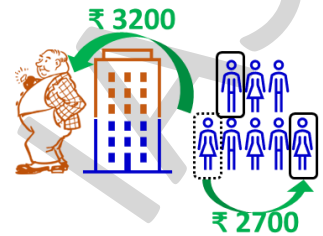


All-Inclusive Current Affairs for Prelims 2023

Economy Class-16

Follow-on Public Offer



THE TIMES OF INDIA

OPEN APP

Why did LIC, SBI become anchor investors in Adani FPO despite price dropping below issue price

Swati Mathur | TNN | Feb 18, 2023, 19:47 IST

- FPO price is kept lower than market price.
- If market price drops below FPO price, FPO becomes useless.
- In that case, company either cancels FPO, or returns money to those who applied.

Before IPO	Primary market (IPO)	Secondary market (BSE/NSE)	Primary market (FPO)
100%	70%	70%	60%

Note:

Through Secondary market, money goes to other people.

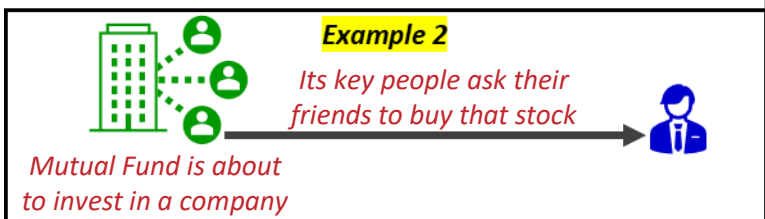
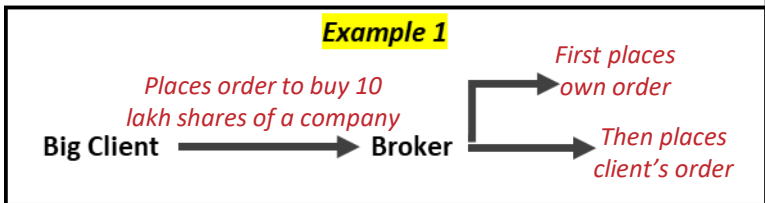
Through Primary market, money goes to Company's promoters.

Pump & Dump



Front Running

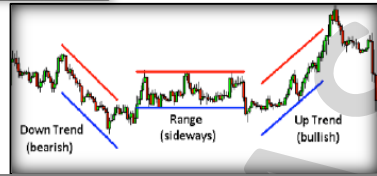
aka forward-trading or tailgating



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Investment vs Trading



	Fundamental Analysis	Technical Analysis
Purpose	To find fair value of a stock	To predict movement of stock price
On what basis	Financial statements, industry, etc	Price chart
Who does it	Investors, with long-term approach	Traders, with short-term approach
Example	Mutual Funds, Value investors like Warrant Buffet, Short-sellers like Hindenburg	Most of the advisors on YouTube, Telegram, etc. who give tips to people

Wallstreetmojo
Web <https://www.wallstreetmojo.com/overvalued-stocks>

Overvalued Stocks - Meaning, Vs Undervalued Stocks

Overvalued stocks are those whose current market price doesn't justify their earning potential. Therefore, it has an overrated price-to-earnings ratio, and analysts expect its price to fall sharply in the market. They are the ones that are a result of emotional trading, or logic-less decision making involved with the trade, which may inflate the pr...

Investor
They study fundamentals.
They have long-term approach to stock price.

Traders
They study technicals.
They have short-term approach to stock price.

Short Selling



Big investors analyze various listed companies, especially those with sudden price movement.

Based on the analysis, they buy or sell the shares.



Analysis	Action	Problem	Solution
Share price will rise from 1000 to 3000 	Buy shares NSE/BSE	You don't have money to buy shares	borrow Money return Money with interest Now Buy shares @ 1000 NSE/BSE Later Sell shares @ 3000
Share price will fall from 3000 to 1000 	Sell shares NSE/BSE	You don't have Shares to sell	borrow Shares return Shares with interest Now Sell shares @ 3000 NSE/BSE Later Buy shares @ 1000

How short-sellers like Hindenburg make money

They find reason for over-valuation. e.g. accounting fraud, using shell companies to manipulate stock price	They borrow and sell shares	They publish report. Other Investors study the report.	If other investors find the allegations to be true, they will also sell the shares.	Share price will fall. Short-Seller will buy the shares, and return them with interest.

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Is short selling allowed?

- In USA, yes. In India, no.
- Although practically, you can do intra-day short selling in India also.

Price Earnings Ratio



P/E ratio	Inference
20-30	Normal range
< 20	Stock is probably under-valued
> 30	Stock is probably over-valued

Dummy Example

$$PE\ ratio = \frac{\text{Share Price}}{\text{Earnings per share}} = \frac{2000}{40} = 50$$

P/E ratio is easily calculated. After that, Investors do fundamental analysis to find reason for under or over valuation.

Free float shares



MSCI HQ New York, Morgan Stanley Capital International Publishes indexes like : MSCI World, MSCI All Country World Index (ACWI), MSCI Emerging Markets Indexes, etc

- Free float** (public float)
- ✓ Shares available for trading in stock market
 - ✓ They are owned by public investors
 - ✓ They exclude shares held by promoters

Background (not important for Prelims)

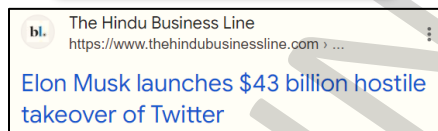
SEBI: minimum 25% should be held by non-promoters (see pg-46)
Hindenburg: promoter Vinod Adani (Cyprus) owns large portion of this 25%, through Mauritius based companies.
MSCI: it uses free-float to publish indexes, so it reviewed free float status of Adani stocks.



Minimum Public Shareholding (FinMin can exempt PSUs) (class-9 pg-46)

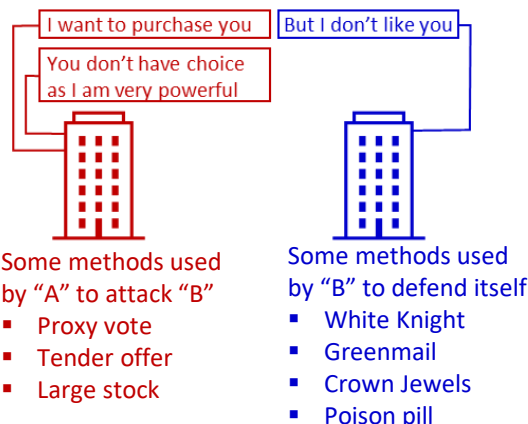
- All listed companies must have at least 25% of their equity shares held by non-promoters (public)
- Benefits: Less manipulation in stock price; provides liquidity in trading, etc

Hostile takeover



Company "A" takes over Company "B" against its wish.

- In India, it has happened only 3 times**
- 1998** : India Cements took over Raasi Cements
 - 2019** : L&T took over Mindtree
 - 2022** : Adani took over NDTV



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Interest Coverage Ratio

Prelims 2020 What is the importance of the term 'Interest Coverage Ratio' of a firm in India?

- It helps in understanding the present risk of a firm that a bank is going to give loan to.
- It helps in evaluating the emerging risk of a firm that a bank is going to give loan to.
- The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3

$$\begin{aligned} \text{Interest Coverage ratio} &= \frac{\text{EBIT}}{\text{Interest}} \\ &= \frac{30}{5} = \frac{6}{1} \end{aligned}$$

Income statement (P&L statement)

Revenue	100
- Costs	70
EBIT	30
- Interest	05
- Tax	10
Net income	15

Students can ignore the following for Prelims

Balance sheet: Assets = Liabilities + Owner's equity (as on 31st March)

Income Statement: Revenue - Costs - Interest - Tax = Income

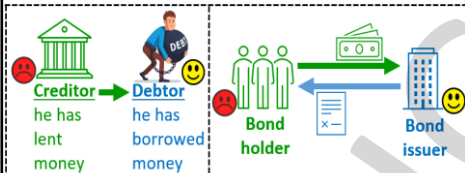
Cash Flow Statement: Cash flow due to operating, investing and financing activities

Debentures

Prelims 2003

Debenture holders of a company are its :

- (a) shareholders **(b) creditors**
(c) debtors (d) directors



UP-PCS 2011

Which one of the following is different from the others from the point of view of ownership?

- (a) LIC Policy
(b) Bank Fixed Deposit
(c) Kisan Vikas Patra
(d) Debenture of a Company

*Debentures are easily tradable.
Others usually have fixed ownership.*

Practice question

Which one of the following is different from the others from the point of view of investment?

- (a) LIC Policy**
(b) Bank Fixed Deposit
(c) Kisan Vikas Patra
(d) Debenture of a Company

*LIC will give money on death.
Others give money periodically.*

Bonds	Debentures
Type of Debt instrument (pays periodic interest)	Type of Debt instrument (pays periodic interest)
They usually have <u>long tenure</u>	They usually have <u>short tenure</u>
Issued by <u>govts, companies</u> , etc.	Issued by <u>companies</u>
<u>Secured</u> by physical assets or collateral. Less risky, gives less return	<u>Not secured</u> . It is backed by creditworthy reputation. More risky, gives more return
In case of liquidation, they are <u>paid before Debentures</u>	In case of liquidation, they are <u>paid after Bonds</u>
<u>Convertible bond</u> : Bond that can be converted into equity	<u>Convertible debenture</u> : Debenture that can be converted into equity

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ASBA



Applications Supported by Blocked Amount

- ✓ It is a mechanism to apply for IPO, FPO, Rights issue, etc
 - ✓ Money is blocked in bank account when application is made
 - ✓ If shares are allotted, money is debited from bank account
 - ✓ If shares are not allotted, money is unblocked in bank account
- 2008:** SEBI introduced ASBA in **primary market**
2016: SEBI made ASBA **mandatory** for all issues in primary market
SEBI is now planning ASBA like mechanism for secondary market

T + 1 settlement



India is 2nd country after China to do T+1 settlement.
 Benefits: faster settlement, operational efficiency, etc.

	Tuesday	Wednesday	Thursday
T + 2	Trade is executed		Buyer gets shares Seller gets money
T + 1	Trade is executed	Buyer gets shares Seller gets money	

IIBX



- Launch: 2022, IFSC, GIFT City, Gandhinagar, Gujarat
- Promoters: CDSL, NSDL, NSE India INX, MCX

IIBX - India International Bullion Exchange

- It is India's first international bullion exchange
- It is regulated by **IFSCA** (class-9 pg-45)
- All trades are done in **US Dollars**.
- All bullion imports for domestic consumption shall be channelized through IIBX

Active vs Passive Fund

Active Funds	Passive Funds
Fund manager actively buys and sells securities	Fund manager simply tracks some index like Nifty
It tries to give returns higher than the market	It tries to give same returns as the market
It has higher expense ratio	It has lower expense ratio

Hybrid Security

- It combines multiple financial instruments
- It has characteristics of both equity and debt
- e.g. REITs, InvITs, Convertible bonds, Convertible preference shares



Blue Chip

- Listed company with good reputation.
- Usually safer than other companies.
- e.g. Reliance, Tata, HDFC, etc.

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