

CAPITAL MARKET INSTRUMENTS

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Equity Shares

- Foundation of financial structure
- Primary function
- Enjoy rewards and risk

Different Values of Equity shares

- ▶ **1.Par Value:** Stated in MOA
- **2.Issue Price:** – Equal to Par Value
 - Higher – Premium
 - Lower – Discount
- **3.Book Value** – Based on Reserves & Surplus
- **4.Market Value-** Bought & Sold in Security Market

Features

- ▶ 1. Risk Capital
- ▶ 2. Fluctuating Dividend
- ▶ 3. Fluctuating Market Value
- ▶ 4. Growth Prospects
- ▶ 5. Voting Rights

RIGHTS OF Equity Shareholder

- ▶ 1.Right to Income
- ▶ 2.Right to Control
- ▶ 3.Pre-Emptive Right
- ▶ 4.Right against Ultra Vires acts of the Company
- ▶ 5.Right to have Knowledge of Corporate Affairs
- ▶ 6.Right to Transfer Shares
- ▶ 7.Miscellaneous Rights

MERITS OF EQUITY SHARES

- ▶ I. TO THE COMPANY:
- ▶ **Permanent Capital**
- ▶ **No charge against assets**
- ▶ **No charge against income**
- ▶ **Base for further Borrowing**

II- To the Investor

- ▶ Get dividend regularly
- ▶ Get bonus shares
- ▶ Get a right on Pro-rata Basis
- ▶ Market Value of share will increase
- ▶ Owners of the Company
- ▶ Have Liquidity & Marketability
- ▶ Listed company shares - Pledged

LIMITATIONS

▶ I-TO THE COMPANY

- ▶ **Different rate of Dividend**
- ▶ **Lose the controlling power**
- ▶ **Over Capitalisation**
- ▶ **Become powerless –adl shr**
- ▶ **No continuous & conservative investor.**

II.To the Investors

- ▶ Value of Eq.Sh not Stable
- ▶ Earnings are uncertainty - More risk
- ▶ Location of Stock Exchanges -Different Places
- ▶ Over-subscription -Reduce the hope of
▶ allotment

Classification of EQ.SHARES

Classification

▶ BLUECHIP SHARES:

- ❖ Well established & Financially sound
- ❖ Impressive record of earnings & Dividend
- ❖ Price fluctuations – Moderate
- ▶ **EX:-** Reliance, L&T ,Asian Paints, Infosys

▶ GROWTH SHARES:

- ❖ Companies – Secures position in the market
- ❖ Enjoy an above average rate of growth & profits

▶ 3.INCOME SHARES:

- ▶ Fairly STABLE in the market.
- ▶ Stable Operations with limited growth opportunities.
- ▶ Very high - Current yield
- ▶ Very Low - Capital gain yield

- ▶ Ex:- Power supply & Tea Companies

▶ **DEFENSIVE SHARES:.**

▶ Stable Price

▶ Not affected by the Ups and Downs of Busi.cond

▶ Moderate – current yield & Capital gain

▶ **SPECULATIVE SHARES:-**

▶ Price fluctuation – fluctuate trading

Preference Shares:

- ▶ Particular portion of the share capital which has been endowed with certain **preference** and **limitations**.
- ▶ **Sec 85 of Indian Companies Act 1956**
 - ▶ Assured of Pref.Dividend
 - ▶ Paid up to pref.sh.hol -winding

Classifications:

▶ **CUMULATIVE :-**

- ▶ Arrears of dividends are to be carried forward and paid out of profits of subsequent year.

▶ **NON CUMULATIVE:-**

- ▶ Unpaid dividend – Lapses.
- ▶ Stated in Articles
- ▶ All pref.sh are to be cumulative

▶ REDEEMABLE:-

- ▶ Exchanged for money – end of time

▶ Condition:

- ▶ Shares –Fully Paid up
- ▶ Only out of profits., or out of fresh issue of shares
- ▶ Premium is payable on redemption
- ▶ Redemption out of profits__ equal amount transferred to Capital Redemption Reserve Account

▶ **IRRDEEMABLE PREF.SHARES:**

▶ Non-refundable -during the Life Time of the company.

▶ **Comp.act1988** –Abolished this type

▶ No comp. can issue this type After expiry of a period of 10 yrs. From the date of issue

▶ **CONVERTIBLE:-**



- ▶ Converted into **Equity Shares** within time.
▶ (after 5 yrs)

▶ **NON CONVERTIBLE:-**



- ▶ Not converted into **Equity Shares**.

▶ **PARTICIPATING:-**

- ▶ Participate in the **surplus profits** of the company.
- ▶ Enjoy two Dividends.
- ▶ 1. Fixed by the articles
- ▶ 2. Fluctuating – size of surplus profit.

▶ **NON PARTICIPATING:**

- ▶ Ordinary Pref.Shares.
- ▶ Only fixed rate of Dividend.

IMPORTANT FEATURES

- ▶ 1. Fixed Return.
- ▶ 2. Return of Capital
- ▶ 3. Fixed Dividend
- ▶ 4. Non-Participation in Prosperity (surplus).
- ▶ 5. Non-Participation in management (no voting rights)

LIMITATIONS:

- ▶ 1.Sacrifice –Voting Rights.
- ▶ 2.Not allowed to participate in Excess Profits.
- ▶ 3.Redeemed at the option of the company

NO-PAR STOCK

- ▶ The aggregate ownership is divided into shares.
- ▶ Reasons:
 - ▶ To remove restrictions upon the selling price.
 - ▶ To sell at any price. (par value shares can not be sold of lesser than par value)

Advantages:

- ❖ Truthful representation of ownership.
- ❖ No liability beyond their initial payment
- ❖ .
- ❖ Selling price can be adjusted.
- ❖ No.of shares can be increased easily.
- ❖ No manipulation of accounts.
- ❖ Capital reduction can be done painlessly.

Disadvantages:

- ❑ No Protection for shares.
- ❑ The mgt, receive the price in **TWO** parts.
(in the absence of standard value)
 1. **Nominal amount** – Credited to paid up capital account.
 2. **Remaining amount** – credited to Capital surplus account.
- ❑ Surplus – Result of sale of no - par stock,
not for excess dividend.
- ❑ Undue payment for Promoters, (flexibility of setting up the capital account)
- ❑ Dividend may divide the capital account.