GOVERNMENT POLYTECHNIC BHUBNESWAR-2023

DEPARTMENT OF MODERN OFFICE MANAGEMENT
LECTURER NOTES

SEMESTER-5th, PAPER- MARKETING MGT
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Unit4

WhatisSecondaryMarket?

Also knownasaftermarket, isthe followonofpublicoffering inthe market.It istheplacewhere stocks, bonds, options and futures, issued previously, are bought and sold. Simply put, it is a marketplace where securities issued earlier, are sold and purchased.

ProductsinSecondarymarket:

- Equity:

Equityistheownership in acompanywhereallthesharehQldershaveequalrights irrespectiveof the number of shares held by them. This includes:

1. Equityshares
2. RightissueorRight share
3. Bonusshares

- Preferenceshares:

Preferred shares also referred to as Preferred stocks. It is a form of stock which is a mix of features, not possessed by common stock properties, it is generally considered as a Hybrid Instrument.

Owners of these securities are entitled to a fixed dividend to be paid regularly before any dividend can be paid on Equity shares. The preference shares are categorized into:

1. Cumulativepreferenceshares
2. Participatingpreferenceshares

- GovernmentSecurities(G-sec):

G-sec is a bond or debt obligation that is issued by Reserve Bank of India on behalf of Government of India, in substitute of the central government's market borrowing programme with a promise of repayment upon the security maturity date.

These are generally considered as low-risk investments because they are backed by the taxing power of a government.

Thesesecuritieshavefixed couponthat ispaid onspecificdatesonhalf-yearlybasis.

- Debentures:

Debenturesarereferredtoaslong-termsecurities bearinga fixedrateofinterest whichare issued by a company and secured against the assets. These are usually payable half yearly on specific dates with principal amount repayable on maturity date.

Debenturesaredividedintotwocategories:

1. Non-convertibledebentures
2. Convertibledebentures

- Bonds:

  Bond is a negotiable instrument generally issued by a company, municipality or government agencywhich provides evidence of indebtedness. An investor in bond lends moneyto the issuer and the issuer in exchange promises to repay the loan on a specified maturity date. The issuer pays interest periodically over the tenure of the loan. Its tenure can be upto 30 years. There are various types of bonds:

1. ZeroCouponBonds
2. ConvertibleBonds
3. Commercialpaper
4. TreasuryBills

Market ParticipantinSecondaryMarket:

- Buyers
- Sellers
- Intermediaries

FunctionsofSecondaryMarket

- Astockexchangeprovidesaplatform toinvestorstoenterintoatradingtransactionofbonds, shares, debenturesandsuchotherfinancialinstruments.
- Transactions can be entered into at any time, and the market allows for active trading so that there can be immediate purchase or selling with little variation in price among different transactions. Also, there iscontinuityintrading, which increasesthe liquidityofassetsthat are traded in this market.
- Investors find a proper platform, suchas anorganised exchange to liquidate the holdings. The securities that they hold can be sold in various stock exchanges.
- A secondary market acts as a medium of determining the pricing of assets in a transaction consistent with the demand and supply. The information about transactions price is within the public domain that enables investors to decide accordingly.

- It isindicative of a nation’s economy aswell,and alsoserves as alink between savings and investment. As in, savings are mobilised via investments by way of securities.

TypesofSecondaryMarket
Secondarymarketsare primarilyoftwotypes– Stockexchangesandover-the-countermarkets.

- **Stock exchange**

Stock exchanges are centralized platforms where securities trading take place, sans any contact betweenthebuyerandtheseller. NationalStockExchange(NSE)and BombayStockExchange(BSE) are examples of such platforms.

1. Transactionsinstockexchangesaresubjectedtostringentregulationsinsecuritiestrading.
2. Astockexchangeitselfactsasaguarantor,andthecounterpartyriskisalmostnon- existent.
3. A safety net is obtained via a higher transaction cost being levied on investments in theform of commission and exchange fees.

- **Over-the-counter(OTC) market**

Over-the-counter markets are decentralized, comprising participants engaging in trading among themselves. OTC markets retain higher counterpartyrisks in the absence ofregulatoryoversight, with the parties directly dealing with each other. Foreign exchange market (FOREX) is an example of an over-the-counter market.

In an OTC market, there exists tremendous competition in acquiring higher volume. Due to this factor, the securities’ price differs from one seller to another.

Apart from the stock exchange and OTC market, other **types ofsecondary market** include auction market and dealer market.
The former is essentially a platform for buyers and sellers to arrive at an understanding of therate at which the securities are to be traded. The information related to pricing is put out in the public domain, including the bidding price of the offer.

Dealer market is another type of secondary market in which various dealers indicate prices of specific securities for a transaction. Foreign exchange trade and bonds are traded primarily in a dealer market.

DifferencebetweenPrimaryandSecondaryMarket

PrimaryMarket	**SecondaryMarket**
Securities are initially issued in a primary market. After issuance, such securities are listed in stock exchanges for subsequent trading.	Tradingofalreadyissuedsecuritiestakes place in a secondary market.
Investorspurchasesharesdirectlyfromthe issuer in the primary market.	Investors enter into transactions among themselves to purchase or sell securities. Issuers are thus not involved in such trading.
The stock issue pricein a primary marketremains fixed.	Prices of the traded securities in a secondary market vary according to the demand and supply of the same.
Saleofsecuritiesinaprimarymarketgenerates fund for the issuer.	Transactions made in this market generate income for the investors.
Issue of security occurs only once and for the first time only.	Here,securitiesaretradedmultipletimes.
Primary markets lack geographical presence; it cannot be attributed to any organisational set-up as such.	A secondary market, on the contrary, has an organizational presence in the form of stock exchanges.

FunctionsofStockExchange

Someofthesignificantobjectivesorfunctionsofthe StockExchangearelistedbelow:

1. **Economic Barometer:**A stock exchange is also known as a pulse of the economy or economic mirror which reflects the economic conditions of a country.
2. **Pricing of Securities:** The stock market helps to assess the securities on the basis of demand and supply factors. The securities ofeffective and growth-oriented organisations are estimated higher as there is more demand for such securities.
3. **Safety of Transactions:** In the stock market only the indexed securities are traded.The stock exchange authorities include the corporations named in the trade list only after verifying the soundness of the organisation. The organisations which are listed also have to function within the stringent rules and regulations.
4. **Contributes to Economic Growth:** Instockexchangesecuritiesofvariousorganisations are traded. This method of disinvestment and reinvestment helps to invest in the most productive investment proposal and this leads to capital structure and economic growth.
5. **Spreading of Equity Cult:**Stock exchange urges people to invest in ownershipsecurities by managing new issues, better trading practices and by educating the people about investment.

6. **Providing Scope for Speculation:** To assure liquidity and demand of supply ofsecurities the stock exchange allows healthy consideration of securities.
7. **Liquidity:**The principalpurpose ofthe stockmarket isto present areadymarket for sale and purchase of securities. The presence of the stock exchange market gives certainty to investors that their investment can be transformed into cash whenever they want.
8. **Better Allocation of Capital:** The shares of profit-making organisations are valued at higher prices and are actively traded so such organisations can efficiently raise capital from the stock market.
9. **Promotes the Habits of Savings and Investment:** The stock market gives attractive chances for investment in different securities. These attractive opportunities inspire people to save more and invest in securities of the corporate sector rather than investingin unfruitful assets such as gold, silver, etc.,

FunctionalSpecializationsofMembersattheStockExchangeofIndia

1. Commissionbroker:

Almost all members act as commission brokers-The commission broker executes buying and selling orders onthe floor of the exchange. For that, he charges a commission not exceeding the official scale of brokerage.

2. Floorbroker:

The floor brokers are not officially attached to other members. The floor broker executes orders for any members and receives as his compensation a share of the brokerage charged by the commission broker to his constituent. Such brokers are not found on Indian stock exchanges.

3. Taravnmallaorjobber:

The taravniwalla may be a jobber or specialist who specialises in stocks located at the same trading post. He trades in and out of the market for a small difference in price and as such is an important factor in “making a market”, i.e. maintaining a continuous and liquid market in stockin which he specialises.

4. Dealersinnon-cleared securities:

The dealer in non-cleared securities specialises in buying and selling on his own account shares which are not in the active list. He is generally prepared to buy what is on offer and sell what is required but the price at which he deals varies with the activityof the particular stock.

5. Odd-lotdealer:

The odd-lot dealer specialises in buying and selling in amount less than the prescribed trading units or lots. He buys odd lots and makes them up into marketable trading units. He likewisesells odd-lots obtained by buying or by splitting up round lots. The odd-lot dealer does not rely on commission but earns his profit on the difference between the prices at which he buys and sells.

6. Budliwalla:

The budliwalla or financier lends money to the market by taking up delivery on the due date at the end ofthe clearing forthose who wishto carryovertheir purchases;or loans securities to the market whenit isshort bygivingdeliveryontheduedateattheendoftheclearing forthosewho wish to carry over their sales.

7. Arbitrageur:

The arbitrageur specialises in making purchases and sales in different markets at the same time and profits by the differences in prices between the two centres. Arbitrage depends on the number ofseeurTtiesdealt inthe commonon morethanone stock exchange and the existence of ready means of communication.

8. Securitydealer:

The security dealer specialises in buying and selling gilt- edged securities, that is, securities issued by the Central and State Governments and by statutory public bodies such as Municipal Corporation, Improvement Trusts and Electricity Boards. He acts mainly as jobber and is prepared to take risks inherent in the ready purchase and sale of securities to meet current requirements.

UNIT-5

Whatdoyoumeanbyfinancialservice?

FinancialServicesisatermusedtorefertothe servicesprovidedby thefinance market. Financial Services is also the term used to describe organizations that deal with the management of money. Examples are the Banks, investment banks, insurance companies, credit card companies and stock brokerages.

Themaintypesoffinancialservices foryoutoconsider:

- Banking:Bankingincludeshandingdepositsintocheckingandsavingsaccounts,aswellas lending money to customers.
- Advisory:Expertadvisoryserviceshelpbothpeopleand organizationswithavarietyoftasks.
- WealthManagement.
- Mutual Funds.
- Insurance.

Financialservices

Itmaybeincludetwotypes

1. Fundoramountbased financialservices
2. Feebasedadvisoryservices

1) Fundoramountbased financialservices
    a) Leasefinance
    b) Higherpurchasefinanceandconsumercredit
    c) Factoringand forfeiting
    d) Billdiscountinginsuranceservices
    e) Venture capitalfinance
2) Feebasedadvisoryservices
    a) Consultancy
    b) Advisoryservices
    c) Issuemanagementetc

MutualFunds

Mutual funds is pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market investments etc.

MeaningofMerchantBank

A merchant bank is a financial institution providing capital to companies in the form of share ownership instead of loans.Merchant bank also provides advisory on corporate matter to the firm which they invest. The historical term “Merchant Bank” refers to an investment bank.

Roleofmerchantbankerinthecapitalmarket

1. **Issuemanagement**

Issue management means managing of the capital though issue of different financial instruments. These kind of professional services are rendered by merchant bankers.

2. **Underwriting**
   A company issuing shares & debentures are exposed to the risk of issue not being fully subscribed. Here, the under writer promises to purchase the shares if in case some shares are left unsubscribed.Generally merchant bankers act as underwriter for new issues of companies.
3. **Corporatecancelling**
   Merchant bankersalsoprovidesservicesofcorporatefinancialmanagementlike
   i. Economicanalysisofproductrange
   ii. Costanalysis,pricingstrategiesetc,financialmanagement,longtermfinanceetc
   iii. Legalcouncelling
4. **Governmentconsent**
   Obtainingnecessaryapprovalslicensesandpermissionfromthe Govt.forIndustrial projects.
5. **Creditsyndication**
   Itinvolvesraisingoffinancewiththehelpofconsentofbankandfinancialinstitution.
6. **Portfoliomanagement**
   The merchant banker takeup the responsibilityof portfolio management oftheir client to optimize the return on investment.
   i. Adviseoninvestmentingovernmentsecurities
   ii. Undertakingpurchaseor salesofsecurities
   iii. Managementofindividualsinvestment portfolioofinvestors.
7. **Arrangingofshares finance**
   Merchant bank helps their client in foreign currency financing . it includes financing ofimports and exports, long term foreign currency loan etc.

Typesofmutualfunds

a) **Moneymarketmutualfund**
   Thesefundsareinvestedinshort termfixedincomesecuritiessuchasGovernment-bonds ,treasurybills,bankersacceptance,commercialpaper &certificateofdeposit.
b) **Fixedincomefund**
   Thefundgivesafixedrateofreturn. Example–GovernmentBank, Corporatebondsetc.
c) **Equityfund**
   In this fund the money is invested in stock. These finds aim to grow faster than money market or fixed income funds.
d) **Balancedfund**
   This fund invested in a mixture of equities and fixed income securities. They try to balance the aim of achieving higher return against the risk of losing money among the different types of investments.

e) **Indexfund**
Thesefundaimtotracktheperformanceofaspecificindex.Thevalueofthemutual fund will go p or down as index goes up or down.

f) **Specialtyfund**
Thistypeofmutualfundfocusesoninvestinginspecificindustryorsectorofthe economy. Example–TextileIndustry,PetroleumIndustryetc.

Credit rating

Credit rating means evaluating the creditor risk of a prospective debtor. It is the assessment ofthe creditworthiness ofa borrower. It is based onthe historyofborrowing and pyment as well. It also includes the availability of assets.

Ratingisdonetoknowtheabilityoftheborrowerto meet theobliation intimelymanner.

Objectivesofcreditrating

i. Providesuperiorinformationtotheinvestor.
ii. Lowcost informationrelating torisk returnand trade-offisprovided otheinvestor.
iii. Improvesahealthydisciplineamongthe borrowers.
iv. Facilitatesformulationofpublicguardianshiponinstitutionalinvestment.
v. Helpsmerchantbankers,regulatory authoritiesindischarging theirfunctions related to data issues.

Benefitsofcreditratingto investors

1. Helps in Investment Decision: Credit rating gives an idea to the investors about thecredibility of the issuer company, and the risk factor attached to a particular instrument. So the investors can decide whether to invest in such companies or not. Higher the rating, the more will be the willingness to invest in these instruments and vice-versa.

2. Benefits of Rating Reviews: The rating agency regularly reviews the rating given to a particular instrument. So, the present investors can decide whether to keep the instrument or to sell it. For e.g. ifthe instrument is downgraded, then the investor maydecide to sell it and if the rating is maintained or upgraded, he may decide to keep the instrument until the next rating or maturity.

3. Assurance of Safety: High credit rating gives assurance to the investors about the safety oftheinstrumentandminimum risk of bankruptcy. The companies which geta high ratingfor

their instruments willtryto maintain healthyfinancialdiscipline. This willprotectthemfrom bankruptcy. So the investors will be safe.

4. Easy Understandability of Investment Proposal: The rating agencies give rating symbols to the instrument, which can be easily understood by investors. This helps them to understand the investment proposalofanissuercompany. Fore.g.AAA(Triple A), givenbyCRISILfor debentures ensures highest safety, whereas debentures rated D are in default or expect to default on maturity.

5. ChoiceofInstruments:Credit ratingenablesaninvestortoselect aparticular instrument from many alternatives available. This choice depends upon the safety or risk of the instrument.

6. Saves Investor's time and effort: Credit ratings enable an investor to his save time and effort in analyzing the financial strength of an issuer company. This is because the investor can depend on the rating done by professional rating agency, in order to take an investment decision.

Benefitsofratingtoborrowercompany

i. Lowcostofborrowing.
ii. Wideraudiencefor borrowing.
iii. Ratingbecomesa marketing tool.
iv. Companiesbecomeselfdiscipline.
v. Motivationfor growth.
vi. Merchantbankersjobismadeeasy.
vii. Foreigncollaborationare madeeasy.

1. ImprovesCorporateImage:Credit rating helpstoimprovethecorporateimageofacompany. High credit rating creates confidence and trust in the minds of the investors about the company. Therefore, the company enjoys a good corporate image in the market.

2. LowersCostofBorrowing:Companiesthat have highcredit rating fortheirdebt instruments will get funds at lower costs from the market. High rating will enable the company to offer low interest rates on fixed deposits, debentures and other debt securities. The investors will accept low interest rates because they prefer low risk instruments. A company with high rating for its instruments can reduce the cost of public issue to raise funds, because it neednot spend heavily on advertising for attracting investors.

3. Wider Audience for Borrowing : A company with high rating for its instruments can get a wideraudienceforborrowing.Itcanapproachfinancialinstitutions,banks,investing

companies. This is because the credit ratings are easily understood not only by thefinancial institutions and banks, but also by the general public.

4. Good for Non-Popular Companies: Credit rating is beneficialto the non-popular companies, such as closely-held companies. If the credit rating is good, the public will invest in these companies, even if they do not know these companies.

5. Act as a Marketing Tool: Credit rating not only helps to develop a good image of the company among the investors, but also among the customers, dealers, suppliers, etc. High credit rating can act as a marketing tool to develop confidence in the minds of customers, dealer, suppliers, etc.

6. Helps in Growth and Expansion: Credit rating enables a company to grow and expand. Thisis because better credit rating will enable a company to get finance easily for growth and expansion.

Listofcrediratigagencies.

CRISIL- Credit Rating Information Services Of India Limited

IICRA-InvestmentInformation&CreditRatingAgencyOfIndia.

CARL- Credit Analysis &Research Limited

BWR- BrickWorkRatings

SMERA-Small&MediumEnterprisesRaingAgencyOfIndia