

Valuable Information.

If you watch any news channel or listen to any of your colleagues talking you would have invariably heard the term "Shares". The term shares used here refers to "Equity Shares". "Equity Shares" are the most common types of shares and are the most widely traded stock market instruments.

"Equity" means ownership. Anyone who holds one share of XYZ company owns a portion of the company.

How are Equity Shares formed?

Any company that satisfies the conditions laid down by SEBI (Securities and Exchange Board of India) can issue equity shares. SEBI is the governing body for all market related instruments in India.

Let us say XYZ company wants to go public. (Going public is the word used in market terminology to refer to the event of a company issuing equity shares for the first time) It would file an application with SEBI. If it is filing a request to raise a capital of say Rs. 1 crore, it would be issuing 10 Lac equity shares of face value 10 each.

The terms Face value and Market value would be used through this article. Let us first understand what they are.

Face Value - The Face Value of the share refers to the intrinsic value of a share. This is the value at which the company issues its shares to the common public.

Market Value - Once a share is issued to the public, it would be bought and sold through recognized exchanges like the NSE or BSE. The price at which a particular share is being bought /sold is termed as Market Value.

Net capital Raised by the company = 1,00,00,000/-

No. of Shares issued through the public offering = 10,00,000 (Out of these 10 lac shares, the company would be holding at least 51% that is 5,10,000 shares with itself. The remaining 4,90,000 shares would be available for the public)

When XYZ files its application, based on the profit making capability, its revenue etc the company and SEBI would decide on the market value at which the share would be available for the public to buy. Say for e.g., the share with the face value of Rs. 10/- could be available at the price of Rs. 50/- for purchase through the public offering.

*Net Amount raised by the company through the public offering = 4,90,000 * 50 = Rs. 2,45,00,000/-*

Every individual who wants to buy the shares of XYZ limited would be filling in forms and paying the amount corresponding to the number of shares they want to buy. Say you want to buy 100 shares of XYZ you would be paying them Rs. 5000/- to buy those 100 shares.

Once the process of issuing shares is over the shares would be allotted to the people who had placed the purchase request. Based on the credibility of the company, the no. of people who place

requests to buy its shares would vary. Sometimes the issue could be oversubscribed and sometimes it could be under subscribed. If the issue of XYZ limited was oversubscribed, then you may not get the exact 100 shares that you wanted. You may get a certain number of shares based on the number of times the issue was oversubscribed. Say you get 60 shares, then the remaining Rs. 2000/- would be returned to you.

Whatever we have discussed about till now is termed as the "**PRIMARY MARKET**". The Market in which fresh share offerings given by companies are bought.

Once the public issue is over, the share would get listed in any of the two or both of the registered stock exchanges in India. The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Once the companies shares are listed in the NSE/ BSE it would be available for the public to buy/sell. Say at the end of the first trading day the share closes at a price of Rs. 53/- then the total market capitalization of XYZ limited is $= 10,00,000 \times 53 = 5,30,00,000/-$ The Market capitalization of the company would keep varying everyday based on its share price movement.

This Trading that happens everyday on the shares of companies that are listed in registered stock exchanges is termed as "**SECONDARY MARKET**"

What are the benefits of holding a company's share?

1. If you hold shares of a company, you are one of the owners of that company. Every year the company would send you its annual statement, its profit & loss accounts etc. Also if they have made a good profit, they would even declare a Dividend. A Dividend is something like Interest that you receive from a bank for holding a deposit with it. The only difference is that you may or may not get Dividends. Assuming you hold 100 shares of XYZ limited and they declare a dividend of 50% per equity share it means you would be getting Rs. 5/- per share that you hold in the company. The Dividend % that any company declares is on the Face value of its share. That is you would be getting Rs. 500/- as a dividend.
2. Whenever the company takes any major decisions like change of the CEO or Acquisition of another company etc, you would be communicated. There would be a share holders meeting and only if at least 51% of the company's share holders approve the corporate action would happen.
3. As you know, the shares of the company would be traded in the secondary market everyday. Say after 3 months the Market value of the share of XYZ limited has become Rs. 70 per share, you can sell the shares of XYZ and make Rs. 7000/- which is a profit of Rs. 2000/- in 3 months.

Note: The last point about profit is the main reason why people tend to trade in the Secondary Market. The price of a share can go either ways. It can both increase & decrease. People who buy the shares of a company whose Market price is increasing make profits and similarly people who hold shares of a company whose market price is decreasing make losses.

Hope you were able to get a basic idea of what an equity share is and how it is used in the Stock Markets.