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A STUDY ON CAPITAL MARKET

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Abstract:

*The **Indian Capital Market** is one of the oldest capital markets in Asia which evolved around 200 years ago. A **market** is any one of a variety of different systems, institutions, procedures, social relations and infrastructures whereby persons trade, and goods and services are exchanged, forming part of the economy. It is an arrangement that allows buyers and sellers to exchange things. Markets vary in size, range, geographic scale, location, types and variety of human communities, as well as the types of goods and services traded. Some examples include local farmers' markets held in town squares or parking lots, shopping centers and shopping malls, international currency and commodity markets, legally created markets such as for pollution permits, and illegal markets such as the market for illicit drugs.*

Index terms: *Capital market, Financial market, Mechanisms of Markets*

1.Introduction:

In mainstream economics, the concept of a **market** is any structure that allows buyers and sellers to exchange any type of goods, services and information. The exchange of goods or services for money is a transaction[1]. Market participants consist of all the buyers and sellers of a good who influence its price. This influence is a major study of economics and has given rise to several theories and models concerning the basic market forces of supply and demand.

1.1.Types of Markets:

Although many markets exist in the traditional sense — such as a marketplace — there are various other types of markets and various organizational structures to assist their functions[2]. The nature of business transactions could define markets.

1.2.Financial Markets

Financial markets facilitate the exchange of liquid assets. Most investors prefer investing in two markets, the stock markets and the bond markets. NYSE, AMEX, and the NASDAQ are the most common stock markets in the US. Futures markets, where contracts are exchanged regarding the future delivery of goods are often an outgrowth of general commodity markets[3].

Currency markets are used to trade one currency for another, and are often used for speculation on currency exchange rates. The money market is the name for the global market for lending and borrowing.

1.3.Prediction Markets

Prediction markets are a type of speculative market in which the goods exchanged are futures on the occurrence of certain events[4]. They apply the market dynamics to facilitate information aggregation.

1.4.Organization of Markets

A market can be organized as an auction, as a private electronic market, as a commodity wholesale market, as a shopping center, as a complex institution such as a stock market, and as an informal discussion between two individuals. Markets of varying types can spontaneously arise whenever a party has interest in a good or service that some other party can provide[5]. Hence there can be a market for cigarettes in correctional facilities, another for chewing gum in a playground, and yet another for contracts for the future delivery of a commodity. There can be black markets, where a good is exchanged illegally and virtual markets, such as eBay, in which buyers and sellers do not physically interact during negotiation. There can also be markets for goods under a command economy despite pressure to repress them.

1.5.Mechanisms of Markets

In economics, a market that runs under laissez-faire policies is a free market. It is "free" in the sense that the government makes no attempt to intervene through taxes, subsidies, minimum wages, price ceilings, etc. Market prices may be distorted by a seller or sellers with monopoly power,

or a buyer with monophony power. Such price distortions can have an adverse effect on market participant's welfare and reduce the efficiency of market outcomes[6]. Also, the level of organization or negotiation power of buyers, markedly affects the functioning of the market. Markets where price negotiations meet equilibrium though still do not arrive at desired outcomes for both sides are said to experience market failure.

2. Classification:

Securities may be classified according to many categories or classification systems:

- Currency of denomination
- Ownership right
- Term to maturity
- Degree of liquidity
- Income payments
- Tax treatment
- Credit rating
- Industrial sector or "Industry". ("Sector" often refers to a higher level or broader category, such as Consumer Discretionary, whereas "industry" often refers to a lower level classification, such as Consumer Appliances. See Industry for a discussion of some classification systems.)
- Region or country (such as country of incorporation, country of principal sales/market of its products or services, or country in which the principal securities exchange on which it trades is located)
- Market capitalization
- State (typically for municipal or "tax-free" bonds in the U.S.)

3. DEBT AND EQUITY

Securities are traditionally divided into debt securities and equities

Debt:

Debt securities may be called debentures, bonds, deposits, notes or commercial paper depending on their maturity and certain other characteristics. The holder of a debt security is typically entitled to the payment of principal and interest, together with

other contractual rights under the terms of the issue, such as the right to receive certain information[7]. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities may be protected by collateral or may be unsecured, and, if they are unsecured, may be contractually "senior" to other unsecured debt meaning their holders would have a priority in a bankruptcy of the issuer. Debt that is not senior is "subordinated". Corporate bonds represent the debt of commercial or industrial entities[8]. Debentures have a long maturity, typically at least ten years, whereas notes have a shorter maturity. Commercial paper is a simple form of debt security that essentially represents a post-dated check with a maturity of not more than 270 days.

3.1.Money market instruments are short term debt instruments that may have characteristics of deposit accounts, such as certificates of deposit, and certain bills of exchange. They are highly liquid and are sometimes referred to as "near cash". Commercial paper is also often highly liquid.

Euro debt securities are securities issued internationally outside their domestic market in a denomination different from that of the issuer's domicile. They include Eurobonds and euro notes. Eurobonds are characteristically underwritten, and not secured, and interest is paid gross. A euro note may take the form of euro-commercial paper (ECP) or euro-certificates of deposit.

3.2.Government bonds are medium or long term debt securities issued by sovereign governments or their agencies[9]. Typically they carry a lower rate of interest than corporate bonds, and serve as a source of finance for governments. U.S. federal government bonds are called treasuries. Because of their liquidity and perceived low risk, treasuries are used to manage the money supply in the open market operations of non-US central banks.

3.3.Sub-sovereign government bonds, known in the U.S. as municipal bonds, represent the debt of state, provincial, territorial, municipal or other governmental units other than sovereign governments.

3.4.Supranational bonds represent the debt of international organizations such as the World Bank, the International Monetary Fund, regional multilateral development banks and others.

3.1.1.Equity

An equity security is a share of equity interest in an entity such as the capital stock of a company, trust or partnership. The most common form of equity interest is common stock, although preferred equity is also a form of capital stock. The holder of an equity is a shareholder, owning a share, or fractional part of the issuer. Unlike debt securities, which typically require regular payments (interest) to the holder, equity securities are not entitled to any payment[10]. In bankruptcy, they share only in the residual interest of the issuer after all obligations have been paid out to creditors. However, equity generally entitles the holder to a pro rata portion of control of the company, meaning that a holder of a majority of the equity is usually entitled to control the issuer. Equity also enjoys the right to profits and capital gain, whereas holders of debt securities receive only interest and repayment of principal regardless of how well the issuer performs financially. Furthermore, debt securities do not have voting rights outside of bankruptcy. In other words, equity holders are entitled to the "upside" of the business and to control the business.

Hybrid

Hybrid securities combine some of the characteristics of both debt and equity securities.

Preference shares form an intermediate class of security between equities and debt. If the issuer is liquidated, they carry the right to receive interest and/or a return of capital in priority to ordinary shareholders. However, from a legal perspective, they are

capital stock and therefore may entitle holders to some degree of control depending on whether they contain voting rights.

Convertibles are bonds or preferred stock which can be converted, at the election of the holder of the convertibles, into the common stock of the issuing company. The convertibility, however, may be forced if the convertible is a callable bond, and the issuer calls the bond. The bondholder has about 1 month to convert it, or the company will call the bond by giving the holder the call price, which may be less than the value of the converted stock. This is referred to as a forced conversion.

Equity warrants are options issued by the company that allow the holder of the warrant to purchase a specific number of shares at a specified price within a specified time. They are often issued together with bonds or existing equities, and are, sometimes, detachable from them and separately tradable. When the holder of the warrant exercises it, he pays the money directly to the company, and the company issues new shares to the holder. Warrants, like other convertible securities, increases the number of shares outstanding, and are always accounted for in financial reports as fully diluted earnings per share, which assumes that all warrants and convertibles will be exercised The securities markets:

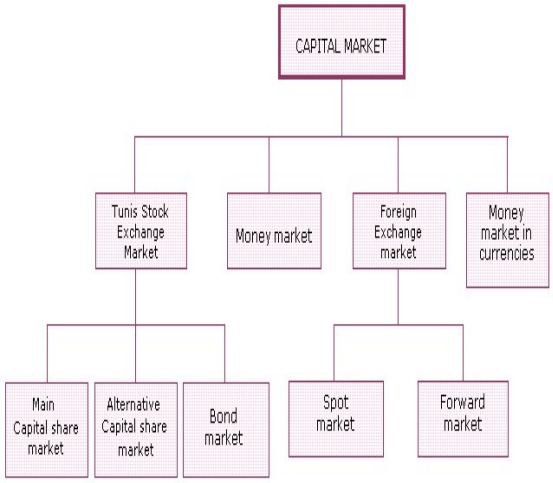
Function:

Secondary marketing is vital to an efficient and modern capital market. In the **secondary market**, securities are sold by and transferred from one investor or speculator to another. It is therefore important that the secondary market be highly liquid (originally, the only way to create this liquidity was for investors and speculators to meet at a fixed place regularly; this is how stock exchanges originated, see History of the Stock Exchange). As a general rule, the greater the number of investors that participate in a given marketplace, and the greater the

centralization of that marketplace, the more liquid the market.

4.Private Secondary Markets

Partially due to increased compliance and reporting obligations enacted in the Sarbanes-Oxley Act of 2002, private secondary markets began to emerge. These markets are generally only available to institutional or accredited investors and allow trading of unregistered and private company securities[11]. In private equity, the secondary market (also often called private equity secondary's or secondary's) refers to the buying and selling of pre-existing investor commitments to private equity funds. Sellers of private equity investments sell not only the investments in the fund but also their remaining unfunded commitments to the funds.



5. EQUITY SHARES:

They are also called as common stock. The common stock holders of a company are its real owners, the own the company and assume the ultimate risk associate with ownership. Their liability, how ever is restricted to the amount of their investment in the event of liquidation, these stock holders have a residual claim on the assets of the company after the claims of all creditors and preferred stock holders, are settled in full. Common stock like preferred stock, as no maturity date.NSE started trading in the equities segment (Capital Market segment) on November 3, 1994

and within a short span of 1 year became the largest exchange in India in terms of volumes transacted. Trading volumes in the equity segment have grown rapidly with average daily turnover increasing from Rs.17 cores during 1994-95 to Rs.20,208 corers during FY 2007-08. During the year 2007- o8,NSE reported a turnover of Rs.3,551,038 cores in the equities segment. The Equities section provides you with an insight into the equities segment of NSE and also provides real-time quotes and statistics of the equities market. In-depth information regarding listing of securities, trading systems & processes, clearing and settlement, risk management, trading statistics etc are available here.

6.DEBENTURES:

"Acknowledge of debt, given under the seal of the company and containing a contract for the

Repayment of the principal sum at a specified date and for repayment of the principal sum at a specified date and for the payment of interest at fixed rate percent until the principal sum is

Repaid, and it may or may not give the charge on the assets to the company as security of the Loan".

Kind of debentures:

1. **Bearer debentures**: Bearer debentures are similar to share warrants in that too are negotiable instruments, transferable by delivery. The interest on bearer debentures is paid by the means of attached coupons. On maturity, the principal sum is paid to the bearers.
2. **Registered debentures**: These are debentures which are payable to the registered holders i.e. Persons whose names appear in the register of debenture holders. Such debentures are transferable in the same way as shares.
3. **Perpetual or Irredeemable debentures**: A debenture which contains no clause as to payment or which contains a clause that it shall not be paid back is called a perpetual or: irredeemable debenture[12]. These debentures are

redeemable only on the happening of a contingency on the expiration of a period, however long. It follows that debentures can be made perpetual, i.e. the loan is repayable only on winding up or after a long period of time.

4. Redeemable debentures: These debentures are issued for a specified period of time. On the expiry of the specified time the company has the right to pay back the debenture holders and have its properties released from the mortgage or charge. Generally, debentures are redeemable.

5. Debentures Issued as Collateral Security for a Loan: The term collateral security or secondary security means, a security which can be realized by the party holding it in the event of the loan being not paid at the proper time or according to the agreement of the parties. At times, the lenders of money are given debentures as a collateral security for loan. The nominal value of such debentures is always more than the loan. In case the loan is repaid, the debentures issued as collateral security are automatically redeemed.

Naked debentures: Normally debentures are secured by a mortgage or a charge on the company's assets. However debentures may be issued without any charge on the assets of the company. Such debentures are naked or unsecured debentures. They are mere acknowledgment of a debt due from the company, creating no rights beyond those secured creditors.

Secured debentures: when any particular or specified property of the company is offered as security to the debenture holders and when the company can deal with it only subject to the prior right of the debenture holders, fixed charge on the undertaking of the company i.e.. Whole of the property of the company, both present and future, an when it can deal with the property in the ordinary course of business until the charge crystallized i.e.. When the company goes in to liquidation or when a receive is appointed, the charge is said to be floating charge. When the floating charge crystallizes, the debentures holder have

right to be paid out of the assets subjects to the right of the preferential creditor but prior to making any payment to unsecured creditors.

7.American Depository Receipts (ADR):

An American depository receipt (ADR) is a negotiable receipt which represents one or more Depository shares held by a US custodian bank, which in turn represents underlying shares of Non- issuer held by a custodian in the home country. ADR is an attractive investment to US

Investors willing to invest in securities of non US issuers for following reasons:

- ADR provide a means to US investors to trade the non US company shares in US dollars ADR
- Negotiable receipt (which represents the non US share) issued in US capital market and is traded in dollars. The trading in ADR effectively means trading in underlying shares.
- ADR facilitates share transfers. ADRs are negotiable and can be easily transferred
- Among the investors like any other negotiable instrument. The transfer of ADRs automatically transfers the underlying share.
- The transfer of ADRs does not involve any stamp duty and hence the transfer of Underlying share does not require any stamp duty. The dividends are paid to the holders of

8.Intrinsic value of an option:

The option premium cab be broken down into two components- intrinsic value and time value. The intrinsic value of an option is the amount, which the holder will get by exercising his option and immediately selling or buying the acquired shares in the spot market. For example, if the strike price of a call option on Reliance shares is Rs.325 and current market price is Rs.350. The holder of the option can buy the Reliance share at Rs.325 by exercising the option and can make a profit of Rs.25 by immediately selling them in the market. In this case the intrinsic value of the call option is Rs.25.

Time value of the options:

The time value of an option is the difference between its premium and its intrinsic value.

At-the-money:

An option is called at-the-money option when the strike price equals, or nearly equals, the spot price of the share. For example, if the strike price of stock index option on Nifty index is also at 1080, the option is called at-the-money option.

SPOT PRICE > STRIKE PRICE

In-the-money:

A call option is in the money when the underlying asset price is greater than the strike price. For example, if the strike price in the case of Nifty stock index option is 1050 and Nifty is at 1080, the option is in-the-money option.

SPOT PRICE = STRIKE PRICE

Out-of-the-money:

A call option is out-of-the-money if the strike price is greater than the underlying asset price. For example, if the strike price in the case of Nifty stock index option is 1100 and Nifty is at 1080, the option is out-of-the-money option.

SPOT PRICE < STRIKE PRICE

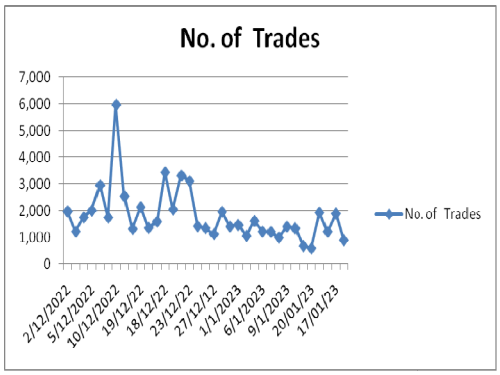
9. DATA ANALYSIS & INTERPRETATION STOCK MARKET

Company :HERO MOTOCORP LTD. 500182

Period: 02-Dec-2022 to 20-Jan-2023

TABLE NO 4

Date	Open	High	Low	Close	WAP	No. of Shares	No. of Trades	Total Turnover
2/12/22	2,055.05	2,090.00	2,030.95	2,062.90	2,070.19	24,767	1,961	5,12,70,809
3/12/22	2,058.00	2,079.30	2,033.70	2,048.19	2,053.12	27,874	1,203	5,72,28,643
4/12/22	2,047.00	2,090.00	1,996.00	2,030.95	2,043.94	20,331	1,740	3,33,79,599
5/12/22	2,042.00	2,068.25	2,042.00	2,050.95	2,054.95	19,635	1,996	3,21,29,090
6/12/22	2,057.00	2,120.55	2,057.00	2,098.70	2,098.67	27,320	2,943	5,73,27,365
9/12/22	2,190.00	2,205.00	2,102.20	2,121.75	2,125.63	19,700	1,735	4,18,74,951
10/12/22	2,190.00	2,220.70	2,119.75	2,203.10	2,205.23	42,866	5,968	9,28,20,784
11/12/22	2,200.00	2,210.00	2,192.30	2,209.75	2,179.08	21,821	2,530	4,75,49,720
10/12/22	2,190.00	2,220.70	2,119.75	2,203.10	2,205.23	42,866	5,968	9,28,20,784
11/12/22	2,200.00	2,210.00	2,192.30	2,209.75	2,179.08	21,821	2,530	4,75,49,720
12/12/22	2,195.00	2,200.00	2,122.40	2,128.30	2,200.31	11,197	1,305	2,38,79,443
19/12/22	2,128.00	2,190.45	2,060.00	2,064.95	2,083.27	20,401	2,121	4,25,00,879
20/12/22	2,065.00	2,065.00	2,031.65	2,041.30	2,044.62	19,057	1,342	3,89,64,307
17/12/22	2,046.00	2,082.70	2,036.00	2,055.45	2,063.73	44,620	1,582	9,20,83,632
18/12/22	2,060.00	2,199.00	2,050.00	2,119.90	2,112.31	53,192	3,435	11,23,58,086
19/12/22	2,119.00	2,127.80	2,072.19	2,084.05	2,093.28	20,696	2,039	4,33,22,465
20/12/22	2,084.00	2,195.45	2,063.00	2,127.35	2,120.98	59,198	3,308	12,54,73,195
23/12/22	2,129.90	2,209.90	2,129.90	2,202.90	2,199.52	27,394	3,097	5,91,57,948
24/12/22	2,208.00	2,208.00	2,190.00	2,192.85	2,204.22	20,127	1,408	3,02,91,401
26/12/22	2,199.00	2,204.00	2,090.00	2,097.50	2,108.54	19,507	1,333	2,84,80,034
27/12/12	2,098.00	2,107.00	2,080.85	2,086.80	2,091.50	20,034	1,109	2,93,52,201
30/12/22	2,093.00	2,106.00	2,050.70	2,067.50	2,080.46	21,205	1,948	4,39,91,282
31/12/22	2,067.00	2,085.80	2,066.00	2,074.80	2,076.40	18,197	1,395	3,77,84,235
1/01/23	2,080.00	2,099.85	2,065.19	2,086.05	2,089.77	18,772	1,453	3,92,29,210
2/01/23	2,083.60	2,101.00	2,075.00	2,080.40	2,088.68	19,330	1,043	3,20,19,448
3/01/23	2,071.00	2,119.00	2,063.40	2,096.50	2,095.29	19,265	1,605	3,19,84,568
6/01/23	2,100.00	2,100.00	2,065.50	2,068.05	2,077.19	19,879	1,202	2,88,29,333
7/01/23	2,073.00	2,094.20	2,058.85	2,067.75	2,069.81	21,619	1,195	4,47,38,994
8/01/23	2,082.60	2,089.00	2,059.25	2,064.95	2,073.34	8,820	981	1,82,86,848
9/01/23	2,068.50	2,080.00	2,062.05	2,068.25	2,071.65	43,476	1,392	9,00,66,845
10/01/23	2,072.00	2,072.00	2,030.00	2,035.19	2,052.09	10,944	1,324	2,24,58,064
19/01/23	2,035.00	2,049.00	2,024.00	2,038.75	2,031.52	29,617	665	6,01,67,487
20/01/23	2,033.00	2,046.00	2,027.00	2,035.50	2,035.46	6,051	576	1,23,20,571
19/01/23	2,040.00	2,096.00	2,040.00	2,074.05	2,077.62	20,239	1,921	3,37,38,435
20/01/23	2,078.00	2,108.00	2,067.00	2,073.90	2,083.97	9,637	1,199	2,00,83,198
17/01/23	2,078.00	2,095.00	2,066.10	2,075.19	2,091.21	1,03,198	1,884	21,56,83,553
20/01/23	2,075.00	2,099.90	2,062.35	2,085.75	2,087.10	12,507	884	2,61,03,359



10. Interpretation:

On open value has risen from 2055.05 to 2075.00. Then compare to higher value of EPS 2090.00 to 2099.90. Then coming to lower price from 2030.95 to 2062.35. Wholly the conclusion is 2062.90 to 2085.75 raised.

Then coming to the volume on the same dates or days volumes are increased. Because totally this session HERO MOTOCORP LTD. EPS value is increased i.e. percentage of 20.85 %.

11.Conclusion:

Capital market is an innovation to cash market. Approximately its daily turnover reaches to the equal stage of cash market. The average daily turnover of the NSE derivative segments. In cash market the profit/loss of the investor depend the market price of the underlying asset. The investor may incur huge profits or he may incur huge profits or he may incur huge loss. But in derivatives segment the investor the investor enjoys huge profits with limited downside. In cash market the investor has to pay the total money, but in derivatives the investor has to pay premiums or margins, which are some percentage of total money. Derivatives are mostly used for hedging purpose. In derivative segment the profit/loss of the option writer is purely depend on the fluctuations of the underlying asset.

- The comprehensive study of capital market instrument at Inter Connected stock exchange has been an enlightening experience stressing on the positive aspects on Dematerialization.
- And settlement of shares, derivative market and capital instruments has done in whole lot of good to the issuer, investor companies and country.

- The depository systems has reduced the lag in delivery and settlement of securities but also supported the cause of providing more liquidity to the security holder, the need for setting up of a depository paper less trading.
- Through online trading system and settlement became inevitable and unavoidable for the smooth and the efficient functioning of the capital market.
- Now there is a proposal that the settlement will be done within T+1days in near future which is in it an indication of a boon in the system of demat and capital market instruments.
- It has been fairly long since derivative trading started off on the Indian Indexes.

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