Subject: Concepts in valuation

Topic: Capital Market (Unit IV)

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Capital Market

Introduction

Capital market occupies a significance place in the financial system of a country. Capital market is a backbone of a country's industrial and economic progress. The huge and ambitious projects of socio- economic importance are supported by capital markets of a country. A well functioning capital market is sign of a country's well being and overall growth.

Objective of capital market

1. To make finance available at reasonable rates to the needy industries.
2. To mobilize the national savings for economic development.
3. To mobilize foreign investment in India to achieve the required economic growth.

Functions of Capital Market

1. Resource Mobilization
2. Development of industries
3. Long- term resources
4. Continuity
5. Variety of services
6. Foreign capital
7. Optimum utilization of resources

Constituents of Capital Market

1. Primary Market

2. Secondary Market

Primary Market

This denotes the new issue market where the shares are issued for the very first time. Under this, the existing companies and the new companies can bring the new issues. Normally this market is popular among investors under the name Initial Public Offer (IPO) or New Issue Market. Primary market serves the dual purpose of investing the funds of the investors as well as meeting the financial requirements of the companies.

Features of Primary Market

1. It is the market for long term equity capital.
2. It comes before secondary market.
3. Securities are issued by company directly to the investors.
4. Borrowers in the new issue market may be raising capital for converting the private capital into public capital. This is called as "going public".
5. The primary market does not include other sources of long term external finance.
6. This market plays an important role in mobilizing the investor's savings and channelizing into productive ventures.

Secondary Market

This market is often referred to be known as Stock Market or Stock Exchange. This market is also called as 'After Market. It refers to the financial market to buy and sell financial instruments and securities which have been previously issued. These financial instruments include stock, bonds, futures and options. Secondary market acts as a nerve centre of the capital market.

Role of Secondary Market

1. Ensure liquidity of capital
2. Continuous market for securities
3. Evaluation of securities
4. Mobilizing surplus savings
5. Helpful in raising new capital

6. Safety in dealings
7. Listing of securities
8. Platform for public debt

Difference between Primary Market and Secondary Market

Basis for comparison	Primary Market	Secondary Market
Meaning	The market place for new shares is called Primary market.	The place where formerly issued securities are traded is known as Secondary market.
Types of purchasing	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion.	It does not provide funding to companies.
Frequency of trading	Only Once	Multiple times
Buying and selling between	Company and investors	Investors only
Who will gain on sale	company	Investors
Intermediary	underwriters	Brokers
Price	Fixed price	Fluctuates
Organizational difference	Not rooted to any specific spot	It has physical existence.

Role of Broker and sub Broker in a secondary market

Broker- He is a member of a recognized stock exchange. He is a person who is registered with SEBI to act as such. He does the screen based trading of different stock exchanges with proper authority to do trade so.

Sub Broker- He is person who is also registered with SEBI and he is affiliated to a member of a recognized stock exchange.

Constitution of SEBI

Securities Exchange Board of India was set up by the Ministry of Finance on 12th April 1988 to regulate the functions of securities market. It has started functioning as an autonomous body since 12th June 1992. Its head office is located at Mumbai and has four regional offices in New Delhi, Kolkata, Chennai, and Ahmadabad.

Purpose and Role of SEBI

1. SEBI was setup with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups and is considered to be responsive towards these groups only viz. - the investors, the companies, the brokers etc.

Objectives of SEBI

The main objective of SEBI is to protect the interest of investors and promote the development of stock exchange. The objectives of SEBI thus can be enumerated as-

1- To regulate the activities of stock exchange.
2- To protect the rights and interest of investors.
3- To regulate and develop a code of conduct.