April 2014 IJMT Volume 4, Issue 4 ISSN: 2249-1058

AN IMPACT OF EQUITY SHARES

Mrs.A.Kavitha,M.Com.,M.Phil.*

Dr.K.Murugadoss**

Abstract

A share is a document which is issued by a company , registered with the stock exchanges , by which the holders of the shares becomes one of the owners of the company. When one hold the equity of the company that you are a shareholder.An investment in equity shares is one of the welcoming trends in the investment sectors.The investment have been found in the primary market and secondary market.The share capital may be equity capital-All shares which have no preferential right regarding payment of dividend or repayment of capital are called equity shaes and capital. Overview of equity and it use not only portfolio but also some exemption from tax .

Key Words - A share document , issues , types and deduction of shares, a choice of company.

* Asst.Professor in Commerce, Imayam Arts & Science College for women, Kannanur.

** Research advisor, Department of Commerce, Periyar Govt.Arts &Science College, Cuddalore.

Introduction

The history of the Indian equity market goes back to the 18^{th} century when securities of the East India company were traded .Till the end of the 19^{th} century ,the trading of securities was unorganized and the main trading centers were Calcutta and Bombay.The stock brokers association in 1875 to organize their activities ,In 1927 ,the BSE recognized this association ,under the Bombay Securities Contract Control Act ,1925.

The Indian Equity Market was not well organized or developed before independence .After independence ,new issues were supervised .The timing ,floatation costs,pricing ,interest rates were strictly controlled by the Capital issue .

In the 1950s ,there was uncontrollable speculation and the market was known 'Satta Bazaar'.The Securities Contracts (Regulation) Act ,1956 was enacted by the Government of India .Financial institution and state financial corporation were developed through an established network.

In the 60s , the market was bearish due to massive wars and drought .Forward trading transaction and contracts for clearing or badla were banned by the government .With financial institution such as LIC,GIC, some revival in the markets could be seen.Then 1964, UTI, the first mutual fund of India was a stock exchanges has been defined by the securities contract (Regulation) Act 1956 as an organization ,and controlling of securities .

The stock markets in India does business with two types of fund namely private equity fund and venture capital fund.It also deals in transactions which are based on the two major indices Bombay Stock Exchanges and National stock Exchanges of India.

The market also includes the debt market which is controlled by wholesale dealers, primary dealers and banks .The equity indexes are allied to countries beyond the border as common calamites affect markets.The equity market is also affected through trade integration policy.The country has advanced both in foreign institutional investment (FII) and trade integration since 1995 . This is a very attractive field for making profit for medium and long term investors ,short -term swing and position traders and very intra day traders.

The Indian market has 24 stock exchanges .The larger companies are enlisted with BSE and NSE .The smaller and medium companies are listed with OTCEI . The functions of the Equity Market in India are supervised by SEBI formed.

In the 70s, the trading of badla resumed in a different form of 'hand delivery contract '.But the government of India passed the Dividend Restriction Ordinance on 6th July, 1974.According to the ordinance ,the dividend was fixed to 12% of Face Value .This resulted in a drop by 20% in the capitalization at BSE overnight.The stock market was closed for nearly a fortnight. Numerous multinational companies were pulled out of India as they had to dissolve their majority stocks in India ventures for the Indian public under FERA ,1973.

In the 80s saw a growth in the Indian Equity market.With liberalized policies of the government, it became lucrative for investors .The market saw an increase of stock exchanges,there was a surge in market capitalization rate and the paid up capital of the listed companies.

The 90s was the most crucial in the stock markets history. Indians became aware of liberalization and globalization. In may 1992 , the capital issues (control) Act ,1947 was abolished. SEBI which was Indian Capital Market's regulator was given the power and overlook new trading policies , entry of private sector mutual fund and private sector banks ,free prices, new stock exchanges ,foreign institutional investors ,and market boom and bust.

In 1990s there was a major capital market scam where bankers and brokers and brokers were involved. With this ,many investors left the market .Later there was a securities scam in 1991-1992 which revealed the inefficiencies and inadequacies of the Indian financial system and called for reforms in the Indian Equity market.

In the 21st Century ,there was the Ketan Parekh Scam. From 1st July 2001.'Badla' was discontinued and there was introduction of rolling settlement in all scrip's. In Feb.2000, permission was given for internet trading and from June 2000, futures trading started.

Stock market which is also known as the equity market is an entity where people trade in stock ,shares , bonds and securities . Sellers get money from the market which means they can expand their business and get more returns from their business and more returns from their business. Buyers who invest get income in the form of dividend income or interested depending in what they have invested. Investing in equity share is buying and holding the shares of a company on recognized stock exchanges to earn dividend and capital gains through appreciation of stock values.If you buy the equity share by way of purchase from stock exchange or from intial public offering (IPO) you become the equity share holder of the company a partial owner / member of the company .Being a partial owner ,you get voting right decide upon important decisions.

In case of winding up of company need to pay dues to all creditors and whatever balance remains undistributed ,can be distributed amongst shareholders.

Important role in portfolio management on equity shares

Equity participation may be in the form of direct equity investment or through equity mutual fund or through derivatives. Equity shares can be transacted in different ways.

- Buying shares and holding them as your investment for long term income by way of dividend and capital appreciation.
- Trading in share at stock market for short term gains .These transactions are of speculative nature
- Derivative where equity shares are underlying assets. Derivative trading is an independent subject and shall be discussed separately purpose of such transaction is either to speculative or to reduce risk by way of hedging or to arbitrage and earn reasonable returns.

If you invest in equity share before you need to study fundamentals of the company in which you are investing .When you invest in equity shares ,you are investing in the business of the company .If you are confident about the business and if you can predict its future growth potential , you can invest in compounding.

Whatever profits are earned by the company ,those are never distributed in full but are reinvested in the business. With such reinvestment ,business keeps on growing and returns keeps on multiplying. Earning potential in equity investment is highest if you can select proper business else it is very risky.

Another reason for the risk involved in equity shares is price fluctuation. Price are change due to lot of reasons. It is not only company's future performance that counts but reasons can be economical , global ,local , rumors' ,market sentiments …etc.

Types of Equity Shares

- **Blue chip shares**

These shares are well established and reputed in all fields.These shares normally pay dividend and have a track record of performance and earnings. Blue chip are usually the cream of the crop and are sought after.These shares are generally considered stable and safe as an investment.

- **Penny stocks**

These shares are high shares low in price and high risks. Penny shares are not traded on the regular stock market and exchanges ,and instead traded on over the counter market instead.

Penny shares offer a significant opportunity for reward if you choose wisely, but there is a high risk level involved because many penny shares come from companies without an extensive history available.

- **Income shares**

These companies have a stable share value and always pay high dividends. Since they have high dividend payout ratio, the profits of the company saved are less and so their growth opportunities are very less.

- **Growth shares**

On this company's which are on top in their industry .The shares here have less dividend payout and so their growth rate is high.

- **Cyclical shares**

Some company's performance keeps fluctuating like a business cycle meaning the share prices are affected with any variations in the economy.

- **Defensive share**

The shares of these company's are not affected by the economical changes.

- **Speculative shares**

The shares here are traded on speculations .These shares are high risk in nature but also give very high returns in short terms .The scrip fall sharply suddenly so investors should always keep an eye on it always.

Issue of Equity Shares

Rational for issue of equity shares

- Organic growth
- Working capital
- Merger's &Takeover
- Financial Restructuring
- Exit route for VCs
- Improving Debt-Equity ratio
- Banks meeting capital adequacy

Public issue of Equity Shares

- Appointment of a Merchant banker
    - Advisory service
    - Preparation of basic documents

- Appointment of others merchant bankers
- Preparation of others merchant bankers ,MOU and Due diligence certificate
- Preparation and filling of final prospectus
- Allocation of responsibility

- Application to a stock exchanges
- Agreement with depositories
- Appointment of underwriters
- Appointment of registrar to the issue , functions of registrar
- Appointment of bankers
- Appointment of brokers
- Appointment of advertising agencies ,statutory & Non statutory
- Issue of shares
    - Filing prospectus with SEBI, registrar of companies and stock exchanges
    - Convening press conference or investors meet
    - Dispatch of application forms
    - Opening of subscription list
    - Closure of subscription list
    - Allotment of shares
    - Listing of shares

Investment in tax purpose

Investing in equity not only helps you diversify your portfolio but also fetches high returns in the long term. Investing in equity also offers various tax exemptions and deductions which you can avail of on your stock market investments.

The deduction and exemptions that you are entitled to in various stock instruments, whether you invest directly or indirectly.

Investing Directly in Equity

- ✓ No lock-in period
- ✓ Long –term capital gains (Investment held for up to 12 months) are tax-free.

- ✓ Short-term capital gains (Investment held for less than 12 months)are taxed at 15%+3% cess
- ✓ Any capital loss after the offset can be carried forward up to eight financial years.
- ✓ Short –term capital gains can be offset against short –term losses
- ✓ Short term capital loss can be offset against any capital gain –long term or short term
- ✓ Long term capital loss can be offset only against a long-term capital gain .
- ✓ Both long term and short –term capital losses can't be offset against income from any other sources.
- ✓ Dividend are tax-free but bonus shares are taxed if sold within a year.

Investment Indirectly in Equity

- ✓ No lock –in period
- ✓ Long –term capital gains are tax free
- ✓ Short –term capital gains are taxed at 15%+3%cess
- ✓ Short-term capital gain can be offset against short –term losses
- ✓ Short-term losses can be carried forward for upto 8years
- ✓ Dividend received are tax free.\