5. Basic Concepts of A Company and Capital Makets

A company is a, legal person. The Companies Act - 1956 provides for 3 types of companies - unlimited, compart Timited by a guarantee and a company limited by shares. In an unlimited company, there is no limit on the liability of its members i.e. if the company suffers losses and the assets of the compffrry are not enougFTto"payiJrf1ts debts, the private property of its members is used to pay the debts / claims of creditors. In India, there are no. unlimited companies instead, there are proprietary businesses. In a company limited by a guarantee, the liability is limited by the guarantee given by itTnThe event of payment of liabilities. In a company limited by shares, the liability of the members is limited tcTt'he extent of nominal value of shares held by each of the members. But if a member has already paid the full amount of his shares, he is not liable to pay any more amount., But if a member has paid only part of the amount, he can be forced to pay the remaining amount during the existence of the company as well as in the course of liquidation o.f the company. A company limited by shares is of two varieties

1. Private Limited Company - This is a company witFTa-minimum-paid up.share capital of one lakh (or higher capital as required by the Companies Act -1956). It is a closely held company with the minimum members being 2 and maximum members being 50. It has at least two directors. It restricts shareholding among its members. This company cannot offer it shares to the public and also cannqLaccept deposits from people except its members, directors and relatives. There is no obligation for a private limited company to hold meetings statutorily and there is no restriction on managerial remuneration i.e. the directors can receive any remuneration as decidec by the Company.
2. A Public Limited Company this is one which has minimum paid-up capital of 5 lakhs and is to have minimum number of 7 members. There is no limit on the maximum number of members and also on transfer of its shares. A public limited company has to hold board of directors meeting statutorily and the minimum quorum for the meeting 2 members. The remuneration of directors of this company cann0t exceed more than 11% of its net profits. A public limited company can be listed or unlisted i.e. listed company is listed with the stocffexchanges and unlisted company is not listed on the stock exchanges.

Funding of Companies: The total capital of a company is always called share capital. The share of investors and promoters is maintained in a single consolidated capital account called the s"are capital account. The share capital is associated with the following terms.

1. **Authorized Capital :** This is called registered or nominal capital and is the maximum capital that the company raise in its life of existencer
2. **Issued Capital :** This is a part of the Authorized Capital which is offered to the public in a public issue of shares
3. **Subscribed Capital :** It'is part of issued capital which has been bought by people in a public offer of shares. The shares'bought by the people are called outstanding shares,' while the shares offered by the company.but not bought by the people but by the company are called treasury shares.
4. **Called up Capital :** This is that part of subscribed capital which the company has actually called upon the shareholders to pay. Hence called up capital includes the amount paid by the shareholder from time to time on allotment of shares. The remaining rat of the subscribed capital not yet called upon is called as uncalled capital.
5. **Paid-up Capital :** The called up capital may not be fully paid as shareholders may pay only pa rt of amount required to be paid. Hence paid-up capital is part of called - up capital which is actually paid by shareholders. The remaining part of the called-up capital which is still to be paid by shareholders is called Calls in Arrears.
6. **Reserve Capital :** The share capital subscribed (bought) by. the people as mentioned earlier is called subscribed capital. However, if the company has not called upon the shareholders. The been allotted the shares to pay, this part of subscribed capital is called uncalled capital. The company in a special resolution can convert a part

of the uncalled capital into reserve capital (vihich may not be called up except during winding up of the company). Reserve Capital is kept reserved for the creditors in case of winding up of the company.

7. **Cbpital Reserves :** These are created from capital profits of the company. Capital profits are not earned profits but may accrue to the company because of sale of fixed assets, revaluation of fixed assets, premiums called by company on shares and debentures, profits on redemption of debentures and profit earned by the company prior to incorporation. Capital reserves cannot beused for distribution of dividends.

INVESTMENT UNITS OF A COMPANY : Shares are units of total capital of a company and veated as goods under the Sale of Goods Act 1930. Hence they are movable property.

1. **Equity Shares :** Also called ordinary shares, represent units of total-capital of a company. These carry voting rights. All shares which are not preferential .shares are called equity shares.
2. **Preferential Shares :** These do not carry voting rights and get dividend at a fixed rate. These are not traded in stock exchanges. These havea higher right to paymentof capital on winding up of the company. In addition, the preference shares may carry some more more rights sucn as right to participate in excess profits or the right to receive a premium when the company redeems the preferential shares. In general, preference shares are generally issued by companies to institutions instead of retail investors. The preference shares are not liquid assets because they are not traded in stock exchanges. After a fixed period, preference sell their shares back to the company, unlTke qrdinary~shares which can only be sold back to the company if it announces a buyback.
3. **Debentures :** It is a debt instrument given by a buyer to a company. Debentures by definition, represent corporate debt instruments. The debenture instrument acknowledges the loan, the nterest payable, repayment of principal amounfby the company and also gives charge on the assets of a company. Normally, debentures are secured and issued against the assets of a company.

   The chief types of debentures are

   (i) **Naked Debentures :** These are not issued against security of assets of company. Hence when the company is wound up, naked de.benture holders are.treated as unsecured creditors.

   (ii) **Secured Debentures :** These are issued against the security of assets of the company. Hence the holder of this debenture has right to recover outstanding loan and interest. The secured debentures are issued by the company under an agreement deed called the Mortgage Deed which is registered with the Registrar of Companies.

   (iii) **Redeemable Debentures** are taken back (redeemed) by the company after a specified date by repaying the debenture amount

   (iv) **Irredeemable Debentures :** The're is. no fixed date after which the company buys back the debenture and the holder of the, debenture cannot demand repayment from the company as long as it is a mpning company

   (v) **Convertible Debentures :** These can beTconverted into equity shares, either fully or partly after a specified time.

   (vi) **Non-convertible Debentures :** The holders of these debentures do not have the right to convert them into equity shares.

   (vii) **Bearer Debentures :** These are like bearer cheques and can be freely transferred and the interest is given on producing coupons attached to them.

   (viii) **Registered Debentures :** These can be transferred only bytransfer deed. The interest is paid only to those whose name appears in the register. Debentures unlike equity shares, do not have voting rights and are in general, are secured, unlike equity shares.
4. **Bonds :** These are debt instruments which can be issued by companies, financial institutions, municipal bodies and governments. Normally, they'are not issued against the security of assets of the body issuing it. In Indian Securities .Market, the term bond is. used for debt instruments issued by the central and state governments and public sector organizations while debenture is used for instruments issued by private corporate sector.

Differential Voting Rights Shares: Differential-Voting Rights (DVR) shares were introduced by an amendment to the Companies Act - 1956. A DVR is like an ordinary equity share but has fewer voting rights for the shareholder. The objective of DVR is to prevent hostile takeover~and dilution of voting rights. It also helps strategic investors who' do not want to control but are looking at reasonably big investments in a company Companies also issue DVR shares to fund new large projects because even a big issue does not create the possibility of a takeover.

Bonus Shares : When profit making companies desire to convert their profit into share capital, they may issue bonus shares. Bonus can be of two types -

1. Making partly paid shares into fully paid by declaring bonus without requiring shareholders to pay for the same
2. Issue of fully paid equity shares as bonus,shares to existing shareholders.

Rights Issue: A company can issue additional shares by passing on ordinary resolution at its General Meeting; However such additional shares must be first offered to existing equity shareholders in proportion to the shares already held by them. Such additional shares are called Rights Shares. These are part of Authorized Capital. Rights sharescan be issued two years after formation of a company or one year after first allotment of shares.

Limited Liability Partnership (According to LLP Act-2008) : An LLP is a corporate body and is a leqail entity separate from its partners. The corporate body has the power to acquire, own and dispose moveable / immoveable property. The body will have perpetual Succession eveji if the partners change. The partners of an LLP can be an individual or a body corporate, the LLP should have at least 2 partners and there is no Ijmjt on the maximum number of partners. The LLP would be liable to the full extent of its assets. The liability of partners would be limited to agree contributions to the LLP. No partner would" be liable for independent / unauthorized actions of other partners. Of the minimum two partners of an LLP, one should be necessarily be a resident Indian. The advantages of an LLP are, it is a flexible form of a business company suitable for professionals, small enterprises and for investment, firms like venture capital funds. The limited liability of the partners makes it an attractive from of a corporate structure. The LLP in India as per the finance act 2009 enjoys tax advantages like a lower rate of corporate tax," exemption from MAT and dividend stribution tax. The partners are not personally liable but liability arises out of acts of omission or . ong doing. A partner for more than 6 months is personally liable for the liabilities of the company. One of the two partners has to be a resident Indian. The share of the partners is tax free. Under the LLP Act - 2008, foreign companies and individuals can set up LLP.

Concepts in Capital Markets : A stock exchange is an institution for the purpose of trading - shares and other financial instruments like derivatives. The first modern stock exchange was the Amsterdam Stock Exchange set up in 1602 when the Dutch East India Company sold its shares first. A stock broker is an intermediary who buys / sells capital market instruments on behalf of nvestors for a fee and also arranges the transfer of stock from a seller to a buyer. In India, stock exchanges are defined by the Securities Contract (Regulation) Act-1955. According to this Act, any oody of individuals, incorporated or not, constituted for the purpose of assisting and controlling the trading in shares and securities, is called a stock exchange. The stock exchange may be a regional stock exchange whose area of operation is specified at the time of its recognition, or a national stock exchange (like NSE) which are permitted to have nationwide trading.,A'stock market is owned : . the brokers. The broker members are owners and also traders on the exchange and also manage the exchange. In a mutual stock exchange the three functions of ovi/nership, management and trading are concentrated in a single group. In a demutualised stock exchange, the three functions are separated. Stock exchanges play an important role in a modern industrial economy because

1. they provide mechanisms for companies to mobilize money from the people
2. provide an opportunity for people to save and invest their savings
3. they provide for efficient functioning for the corporate orm of organization
4. they compel the listed companies to work with discipline and for profitability
5. they are major instruments to attract foreign investment. The following are some terms in capital markets:
   a) **Market Capitalization of a Company:** The current price per share of that company

multiplied by total number of shares of that company.

b) P/E Ratio : Price earnings ratio or P/E ratio is the latest closing price of a share of a company divided by the earnings per share. A high P/E ratio reflects high expectation of a company's performance.

c) Earnings per share (EPS) : This is the portion of .a company's profit assigned to each of the outstanding shares of the common share capital. The net earnings of the company divided by the number of outstanding shares of the common stock gives the EPS.

d) Market Depth: The ability of the capita mpact on market price of shares is called caprtaTmarket is capable of handling large' adverse impact on market price of shares. market to handle trade volumes in terms of its

e) Market Breadth : The proportion of overall market (i.e., the companies), participating n the lower and higher performances of the market. The greater the market the more the participating companies.

f) Dividend Yield : The dividend got by a share of a given company versus the share price. gher the dividend yield, higher the profits of the company.

g) Bears : These are investors who expect the value of shares and securities in the capital market to fall and wait to invest till they fall.

h) Bulls: These are investors who are optimistic of the increase in the-overall value of shares :n the capital markets and hence continue to invest.

i) Bear Market : A prolonged period within which the market prices of shares / securities in the capital market fall. This indicates poor economic performances, low investor sentiment and possibly a recessionary phase.

j) Buii Market : A sustained period of rising prices of shares / securities in capital markets, representing good economic performances, investor optimism of vibrant gains from capital markets.

k) Blue Chip Company : A company that has a long track record of good performance, regular payment of dividends and whose shares and other securities are liquid!.e., always in demand. The shares of such companies are called Blue Chip.

I) Insider Trading : An insider is an officer, director-or holder of a given percent of shares of a company who has confidential price influencing informaTion and purchases or sells shares to make short term profits.

Qualified Institutional Placements: It is placing of share capita by a company at a fixed price with a buyer and henpe is a method of raising money by companies. According to SEBI guidelines, only companies listed on stock exchanges with nationwide quoting of their shares in terminals of BSE and NSE can resort to QI.P's. The buyers of shares through QIP's can be venture funds, mutual funds, FII's provident funds and pension funds. QIP's are issued at price which is the average price of theshare^riceoyer the immediate preceding two weeks. Investors related to promoters of the issuing company cannot subscribe to a QIP. If the issuing company seeks to raise to capital up to 250 crore or less, then there should be to at least 2 bidders and no single bidder can there should be at least 5 bidders. If a buying company or buyer acquires at least 5% of the share capital of the company issuing a QIP, the buyer has to disclose this to the issuing company under the guidelines of the takeover code. The buyer can convert the share capital acquired through a QIP to equity share in a period of 60 months. No company can issue in a single year more than 5 times its net worth. The QIP's have come popular in India due to the depressed capital markets and also due to the inability of banks to lend liberally to the cooperates in the prevailing economic uncertainty in addition, the QIP's offer a long period of 60 months for conversion is not equity shares and hence assure less volatility in valuation of the issuing or follow on public offers. Unlike a GDR, the company need not convert accounts to International Financial Reporting standards. QIP's are cheap compared to listing fee of GDR's.

Initial Public Offering (IPO) : When an ujiNsted^cornpanylists and makes a fresh issue of its securities or anjpffer of its existing securities or both for the first time to the public, it is called an IPO. When a company comes out with an IPO, it decides the issue price in constitution with the merchant banker ejpr|ce may be fixed by the company and a lead merchant bank, which is called the fixed price or the price may be fixed via book building. In book building, the merchant bank and the company fix the ceiling price and floor price, the investors are invited to make the bids between the floor and ceiling price or at these floor and ceiling prices'. The offer price is determined after the bid closing date.

Follow on Public Offer (FPO): It is also called a further issue. An already listed company either makes a fresh issue to the public or an offer of sale to the public through an offer document.

Draft Offer Document: After a company seeking to float a public issue discloses information in accordance with SEBI guidelines in a prospectus, it also comes out with a Draft Offer Document. This contains all relevant information to investors about the company and should be filed with SEBI at least 30 days prior to the reqistratiorupf the Red Herring Prospectus. SEBI may specify changes in this Draft offer Document. The draft offer document is put on'SEBI website for public comments for a period of 21 days from the date of filling of the document

Red Herring Prospectus : A company making a public issue has to file a Draft Red Herring Prospectus with SEBI, through an eligible merchant banker prior to filling the prospectus with the Registrar of Companies. The prospectus gives information to potential investors before the selling price has been set. The prospectus is so called because of a statement printed on it printedJn red, declaring that the issue had not yet been approved by SEBI. The Red Herring prospectus is revised be forest he final version is issued.

Stock Market Index (like the BSE or NSE) : An index is calculated with reference to a base period and a base index value. The initial market value of a base year is the base index ajue. For e.g., if the total market capitalization of all shares of a stock exchange is 1000 crore and if the current market capitalization is 1100 crore, then the index is up 110 points (1100/ 1000 multiplied by 100, where 100 is the base index value). Some of the famous stock market indices are

1. **New York Stock Exchange (NYSE) Index :** This is made up of the 32 most traded stocks. The NYSE is made up of Dow Jo'nes Industrial Index (DJIA), the Dow Jones Transport Average (DJTA) and the Dow Jones Utility Average (DJUA).
2. **NASDAQ :** (National Association of Securities Dealers Automated Quotation System). An index of US capital markets, which is an electronic exchange that provTcTes' price quotes online in an electronic form. It is the first digitized stock market m the_world and many of the stocks traded via NASDIAQ are technology company stocks.
3. **Standard and Poor :** 500 Index is made up of 500 listed companies of USA and is much more representative of the US corporate sector.
4. **The FTSE :** 100 is made up of the 100 most highly capitalized companies listed on the London Stock Exchange. The Index is also called Footsie and is maintained by the FTSA Group, an independent company and a joint venture of the Financial Times and the London Stock Exchange. The others are CAC-40 of France, DAX of Germany,'H'ang Seng of Hong Kong, Kospj of South Korea, the Straits Times Index of Singapore, the Bovespa of Brazil, the Nikkei - 225 of Japan, the RTS Index - 50 of Russia, the SSE (Shenzen) Composite Index of China, the Shanghai Stock Exchange (SSE) Composite - China, the NSE - 50 and BSE - 30 of India

The Bombay Stock Exchange : It is the oldest stock exchangeof Asia set up in 1875. The BSE accounts for the 5th largest stocks traded in world stock exchanges. It regained the number one rank in the number of companies listed in October 2012. The BSE's sensex-30 was introduced in January, 1986 and is made up of 30 most capitalized stocks of 30 companies of India. For a company to be listed within sensex-30, its shares should be regularly traded, and the company should be in the top 75 in terms of market capitalization. BSE includes automatic online trading system called BOLT that offers online trading in equity, debt and derivativeTi^trumeritsTln 2005, BSE became a corporate body. Greenhex is made up of 20 companies listed on BSE-100 which meet energy efficiency norms and Was introduced in February 2012. Carbonex is a new index of BSE-100 which monitors the 100 companies covered by BSE 100 in terms of their commitment to GHG emissions recjctions and was introduced in 2012,

National Stock Exchange (NSE): It was recommended by the Pherwani Committee of 1931 and the union,government authorized its establishment by IDBI in 1992. iTwas incorporated eading financial institutions in 1992, recognized as a stock exchange in. 1993 and commenced cperations in 1994. It is the third largest stock exchange by trade in the world and is located in Mumbai.

Interconnected Stock Exchange of India (ISE): it is promoted by the regional stock cranges as a national level stock exchange

Indonext: It is an index promoted by BSE, Federation of Stock Exchanges and 18 regional stock exchanges. It is to bring attention and liquidity to stocks that are listed on regional stock exchanges.

Tie Over The Counter Exchange of India (OTCEI): It is an incorporated company under the Companies Act-1956 as a public limited company. It allows listing of small and medium companies and and has been promoted by the Unit Trust of India, IDBI, Bank of India, IIFCL and is a recognized stock exchange.

Derivatives: These are contracts in the nature of financial instruments whose value is based op an underlying asset like equity shares, index, forex, gold or any other commodity. The derivatives can be Forwards, Futures, Options or Warrants.

1. **Futures Market :** A futures contract is between two parties to exchange a specified asset (of a given quantity / quality) for a price agreed today which is called the strike price or futures price. These contracts are traded on a futures exchange. The party agreeing to buy is said to be long and the party agreeing to sell is said to be short. The futures exchanges requires both the parties to put up an initial amount of cash called the margin. Since the futures price changes daily, the difference between the agreed price in the contract and the daily futures price is also settled daily. The futures exchanges withdrew money from one party's margin money and puts it in the others. On the delivery date, the amount exchanged is not the agreed price agreed in the contract but the price on the delivery date. A Forward Contract is like a futures contract but is not traded via exchanges.
2. **Options Contract :** An options contract is a variety of futures contract which gives the right but not the obligatiomto buy or sell the underlying asset on a specified date. The buyer of an option pays the premium and buys the right to exercise his option, the seller of an option is the one who receives the options premium and is therefore obliged to sell or buy the asset if the buyer exercises it. Options premium is the amount of money paid acquiring the right to buy or sell. It is a price paid by the option buyer to the' option seller for acquiring the right to buy or sell. These have to be paid where entering into the contract. Investors can take the role of options seller or buyer. Options are of two types A) Calls - This gives the buyer the right but not the obligation to buy the underlying asset at the given price before or on the specified date B) Puts : This gives the buyer the right but not the obligation to sell the underlying asset at a given price on or before the specified date. The options traded generally have lives up to one year and are settled on a monthly basis.
3. **Warrants :** These are longer dated options.

Example of Options Trading : The following gives an example of options contract. A person X believes that the share price of a company A is likely to fall from its present price of 700 Rs. per share. This person X can now buy a put option of acquiring the right to sell the share at 690 rupees. An options contract has a minimum number of shares as the underlying asset. For example, if the person X buys a put option of 100 shares and if as expected if the share price of company A falls to 675 rupees, then he makes a profit of 15 rupees per share because he has already acquired the right to sell it at 690 though the current price is 675 rupees. An option buyer acquires a right while the option seller takes on an obligation. Itjsthebuyer's privilege to exercise the right and the seller has to honor it.

A call option can also be stild. If one sells a call option, he acquires an obligation to deliver the underlying asset. If one sells a put option, he acquires an obligation to buy the underlying asset. Option premium is the money paid as consideration by the option buyer to the option seller (also called The optior writerpThis,premium is kept by the seller regardless of whether the right acquired in the options contract is'exercised or not by the buyer of the option. The options contracts are bought and sold through the stock exchange where the buyers and sellers do not deal with each other personaliy. The sellers (or writers) of put and call options are the ones who are taking the risk and hence pay some amount to the stock exchange called margin money. But the buyers of cail and put options only pay the options premium.

Role of Futures Market in an Economy : The futures market helps in price discovery of traded entitles. In addition, it also helps in hedging price risk. The hedger has an interest in the underlying asset and is trying to protect himself from risk of price changes by entering into a futures contract. However, the futures market also has participation of speculators who only seek to make a profit but have no interest in selling or buying the under lying asset.

Commodity Futures in India : The first organized futures market was established in 1875 as Bombay Cotton Trade in cotton. The futures market in commodities grew rapidly between the First and the Second World Wars. However in mid-1960's, commodities futures trading was banned in most commodities in India, except a few like pepper, turmeric etc. Today, once again, India has a growing commodity futures market in many commodities. The national level commodity exchanges are NCDEX (National Commodity and Derivatives Exchange) MCX (the Multi Commodity Exchange), The National Multi-Commodity Exchange, the Indian Commodity Exchangee ltd. (ICX) and Ace .atives and Commodity Exchange.

The Forward Markets Commission (PMC) : This was set up in 1953 under Forward Ccrrracts (Regulation) Act - 1952. The FMC is the chief regulator of forwards and futures markets in India. The FMC is headquartered in Mumbai and functions under the Ministry of Consumer Affairs. I: consists of 2 to 4 members, nominated by the union government. The FMC allows commodity :rac ng in 21 exchanges including 5 national exchanges. The FMC's functions are

1. To advise the central government on matters of granting recognition / withdrawing -recognition to / from any association in any matter arising out of the administration of the Forward Contracts Act - 1952.
2. To keep vigil over forward markets and take necessary action whenever required as a regulator
3. To collect / publish information regarding trading conditions of goods and also periodical reports on orking of forward markets in India 4) To inspect accounts of recognized association whenever necessary.

The National Board of Trade: This was set up in 1999 and is a regional commodity exchange. I: 5 one of the fastest growing commodity exchanges and functions under the FMC.

Currency Futures in India: This was allowed in India in 2008. A currency future is a future contract to exchange one currency with another at a specified date at a price fixed no. The trade unit of each contract is a certain amount of the other currency. In India^ currency futures are permitted only in rupee and US dollar. The size of the contract is at least 10 0 0. d o 11 a rs and is" op en only to "persons resident in India. The Multi Commodity Exchange - SX (McX - SX) is the premier exchange for currency futures in India.

The Securities and Exchange Board of India: It was set up in 1988 and was given a statutory status in 1992 following SEBI' Act -1992. The powers of SEBI were enhanced In 2002 which raised the strength of the SEBI Boardjrom to 6 to 9 and to give enhanced powers of search and seizure. The SEBI Board of 9 includes 2 government nominees and one nominee of RBI. The Board has power to impose penalties, pass cease and desist orders, suspend registration of a broker and also file criminal prosecution in a court of, law. The functions of SEBI are

1. protect nterests of investors in securities
2. regulate the working of stock brokers, merchant bankers and give approval for mutual funds and also register FII. SEBI also enforces corporate disclosures, registers / regulates venture capital funds, enforces code of conduct for all credit rating agencies in India.

National Securities Depository Ltd: This has been set up under the Depositories Act - 1996. The NSDL, holds securities of depository accounts and also offers facilities like dematerialization Converting physical shares into electronic shares) rematerialization etc. It has been promoted by IDBI, UTI and NSE.

The Depositories Act - 1996 : It provides for establishment of depositories in securities with the aim of free transferability of securities with speed and accuracy. It provides for

1. making securities of all public limited companies freely transferable (subject to some exceptions).
2. Dematerializing securities in depository mode
3. Maintenance of ownership records in a book entry form.

4. Transfer of ownership of securities electronically. A depository is like a bank where securities an electronic form are maintained. The depositors hold the securities of account holders in a cemat account. A depository participant is an agent to provide depository services. The depository participant is appointed by the depository and as per SEBI regulations, banks, financial institutions and SEBI registered trading members can become depository participants.

Securities Contracts (Regulation) Act-1956: This act provides for direct/indirect control of ail aspects of securities trading and running of stock exchanges. It aims to prevent undesirable r-ansactions in securities. It gives the central government regulatory jurisdiction of

a) stock exchanges through a process of recognition and continued supervision

b) Contracts in securities and

c) listing of securities in stock exchanges.

A stock exchange complies with conditions prescribed by the central government through the stock exchanges determine their own listing regulations.

The Takeover Code: It is a set of rules of SEBI which determine whether or not acquisition of shares of a company amounts to a takeover attempt. The aim of the takeover code is to ensure that the acquirer gives an opportunity to invesjors in a company to exit if they feel that a change in the management control,of a company is not in the best interests of the company. The takeover code is part of SEBI rules, first formulated in 1994. An acquirer is any person who directly or indirectly agrees to acquire by himself or through Persons Acting in Concert (PAC) with him, the shares or voting rights or control over a target company. Persons Acting in Concert (PAC) refers to persons who with a common purpose of acquisition of shares or voting rights or control over a target company. The PAC can be a company, its holding company, subsidiary company under the same management group, or immediate relatives of promoters, members of the promoter group. Control includes the. right to appoint majority of directors or to control the management or policy decisions. Under the new Takeover- Regulations 2011, if acquirer acquires a shareholding of 25% of a listed firm, he has to make a public offer (the earlier threshold for a public offer was 15%). The public offer should be acquisition of an additional 26% of shareholding (earlier it was 20%).

Creeping Acquisition norms have also been changed. For e.g. when an acquirer holding 25% or more shares but less than 75% of the shares will have to mandatorily make a public offer if he acquires more than 5% of voting rights. According to the new guidelines the offer price of the acquirer to buy additional shares will be the higher of the following

1. highest negotiated price per share of the target company for any acquisition under the agreement attracting the public announcement of an open offer

2. the volume weighted average price paid or payable for acquisitions whether by the acquirer or any Person Acting in Concert with him, during 52 immediate preceding weeks before the'date of public announcement

3. the highest price paid or payable for any acquisition., whether by the acquirer or by any Person Acting in Concert with him, during 26 immediate preceding weeks before the date of public announcement. The Takeover Code also allows existing acquirers holding more than 25 stake in the company, to make a voluntary offer of acqujring an additional minimum 10% of the total shares of the target co'mpany but, the post-offer shareholding of this acquirer should not exceed 75% of total shareholding and also only if he has not acquired shares of the target company in the previous 52 weeks without attracting an open offer.

Buyback of Shares: This is allowed under the Companies Act-1956. Under the Act, a company can buy back its own shares, other specified securities from its free reserves, from the money of its securities premium account' or from monies raised through a previous buyback. The buy back should not be for more than 25% of the paid up capital and free reserves. "A special resolution of the company is required to authorize buyback and the company should discJose[s]'the purpose of buyback. Companies are allowed two buybacks each year. After the '.buyback, the company should have a 2:1. debt equity ratio. The company which has come' out" with a buyback cannot reissue shares for another 24 months. A company can buyback its share from the existing shareholders through a tender offer, through reverse book building or through a stock exchange and from odd lot holders. A company can buyback its \shares without shareholder resolution to the extent of 10% of its paid up capital and reserves. However, if a company tends to buyba shares to the extent of 25% of paid up capital and reserves, it has to be approved by a shareholder resolution. In the tender offer method, the company sends a tender offer form to the shareholder. According to SEBI guidelines, at least 5% of the shares the company buys back shall be bought back from small shareholders whose shareholding has a maximum market value of 2 lakh rupees.

Mutual Funds: A mutual fund operates as a Financial intermediary. It sells units to people and invests these sums in market securities including government securities. It provides an opportunity to an ordinary investor to invest in good securities along with expert selection and professional monitoring of investment. The other benefits to investors are

1. red uced risk by diversification of portfolio (or instruments of investment).
2. provide expert investment advice which ordinary investors lack
3. low commissions of mutual funds
4. encashing units whenever required if it is an opene ended scheme.

An open ended mutual, fund issues its shares (units of investment) at all times and the investors can withdraw from it by encashing the units any time. The price of the unit is based on the Next Asset Value (the market worth of a unit calculated on the basis of various assets in which the fund has invested minus the expense). A closed ended., mutual fund issues its units as an IPO (which is usually called a New Fund offering) These are traded on exchanges and price of units of the fund are determines not by NAV but by investor demand.. The shares are not redeemable until the fund is liquidated. The'mutuaT fund has a 3 fold structure - a sponsor, a trust and an asset management company. An AMC is hired by the sponsor to invest in accordance with the objectives of the fund. The sponsor requires the approval of the SEBI. The fund is managed by a Board of Trustees in whose favour a trust deed is executed by the sponsor. The'AMC actually manages the funds.

India's Mutual Fund industry started with UTI's Act-1964. US-64 under the utl Act-1964. US-64 was the a'gest mutual fund with crores of investors. In 1985, the UTI Act was amended to allow UTI to invest in assets such as term loans and real estate in addition to capital market securities. In 2003 UTI was broken down into 4 new companies

1. UTI Infrastructure Service to manage properties of UTI across the country
2. UTI Pension and Portfolio Management Services which is its mutual fund
3. UTI Distribution Company - which distributes-financial services/products of UTI
4. UTI Asset Reconstruction Company whose function is for recovery of sticky assets.

Index Fund: It is a mutual fund which invests in all the securities of an index (like the securities of sensex-30). Hence it does not produce better results than the index it invests in, The main benefit is greater diversification at lower costs and is also much less risky than a normal mutual uund. Index funds have low expense ratios compared to mutual funds and hence provide superior eturns in the long term.

Venture Capital Funds: These are investment companies which provide equity support to P'ojects being launched by first generation entrepreneurs who are setting up enterprises with commercially untested but sophisticated technology, Venture funds invest in a company before the company goes for a~public issue of share. The period of investment is medium to long term and -eturns are in the form of capital appreciation of the company funded.

Sweat Equity : These are equity shares issued at a discount to market price or for a consideration ether than cash to a person for providing know how or an intellectual property right. These are usually used as instruments of entrepreneurship building. Under Companies Act - 1956, only when 75% of sharesholders in an Annual General Body Meet support a special resolution, the company can issue sweat equity.

Corporate Governance : Corporate Governance refers to a set of norms to be following by managemnts of corportates to secure objectives such as

1. Fair treatement of shareholders
2. Prevent insider abuse so that corporate resources are not squandered

3. Safeguared the interests of shareholders, particulary minority sharesholders and of the general society at large.

The SEBI under clause 49 provides for corporate governance norms. For all companies which are listed, if the chairman is not an excecutive director, one third of the board of directors of the company should be independent. should be independent. The Sarbanes Oxley Act of US isa the model for the corporate governance clause of SEBI.

Employees Stock Options (ESOP) " This is given by companies to their employees as an incentife. The ESOP confers on the holders the right to buy the shares of that company, but not an employee can exercise his right to buy. Normally the specified period is between 1 to 9 years. If the holder of the ESOP resigns, the ESOP rights are lost if they are due after the date of resignation. ESOPS are given to retain talent by a company.

Anchor Investor: Under the SEBI guidelines, anchor investors are individuals who have bid for at least 10 crore worth of shares in a public issue. Such anchor investor can be allotted around 30% of the portion reserved for qualified institutional investors. The anchor investor cannot be a promoter under the SEBI guidelines.

Bimal Jalan Recommendations for Stock Exchange Demutualization: The major recommendation are

1. stock exchanges should be for reasonable profit
2. Demutualised stock exchanges shouldn't list their shares on themselves
3. Equity shareholding of brokers to be maximum 5%
4. Public financial institutions and banking companies with at least 1000 crore net worth to invest up to 24% in stock exchanges
5. The solar of top management of a demutualised stock exchange to be fixed.

Performance of NSE and BSE: The NSE and BSE accounted for 99.8% of cash turnover of all recognized stock exchanges in 2011-12. The turnover in the cash segment of all stock exchanges fell by 25% in 2011-12. For NSE and BSE, the turnover in the cash segment fell by 21.4% and 39.6% respectively. The cash turnover of NSE in 2011-12 was 28.10 lakh crore and of BSE was 6.67 lakh crore. The market capitalization of NSE and BSE fell by 9% and 9.1% in 2011-12 respectively compared to 2010-11.