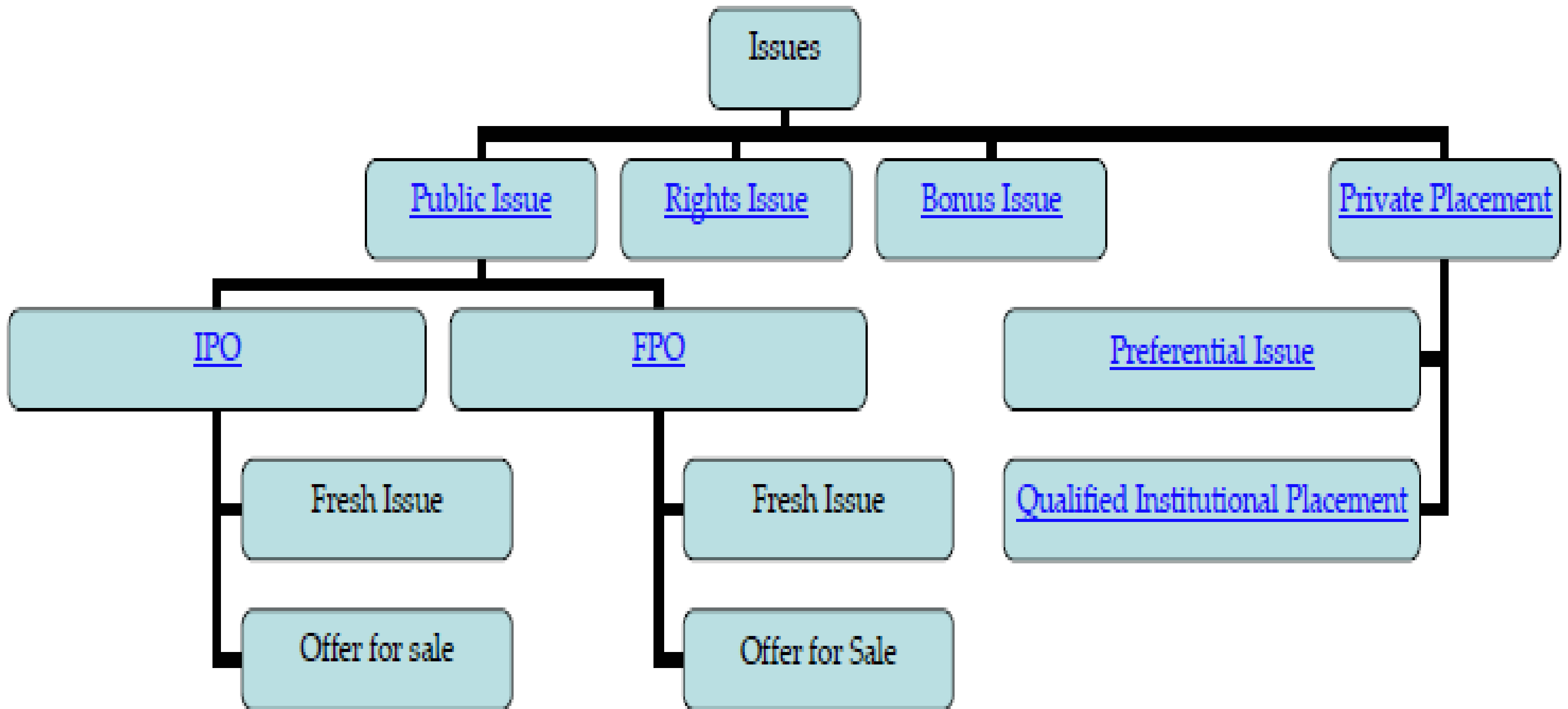
# Pledge and Hypothecation

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● For this purpose, both the parties to the agreement, i.e., the Pledger and the Pledgee must have a beneficiary account with NSDL.

● However, both parties need not have their depository account with the same DP.

# ISSUES



# IPO/FPO

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- The **First Sale** of stock by a private company to the public.
- Also referred to as a "**Public Offering.**"
- An issuing of shares to investors by a public company that is **already listed** on an exchange.
- An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

# Offer for Sale

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- OFS enables promoters to Dilute their holdings in listed companies in a transparent manner with a wider participation through exchange based bidding platform.
- Under OFS, promoters of the company who wish to dilute/offload/sell their holdings are the sellers & the broad market participants namely individuals, Corporates, QIBs, HUF, FIIs represent the buyers.

# Types of Share

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## ● Equity Share:

- a. with Voting Rights or
- b. with Differential Rights as to dividend, voting or otherwise.

## ● Preference Share:

1. Dividend at a Fixed Rate or a fixed amount on these shares before any dividend on equity shares.
2. Return of preference share capital before the return of equity share capital at the time of winding up of the company.

# Rights Issue

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● A Rights Issue is a way by which a **listed company can raise additional capital**. However, instead of going to the public, the company gives its Existing Shareholders the Right to subscribe to newly issued shares in Proportion to their Existing Holdings.

● **Example: 1:4 Rights Issue** means an existing investor can buy **one extra share for every four shares** already held by him/her. Usually the price at which the new shares are issued by way of rights issue is less than the prevailing market price of the stock, i.e. the shares are offered at a discount.

# Bonus Issue

● Bonus shares are Additional Shares given to the current shareholders without any Additional Cost, based upon the number of shares that a shareholder owns. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

● **Example:** If Investor A holds 400 shares of a company and a company declares 1:4 bonus, that is **for every Four share, he gets 1 share for free**. That is total 100 shares for free and his total holding will increase to 500 shares.



# Types of Preference Share

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1. Cumulative Preference
2. Non-cumulative Preference Shares
3. Redeemable Preference Shares
4. Non-redeemable Preference Shares
5. Participating Preference Shares
6. Non-participating Preference Shares
7. Convertible Preference Shares
8. Non-convertible Preference Shares

# NSE Series Legends

Series			
Security	Rolling Settlement	Trade For Trade	Remarks
Fully paid equity shares/ETF's	EQ*	BE/BT/BZ	
Partly paid equity shares	E@	X@	@ = 1-9, A-Z
Units of mutual funds (Close ended)	MF**	-	
Non convertible preference shares	P@	O@	@ = 1-9, A-Z
Fully convertible preference shares	Q@	F@	@ = 1-9, A-Z
Non convertible debt instruments	N@/Y@	U@/M@	except MF/ME, @ = 1-9, A-Z
Fully convertible debt instruments	D@	S@	except SM/ST/SP/SL/SI/SO/SQ, @=1-9, A-Z
Convertible warrants	W@	K@	@ = 1-9, A-Z

# Corporate Actions-Dividend / Split / Bonus

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- Corporate actions tend to have a bearing on the price of a security.
- It is initiating a process that will bring actual change to its securities either in terms of **number of shares** increasing in the hands on the shareholders or a change to **the face value** of the security or receiving shares of a new company by the shareholders as in the case of merger or acquisition and Dividends, etc.

# Stock Split

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- A stock split is a corporate action which splits the existing shares of a particular face value into smaller denominations so that the number of shares increase.
- However, the market capitalization or the value of shares held by the investors post split remains the same as that before the split.

# Book Closure / Record Date

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- Book closure refers to the closing of the register of the names of investors in the records of a company.
- The benefits of dividends, bonus issues, rights issue accrue to investors whose name appears on the company's records as on a given date which is known as the record date

# Book Closure / Record Date

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## Example:

Suppose Reliance limited, announces 50% annual dividend on its annual general meeting and decide 27th June as book closure date.

If the face value of the stock is Rs-10, then Mr. X is entitled to receive an amount of Rs- 5 as a dividend (50% of Rs-10) on each stock that one is holding.

# Book Closure / Record Date

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## Example:

Now in order to receive the dividend, Mr. X must have to buy the stock on or before 25th June (As settlement occurs on T+2 day).

If Mr. X purchases on or before 25th June, then only his name will appear in the company's record book on 27th June.

# Book Closure / Record Date

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## Example:

Company quotes the dates after 26th June as “ex-dividend”. So, if Mr. X buys the stock on or after 26<sup>th</sup> June then he is no longer entitled to receive the dividend.

In short, if Mr. X wants to buy a stock just for dividend, then he will have to hold it for just 2 days to receive the same.



## Ex-Date / Cum-Date

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- The date on or after which a security **begins trading without the Corporate Action or Dividend** included in the price, i.e. buyers of the shares will no longer be entitled for the dividend which has been declared recently by the company, in case they buy on or after the ex-dividend date.
- Cum-Date means **Buyer Receives the Benefit** of the Corporate Action between the Dates Declared.

# Buy Back

● Buyback means that Company which has issued shares repurchase the same from either open market or by providing an offer to existing shareholders to buy back at fixed price.

● Buy back is normally done when company thinks that shares are undervalued in the market and therefore, by buy back, company absorbs the repurchased stocks and number of stocks in market get reduced.

# Buy Back

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- Just as shares may be issued at par, at a premium or at a discount, **re-purchase may also be effected at par, at a premium or at a discount.**
- It is also one of the method of giving funds to shareholders instead of giving dividends.
- Example: Wipro announced a Rs 11,000 crore buyback offer at Rs 320 per share to purchase 34.37 crore shares held by the shareholders.

# Block Trading – Bulk Trading

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- **Block Deal** is a trade, with a minimum quantity of 5,00,000 shares or minimum value of Rs. 5 crores, executed through a single transaction, on the special "Block Deal window". They are not shown to the people who trade from normal trade window.
- **Bulk Deal** is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of the company. They are visible to everyone.

# Arbitration

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- Arbitration is an Alternative Dispute Resolution Mechanism provided by a Exchange for resolving disputes between the Trading Members and their Clients in respect of trades done on the Exchange.
- If no amicable settlement could be reached through the normal Grievance Redressal Mechanism, then one can make application for reference to Arbitration under the Bye-Laws of the concerned Stock Exchange.

# Portfolio

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- An investment portfolio is a Collection of Assets owned by an individual or by an institution.
- An investor's portfolio can include Real Estate and so-called "HARD" Assets, such as Gold Bars.
- But most investment portfolios, particularly portfolios that are assembled to pay for a retirement, are made up mainly of Securities, such as stocks, bonds, mutual funds, money market funds and exchange traded funds.

# Diversification

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- It is a risk management technique that mixes a wide variety of investments within a portfolio.
- It is designed to minimize the impact of any one security on overall portfolio performance.
- Diversification is possibly the best way to reduce the risk in a portfolio.

# ADR

● Depository Receipts(DRs) are negotiable securities issued outside India by a Depository bank, on behalf of an Indian company, which represent the local rupee denominated equity shares of the company held as deposit by a Custodian bank in India.

● The Indian company deposits certain amount of its Indian shares with designated American Banks.



# ADR

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- The banks, in turn, issues receipts that are equivalent in values to the Indian Company. These receipts essentially would be in number of receipts.
- Then these Indian Companies can trade these ADRs with the American public.
- This way the Indian company is able to enter into the American Stocks and Shares market, and raise funds from the American public.

# GDR

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- Bank Certificate issued in more than one country for shares in a foreign company. The shares are held by a foreign branch of an international bank.
- The shares trade as domestic shares, but are offered for sale globally through the various bank branches.
- A financial instrument used by private markets to raise capital denominated in either U.S. dollars or euros.
- The underlying shares correspond to the GDRs in a fixed ratio say 1 GDR=10 shares.

# IDR

- An Indian Depository Receipt (IDR) is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the SEBI) against the underlying equity of issuing company.
- To enable foreign companies to raise funds from the Indian Securities Markets.

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**Thank You**