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B.Com Honours

Semester I

Calicut University

Stock Market Fundamentals

Course Code: COM1FM105 (2) • Module 2 Notes

1. Primary Market: Public Issues and the IPO Process

The primary market is the channel through which corporations raise long-term equity capital. For a growing startup or enterprise, transitioning from a private firm to a public listed company is a major milestone accomplished via an IPO. This module covers the types of public issues, book building, the ASBA application mechanism, secondary market trading concepts, order types, and transaction settlement cycles.

Initial Public Offering (IPO) & Book Building

An **IPO** is the first sale of a company's shares to the public. Issues are priced using two main methods:

- **Fixed Price Issue:** The company sets a specific price per share in the prospectus. Investors apply at that exact price.
- **Book Building Issue:** The company specifies a price band (e.g., ₹95 to ₹100). Investors bid at different prices within the band. The final price (cut-off price) is determined based on market demand after the bidding period closes.

Prospectus: The legal document containing corporate financial history, promoter details, risk factors, and the purpose of the fund raise. A **Red Herring Prospectus (RHP)** is the draft prospectus used during book building, containing all details except the final price and quantity of shares.

Applying for an IPO: The ASBA Mechanism

ASBA (Application Supported by Blocked Amount): A mandatory payment mechanism for public issues. Instead of the investor writing a cheque or transferring money to the company immediately, the application money is **blocked** in the investor's bank account. The money remains blocked (earning interest) and is debited only if the investor is allotted shares. If no allotment occurs, the block is lifted. ASBA can be authorized online via Net Banking or **UPI** apps.

2. Secondary Market Operations and Trading Mechanics

Once shares are allotted and listed, they trade on the secondary market stock exchanges.

Stock Exchanges and Indices

India's secondary market is dominated by two national exchanges:

- **Bombay Stock Exchange (BSE):** Established in 1875, it is Asia's oldest exchange. Its benchmark index is the **SENSEX** (comprising 30 largest, financially sound stocks).
- **National Stock Exchange (NSE):** India's leading modern electronic exchange (est. 1992). Its benchmark index is the **NIFTY 50** (comprising 50 major stocks across sectors).

The Market Watch and Order Types

A trading terminal displays live stock data (Market Watch):

- **OHLC:** Open (first trade price of the day), High (maximum price reached), Low (minimum price reached), and Close (last traded price of the session). **LTP** is the Last Traded Price updated in real-time.
- **Circuits:** Exchange-mandated price limits. **Upper Circuit** is the maximum price a stock can rise in a day; **Lower Circuit** is the minimum price it can drop. Trading freezes temporarily if these limits are hit, preventing market panic.
- **Order Types:**
  - **Market Order:** An order to buy/sell immediately at the best available current market price.
  - **Limit Order:** An order to buy/sell only at a specific price or better (e.g., buy only if price drops to ₹98).
  - **Stop-Loss Order:** An order used to limit losses, automatically triggering a sell order if the stock price drops below a pre-set threshold.

Settlement, Margin, and Leverage

India uses a **T+1 Settlement Cycle**, meaning trades are settled, and shares are credited to the Demat account or cash is credited to the bank account, exactly **one working day** after the transaction date (T+1). At the end of the day, the broker issues a **Contract Note**, the legal invoice detailing executed trades, transaction values, and charges (brokerage, Securities Transaction Tax - STT, GST). **Margin Pledge** involves pledging existing Demat shares as collateral to get **leverage** (borrowed capital) from the broker for short-term trading.