NSDL
Technology, Trust & Reach

The Financial Kaleidoscope
Defining the different shapes of investment

March-May 2021

Basics of Shares

Listing, Pricing & Corporate Benefits

From The Editor's Desk

Dear Reader,

New demat accounts opened in FY 2020-21 have shown interesting trend of increased participation of retail investors in capital market. The upward journey of stock market indices has resulted in many companies launching their IPOs during FY 2020-21. Many of you would be aware of the recent spate of IPOs that have made a debut on the Indian stock markets. This includes several trusted and legacy companies as well as new-age internet companies.

And the trend of new IPO looks like continuing for the rest of the year. A fact corroborated by the pipeline of upcoming IPOs. Growing adaption of technology along with the curiosity of new investors has led to many people asking us some fundamental questions.

So, in this issue of The Financial Kaleidoscope, we will cover some of the basics related to shares. How they are listed on a stock exchange, fundamentals that govern the price movement, what is dividend, bonus and rights issue, delisting of shares and what it means for investors.

We invite all our readers to participate in the 'Knowledge Wins Contest', share feedback and suggestions at the link given later in this newsletter.

We trust, you will find this newsletter useful. If you wish to read the previous issues of this newsletter, please visit https://nsdl.co.in/publications/nest.php

We request you to share the newsletter with your friends, colleagues and anyone else who might be interested. This newsletter can be subscribed at https://nsdl.co.in/e-newsletter.php

Regards,
NSDL Investor Education Team

Listing of Shares

What is meant by listing of shares?

Equity shares are an essential part of an investor's strategy for creating long-term wealth. It is essentially like owning a part of the company in proportion to the shares bought. However, before investors can buy or sell shares on the exchange, the company has to qualify and fulfill certain regulatory criteria and follow certain processes laid out by the Securities and Exchange Board of India (SEBI). After getting requisite permission, the company launches its IPO and on successful subscription, the shares are listed on the exchange on the given date. This entire exercise is known as 'listing' on the stock exchange after which shares can be traded publicly.

Why companies list on a stock exchange?

To an extent, it is possible for a company to meet its fund requirements without getting listed on a stock exchange. However, when company needs large size funds for various business needs, without increasing the debt burden, tapping the public funds remains the option.

Listing on a stock exchange enables company to approach wide section of society and realise their true value.

How are shares listed on a stock exchange?

The process of listing on the stock exchange is a fairly detailed and time taking activity for any issuer company. Broadly, it includes following activities or steps -

1. Company decides that it needs to raise funds from the public.
2. Company files an application with SEBI seeking approval for its public issue. Company needs to provide detailed information about its promoters, business operations, profitability, objectives of public issue etc.
3. There are numerous eligibility norms which need to be fulfilled by the applicant company. Many disclosures are also required to be made the application by the company.
4. SEBI evaluates the application and provide its approval for public issue if it is satisfied.
5. After SEBI's approval, company can actually approach the primary market and launch its IPO.
6. Once IPO opens, investor at large can submit their application for share (or bid) through their stock broker or other authorized intermediaries.
7. After the IPO closes, the investor receive the shares in his/her demat account and the blocked amount in bank account will be debited.
8. Post allotment of shares to applicants or bidders by company, trading of shares in the platform of stock exchange begins.
9. Once the trading starts, anyone can buy or sell the shares through stock broker.

Share Pricing

Now days, issuer companies decide a price band within which any person can submit a bid to purchase the given number of shares. This price band is decided by the company in consultation with merchant bankers taking into consideration many factors. It is important to note that while SEBI and exchanges (NSE / BSE) allows a company to come out with a public offer, they are not involved in price determined by the company.

After listing on the stock exchanges, share prices are largely determined by supply and demand factors of the market.

What causes the upward or downward movement of a share price?

At its core, stock prices follow the laws of supply and demand like in any marketplace. And given the dynamics of how interconnected our economy is, the prices fluctuate through the day based on what different people think and feel may happen to a specific company.

If more people have faith in a company's performance and future, there will be an increase in demand which will drive up a share price. And if the outlook or sentiment around it is unfavorable, people would likely want to cut their losses and sell-out. This would increase the supply of shares which would pull down the price. Some of the common factors affecting the demand are expected and unexpected company news, financial outlook, industry outlook, market sentiment, etc.

What is a price trend and why is it important to understand?

Price trend is the general direction in which a stock is moving. Apart from showing past performance, it is a window to the future and hence important for investors who want to purchase that share. Historical price trends also reveal patterns of highs and lows which are useful in gauging the timing for entry (buying at lows) and exits (selling at highs).

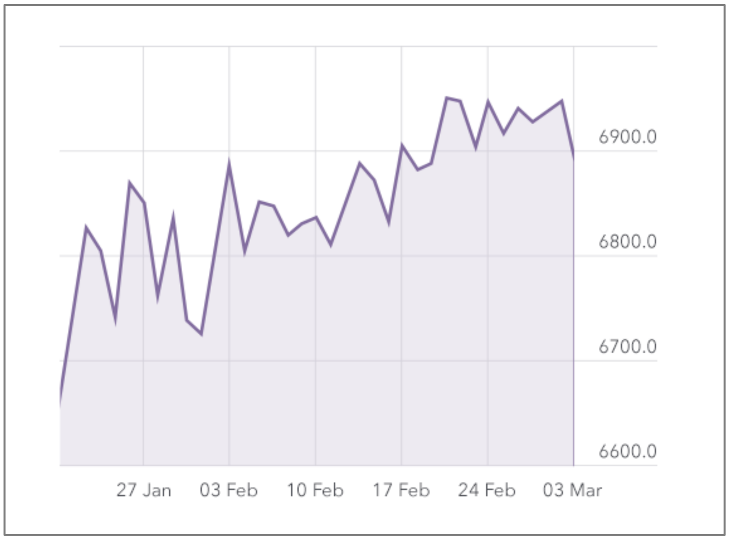
What are the price charts?

A picture, it is said, is worth a thousand words. This is quite true for price trends of shares, also known as price charts. Using a combination of data points such as date, price, and volume of shares traded, different types of price charts allow investors to look at the performance of a company to make trading decisions. And while technical analysis is a specialized field in itself, understanding the basics of analysis and the ability to read a few common types of price charts can vastly improve your investment strategy.

Some common types of chart

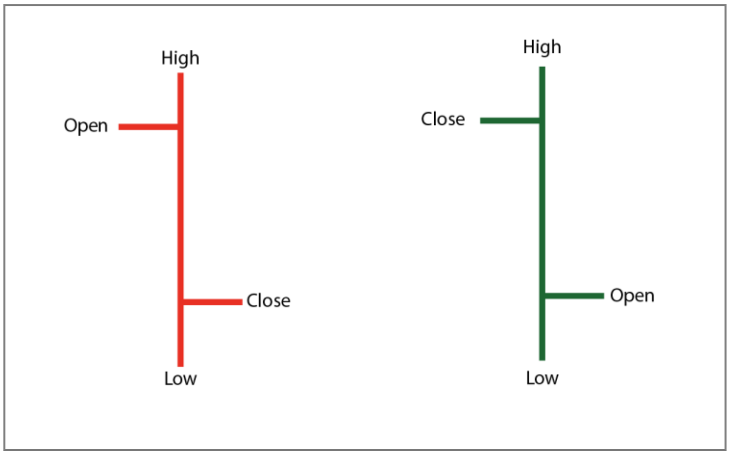
- Line chart:

This is one of the most familiar charts which plot the price of a share against a trading day. It usually depicts the closing price and the duration for which this is plotted could range from a few days to few years depending on the need. The line formed by joining the dots plotted on the graph shows the movements in stock price during the period.



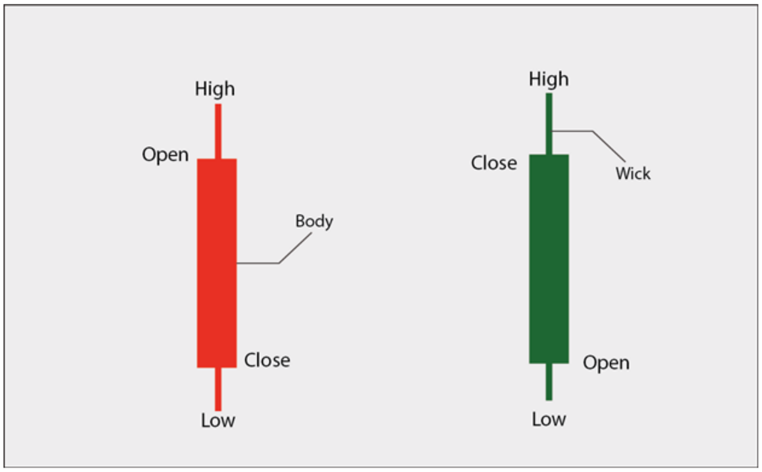
- Bar Charts

A bar chart plots the intra-day high and low of a stock. Each bar shows how prices moved over a specified time period. A daily bar chart shows a price bar for each day represented in form of a bar. The top of the bar corresponds to the day's high and the bottom, day's low. Two additional horizontal lines indicate the opening and closing price. The length of the bar is proportional to the volatility in a stock. Bar charts are often colored-coded. If the share price closes above the open price it is colored green, and if the close is below the open the bar is colored red.



• Candlestick charts:

This is a particularly useful chart for investors looking to take a long-term view and to look for specific trends that may not reveal themselves over a shorter duration. Like the bar chart, a candlestick chart displays the relationship between the high, low, opening, and closing prices of a stock. The body of the candle represents the opening and closing price of the trading done during the period. Above and below the body are vertical lines called wicks or shadows that show the lows and highs of the traded price of the stock. While an individual candle provides sufficient information, patterns can be determined only by comparing one candle with its preceding and next candles. Similar to bar charts green color of the modern candlestick represents that the closing price was above the opening price and vice versa.



What are circuit breakers and how do they work?

Circuit breaker is a mechanism that is used by the stock exchanges to curb excessive volatility in markets. It is the maximum fluctuation allowed in share price after which trading gets suspended. The circuit limit gets fixed for individual stocks as well as indices. Known as the upper limit and lower limit, it is based on the closing prices of the previous trading day. Circuit breakers are set and governed by stock exchanges.

The purpose for circuit breakers is rooted in the fact that although indices and stock prices fluctuate constantly and react to several external factors. Any extreme movement may put retail investors at a huge risk. Circuit breakers ensure that any rise or fall does not continue indefinitely and speculation remains within an acceptable limit. This is a very important mechanism particularly for small investors who may get caught in the crossfire and incur massive losses.

Rights, Bonus and Dividend

What is a Rights Issue?

In very simple words, Rights Issue means a right given by a company to its existing shareholders to buy additional shares of the company. To be meaningful, this right is given to buy shares a price lesser than the prevailing market price. It is always optional for shareholders to participate in rights issue. Rights are offered to shareholders in the proportion of their existing holdings in the company as on the record date decided for this purpose.

What is Rights Entitlement?

Till recently, the right to buy shares of a company has economic value only when it was exercised by the shareholder. In case the shareholder decides not to exercise his / her option to buy, it had no value.

Now it is possible for such shareholder to sell this right to other investors who are willing to get it in order to be able to buy shares at a price lesser than the market. This has been made possible by converting the simple ‘Right to buy shares or Rights Entitlement’ into a marketable instrument. Now stock exchanges allow trading of Rights Entitlements in their trading platform. The shareholders who are given such right by their company can now sell through their stock broker.

Should an investor buy Rights Entitlement?

Ability to sell Right Entitlement gives a monetary value to those shareholders who are unable to or not willing to exercise their right to buy shares (even though offered at a lesser price). On the other side, buying Right Entitlement makes economic sense only when you want to exercise it after buying it. In case, Rights Entitlement purchased from the market are not actually used to buy shares, they have no value left and the money spent for buying them becomes a waste.

Another important point here is what should be the price one can pay for Rights Entitlement? Let's understand this with an example.

Current market price of one share of ABC Limited - ₹100
Rights issue price declared by ABC Limited - ₹90
Maximum price that can be paid for buying Rights Entitlement of ABC Limited - ₹10

(Transaction costs are ignored here for simplicity. Actually the cost of transaction will reduce the price that can be paid).

What is a bonus issue?

Bonus shares are like rights shares, except that the shareholders are allotted these shares by the company without any consideration. Like rights shares, bonus shares are also allocated proportionately based on the number of shares held by them on the record date decided for this purpose.

For example, if you hold 100 shares of a company, and the company declares a bonus of 2:1 (meaning 1 bonus share for every two shares held). In this case, you would get 50 bonus shares without paying any price for them.

What is dividend?

Dividend is a reward shareholders receive from a company in cash form. It is a portion of profits made by the company which it distributes to its shareholders. It is not mandatory for companies to pay a dividend every year. But companies who pay regular dividend are loved by the investors as it gives them some regular income.

Like Rights and Bonus shares, dividend is also paid to those who hold shares on record date decided for this purpose. It is paid in proportion to the number of shares held. Amount of dividend is credited to bank account which is recorded in the demat account of the concerned investor. In case, shares are held in physical form, the company arranges the credit of dividend amount to bank account of the investor which are available in the company's record.

Investor must remember to approach their DP to update the bank account information in their demat account whenever there is any change. Refer to your demat account statement to find out what bank details are recorded in the demat account. If you are holding shares in physical form, then you need to send request for change in bank details to respective company or its Registrar and Transfer Agent.

What are illiquid stocks?

As the name suggests, illiquid stocks are those in which you cannot liquidate your investments easily. These stocks cannot be easily sold as they see limited trading. They pose higher risks to investors because it is difficult to find buyers for them as compared to frequently traded stocks. Illiquid stocks usually have lower volatility accompanied by lower trading volumes and limited speculators & investors. Even if these shares are sold quickly, it may happen with a substantial loss in value.

How to identify illiquid stocks?

- Check the website of exchanges for list of illiquid stocks. According to a SEBI circular stock exchanges identify illiquid securities at the beginning of every quarter based on certain pre-defined criteria.

- Check trading volumes before purchasing any securities. Trading volumes are consistently low for such stocks
- There is a huge difference between the bid price and the ask price.
- Penny stocks trading below their face value

Delisting of Shares

What is Delisting?

Delisting is the process when a listed company leaves the stock exchange or withdraws its shares from being traded in the stock exchange platform. It can happen for multiple reasons. Example - if the company is merging with another company or has some other restructuring plan then it can delist voluntarily. Or sometimes, a company can be forced to delist by the stock exchange for failing to meet the listing standards. Sometimes, successful and profit-making companies also delist their shares if their promoters want to keep tight control on the company. A company needs to comply with delisting requirements before actually effecting the delisting plan.

What happens when shares get delisted?

Once a company delists, its shares (or other securities) are no more available for buy and sell on the stock exchange platform. So no person can buy shares in the market nor can any person sell the shares in the market.

What should you do when your company opts for delisting?

Generally, before the delisting is effected, shareholders are given prior notice and an option by the company to liquidate their investment in the company. The company is required to send 'Letter of Offer' and Tender form' to all those who were holding shares on the record date decided by the company for this purpose. Shareholders can either chose to continue to hold their shares in the company (if that company continues to exist as an unlisted company) or sell the shares to the company through a buyback offer extended to them. They may also sell or transfer their holdings to those who are willing to buy those shares.

Voluntary delisting on most occasions works in favor of shareholders, as the company is likely to offer a premium over the market price to encourage them to sell. Involuntary delisting on the other hand is almost always triggered by bad news or financial difficulties, and shareholders are more likely to lose money.

Shareholders can opt not to tender their shares, and they even continue to reap the benefits like bonus and dividends, however the inability to trade it makes it a relatively illiquid asset. So, for practical purposes, it may be better to participate in a tendering process and exit from the investment.

How to tender shares which are held in the demat account?

When a company decides to delist and offers to buy back its shares, it informs the existing shares holders about the procedure to be followed by them for participation in the buyback process. Typically, it opens a new demat account and expects shareholder to transfer their shares to that account if they wish to tender their shares for buyback within a prescribed time frame.

The price at which shares can be tendered is decided by the company as per the stock exchange approved computation methodology.

Alternatively, the buyback can be undertaken through a stock exchange mechanism. In this, shareholders are required to offer their share at their preferred price (within the given band). Those who wish to tender their shares need to deliver the shares in the pool account of their broker under a specified market type and settlement number.

If more people are offering the shares than what the company had decided to buyback, then it accepts the bids on a proportionate basis, similar to an oversubscribed IPO.

How to participate in a buyback offer if you are holding shares in physical form?

Eligible Shareholders who are holding physical shares and intend to participate in the buyback should approach their broker along following documents -

I. Tender Form duly signed by all Eligible Shareholders,
II. Original share certificate(s),
III. Valid share transfer form(s)/Form SH-4 duly filled and signed by the transferors authorizing the transfer in favor of the Company,
IV. Self-attested copy of PAN Card(s) of all shareholders,
V. Other relevant documents as applicable such as power of attorney, notarized copy of death certificate and succession certificate or probated will (if the original shareholder is deceased).
VI. If the address of the shareholder has changed then a self-attested copy of any address proof such as Aadhaar card, voter identity card, or passport.

Based on these documents, the broker shall place a bid on behalf of the shareholders in the stock exchange platform. The documents collected as above shall be dispatched by the broker to the registrar appointed by the company for buyback.

Remember

1. Never invest in shares based on tips etc. received through SMS and various other medium.
2. Take help from a qualified and registered investment adviser if you are unable to do the required homework.
3. Various documents related to the process of IPO and delisting are published on the website of SEBI, exchange, and respective companies. Please do spend some time going through them before making a decision.
4. You can participate in buyback only if you are holding the shares.
5. If all the shares tendered by you are accepted by the company, then you will not remain a shareholder in the company. Consequently, you will not be entitled to any corporate action benefit such as bonus, dividend.
6. It is impossible to predict the future price accurately. It is useless to time the market for the simple reason that the best time to buy and best time to sell are known only when it has passed.

Special Feature

Smart Banking can bring in Smart Trading

As we talk about shares and trading, it is only prudent to discuss banking features that can make your trading experience better. Ideally, transactions between trading account and savings account should be seamless. But is it possible? The answer is - yes, it is.

NSDL Payments Bank offers its customers a Linked Trading Account facility. This account provides power to our customers and brokers to enjoy a seamless trading experience through partnerships. Before we understand how it works, let us first understand what Linked Trading Account is.

Linked Trading Account

NSDL Payments Bank offers its customers a unique proposition where the savings account with the bank can easily be integrated with their Demat and Trading account. It will help the clients experience seamless transfer of funds along with safe and secure trading. This is a solution where everyone benefits – the bank, the brokerage house and the client.

Features and Benefits of Linked Trading Account

Transfer of funds: The customers have an option to transfer funds in four ways:

I. Transfer funds instantly via NSDL Jiffy, our mobile banking app.
II. Customer authorizing the fund transfer request raised by the broker.
III. Transfer funds using the integrated broker's app, and
IV. Through AutoPay, the client can set up a mandate in favor of his broker for a fixed amount and fixed period.

Safe and Secure: During every transaction, customers will be required to authorize the fund movement by entering MPIN. Notifications are sent after every transaction so that the money movements and the returns that the customer has yielded can be easily monitored.

Tracking Portfolio: Customers need not juggle between different apps to keep track of their undertakings. NSDL Jiffy provides them with a one-view for all your trading and investments. In short, all your trading information is easily accessible on your NSDL Jiffy app.

Ease in Trading: Through Linked Trading Account, customers can initiate transactions anytime, anywhere and never miss a financial opportunity.

Zero Balance Savings Account: The savings account from NSDL Payments Bank comes with a unique mix of features:

I. No minimum balance required
II. Instant account activation with free virtual debit card
III. 100% digital account opening in few minutes
IV. Quick Recharge and Bill Payment options across various biller categories

Expert Talk: IPO Pricing and Listing

By Mr. Neeraj Chadawar, Head of Quantitative Strategy, Axis Securities Limited

Securities are the financial instrument issued to raise the capital to fund growth. Securities are issued by the companies and the investors who have surplus money can invest in those securities via primary market or through stock exchanges in the secondary market. Security ownership is the conversion of savings into financial assets that provides returns helpful for long term wealth creation.

What is Listing?

Listing is a journey of any company who decides to expand the business that requires a capital to fulfil growth or expansion plan. This capital requirement can be fulfilled via debt, bonds or by going public (selling the current ownership).

Going public is a strategic decision and could be a transformational event for the next leg of growth. Companies can go public through the sale of shares to the general public. This entire process is known as Initial Public Offer (IPO). A company appoints a merchant banker to prepare a DRHP (Draft Red Herring Prospectus) document. It is an important document which comprises detailed information about promoters, company financials, business growth drivers and much more. After getting the requisite permission from SEBI, the company launches its IPO in the primary market and on successful subscription; the shares are listed on the exchange on the given date. After listing, the company's shares can be traded on a day to day basis on the stock exchanges (secondary market). The entire journey from primary to secondary market is known as listing.

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IPO Pricing

IPO pricing is decided by the merchant bankers and the company. This pricing is a part of the book building process in which a price band is provided to the investors and every applicant needs to bid for the pre-defined numbers of shares from the given price range. On the listing day, the company's share gets listed on the exchange. The listing price is based on the subscription in different categories like Institutional, High Network Individual (HNI) and Public, and on the basis of the prevailing market conditions. If a public issue got oversubscribed, then the chances of a listing gain on the listing day could be higher, but again it depends on the existing market conditions on the listing day.

Here, the important question is – Why do companies go for public issues? The answer is simple - To access the capital for a growth or an expansion plan. Further, it would provide an exit to some of the existing shareholders, like private equity or provide a partial exit opportunity for the strategic shareholder. Listing enhances the liquidity of the stocks and provides an opportunity to the shareholders to realize the value of the investments. It also brings more transparency and efficiency in company management.

A Note of Caution While Investing in the Primary Market

New investors need to keep the following points in mind before investing in IPOs:

1. Understand the business - Whether it is a new business model or a well-known business model and what are the drivers for the future growth in the company?
2. Quality of the management – Who is running the show?
3. Why are they raising money?
4. Capital structure before and after the issuance
5. Due diligence of the financial statements and the current valuation

With introduction of UPI payment option for participation in IPO, the whole subscription process has become a lot easier for retail investors. It is important that retail investor participate in good quality IPOs to create enough wealth for themselves. Remember there are some good issues happening in Small and Medium Enterprises (SME) segment also. So keep an eye on the forthcoming issues and invest according to your needs and goals. Happy investing.

Clarification on downloading KYC Documents of Clients from KRA's System

While opening an online account demat based on KYC details downloaded from KRA's system, Participant should display KYC details as downloaded from KRA's system to the client. Client must confirm that there is no change in the particulars as downloaded from KRA and in case of any change; the client must be provided an option to provide latest details along with supporting documentation.

Reference: Circular No. NSDL/POLICY/2021/0028 dated March 22, 2021 available on NSDL website.

Bank Account Update facility to shareholders of Companies

Based on the request received from Issuer Companies, NSDL has developed a facility to update bank account details in demat account. With this facility, Issuer Companies can approach their shareholders to whom they are unable to remit the funds.

Reference: Circular No. NSDL/POLICY/2021/0042 dated May 5, 2021 available on NSDL website.

Join Our Investor Awareness Webinars

NSDL conducts Investor Awareness Programs (IAPs) throughout the country to ensure investors are aware of different aspects of investing. In view of the prevailing situation, NSDL is continuing the investor awareness programs in form of webinars. The schedule of the forthcoming programs/ webinars is published online at https://nsdl.co.in/Investor-Awareness-Programmes.php.

Prior registration is required for joining the webinar. Link for registration is available along with schedule.

We shall be happy to conduct IAP for your organization / institute / society. Please write to us at info@nsdl.co.in for such requests.

Forthcoming Investor Awareness Programmes

Sr. No.	Date	Timing	Topic	Language
1	04-Jun-21	05.30 p.m. - 07.00 p.m.	NSDLs e-Services for Investors	Hindi
2	05-Jun-21	11.00 a.m. - 01.00 p.m.	Margin Pledge / Repledge & Nomination	English
3	05-Jun-21	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	Marathi
4	05-Jun-21	05.30 p.m. - 07.00 p.m.	Investing in Mutual funds - Why and How for retail investors	English
5	11-Jun-21	05.30 p.m. - 07.00 p.m.	How to Buy and Sell shares in stock exchange?	Hindi
6	12-Jun-21	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	English
7	12-Jun-21	05.30 p.m. - 07.00 p.m.	NSDLs e-Services for Investors	English
8	18-Jun-21	05.30 p.m. - 07.00 p.m.	Understanding Different Asset Classes	English
9	19-Jun-21	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	English
10	19-Jun-21	05.30 p.m. - 07.00 p.m.	How to Buy and Sell shares in stock exchange?	Marathi
11	25-Jun-21	05.30 p.m. - 07.00 p.m.	Margin Requirements and Margin Trading	English
12	26-Jun-21	10.30 a.m. - 12.00 p.m.	Introduction to Securities Market	Hindi
13	26-Jun-21	05.30 p.m. - 07.00 p.m.	Investing in Gold - Why and How for retail investors	Hindi

More the education, more the prudence

Knowledge Wins Contest

What is Meant by Rights Entitlement?

To send your replies: visit/click www.nsdl.co.in/knowledge-win-contest.php
or
Scan this QR code

25 Lucky Winners get FREE GIFTS

Previous Month's Winners

Anil Kumar – Yamunanagar
Anita Dsouza – Mumbai
Chenthil Kumar - Pune
Chandresh Dobariya – Rajkot
Harvindar Garcha – Pune
Dhandapani Janardanan – Chennai
Putan Tomar – Hisar
Akash Jain – Thane
Pradeep Patel - Pratapgarh

Ranjit Kamath – Mahad
Pravinbhai Vaghela – Aravalli
Dipak Parikh -Surat
Braj Meena -Karauli
Narendra Jain – Kota
Prasannan P – Ernakulam
Jayram Patil -Nandurbar
Prakash S P – Udupi
Rathijit Koner - Bangalore

Ravindra Joshi -Barddhaman
Rohit Jain – Pune
Hiren Patel – Kota
Rakesh Meena – Chandigarh
Sailesh Kalra -Udaipur
Ranjeet Sharma – Mumbai
Dipali Yelapure - Hyderabad

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Ahmedabad Bengaluru Chennai Hyderabad Jaipur Kochi Kolkata Lucknow New Delhi

For any other information related to Demat account, you can email us at info@nsdl.co.in

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