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B.Com Honours | Semester VI | Calicut University

Stock Market Investment and Trading

Course Code: COM6FS113 (1) • Module 2 Notes

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Module II: Primary Market and Secondary Market

The capital market is structured into two symbiotic divisions: the Primary Market, where fresh financial capital is mobilized directly by issuing corporations, and the Secondary Market, where previously issued securities are continuously traded among market participants. This module examines the mechanisms of public corporate issues, initial public offers, book building pricing models, the Application Supported by Blocked Amount (ASBA) framework, prospectus evaluation, stock exchange operational architecture, market watch interfaces, order execution types, clearing corporation settlement protocols, transaction charge breakdowns, and the tax framework governing equity transactions.

1. Primary Market Architecture: Capital Mobilization Mechanisms

The Primary Market (frequently termed the New Issue Market) serves as the primary conduit through which corporate enterprises, statutory corporations, and sovereign entities raise long-term equity and debt capital directly from retail, high-net-worth, and institutional investors. Unlike secondary market trading, primary market transactions lead directly to capital expansion on the issuing entity's corporate balance sheet.

1.1 Typology of Public Capital Issues

- **Initial Public Offer (IPO):** The maiden unlisted public offering of equity shares or convertible securities by a corporate entity to the public. An IPO marks the formal transition of an enterprise from a privately held company to a publicly traded corporation listed on recognized stock exchanges. An IPO may consist of a *Fresh Issue* of shares (creating new shares and injecting fresh cash into corporate operations) or an *Offer for Sale (OFS)* (where existing promoters or venture capital investors offload their existing holdings, the sale proceeds going to selling shareholders rather than the company).
- **Follow-on Public Offer (FPO):** A subsequent issuance of shares to the public by an enterprise that is already listed on a recognized stock exchange. Listed companies utilize FPOs to raise supplementary growth capital, reduce debt-to-equity leverage, or comply with SEBI Minimum Public Shareholding (MPS) mandates requiring at least 25% public float. FPOs can also be categorized into dilutive offerings (issuing fresh equity) or non-dilutive offerings (promoter divestment).
- **Rights Issue:** An invitation under Section 62 of the Companies Act, 2013, extended exclusively to existing equity shareholders to subscribe to additional shares in proportion to their existing shareholding as of a specified record date (e.g., 1 right share for every 4 shares held). Rights issues preserve existing voting control and protect shareholders from equity dilution.
  - *Theoretical Ex-Rights Price (TERP):* The theoretical market price of an equity share following the completion of a rights issue. Calculated as:

    TERP = [(Existing Number of Shares * Cum-Rights Market Price) + (Number of New Rights Shares * Subscription Offer Price)] / Total Number of Shares Post-

Rights Issue

- *Value of a Right:* The financial value of the entitlement per share, calculated as the difference between the Cum-Rights Market Price and the TERP. Rights Entitlements (REs) are credited in dematerialized form directly to shareholders' demat accounts and can be traded on exchange platforms during a dedicated trading window.

- **Private Placement & Preferential Allotment:** The issuance of securities to a selected group of persons (not exceeding 200 in a financial year, excluding Qualified Institutional Buyers and employees under ESOP) pursuant to Section 42 of the Companies Act, 2013. A *Preferential Issue* involves allotting shares to specific strategic partners, institutional funds, or promoters at a price determined strictly by SEBI pricing formulas (based on 90-day and 10-day volume weighted average prices).
- **Qualified Institutional Placement (QIP):** A streamlined private placement mechanism introduced by SEBI enabling listed Indian companies to issue shares or fully convertible debentures exclusively to Qualified Institutional Buyers (QIBs) without undergoing time-consuming prospectus filing procedures. A QIP must be approved by special resolution of shareholders and allotted to at least two QIBs for issues up to ₹250 Crores, or at least five QIBs for issues exceeding ₹250 Crores.

1.2 Pricing Methodologies: Fixed Price vs. Book Building

When offering shares to the public, an issuing company in consultation with its Lead Merchant Bankers must select an appropriate pricing mechanism under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

Feature	Fixed Price Method	Book Building Method
Issue Price Determination	The issuer sets an exact, unalterable price per share (e.g., ₹250 per share) printed in the final prospectus before opening.	The issuer provides a **Price Band** (e.g., ₹475 to ₹500); market demand dynamically discovers the ultimate cut-off price.
Price Band Dynamics	No price band; fixed nominal face value plus predetermined premium.	Comprises a **Floor Price** (lower limit) and a **Cap Price** (upper limit). SEBI mandates the cap price cannot exceed 120% of the floor price.
Demand Visibility	Aggregate public demand is known only after the public subscription issue closes completely.	Real-time demand and bidding subscription figures are publicly broadcast across exchange terminals daily during the bidding window.
Cut-off Option	Not applicable; all applicants pay the exact fixed issue price.	Retail Individual Investors (RIIs) can tick the "Cut-off Price" box, committing to buy shares at whatever final price is discovered.
Market Adoption	Rarely used in modern mainboard IPOs; predominantly utilized in smaller SME exchange offerings.	Universally adopted across mainboard Indian capital market public issues (NSE and BSE).

2. Application Architecture: ASBA and the UPI Mechanism

Prior to 2008, applying for an IPO required submitting a physical application form accompanied by a bank draft or cheque. Investors experienced prolonged capital lockups (often 30 to 60 days) waiting for paper refund cheques to arrive by mail, during which funds earned zero interest and were vulnerable to postal theft. To solve this inefficiency, SEBI engineered the ASBA framework.

2.1 Application Supported by Blocked Amount (ASBA)

ASBA is an application mechanism wherein the application money remains deposited in the investor's own savings or current bank account, held under a statutory lien or "blocked" status, until the basis of allotment is finalized. Funds leave the investor's account if and only to the extent that shares are successfully allotted; if no shares are allotted, the lien is unblocked immediately.

- **Continuous Interest Accumulation:** Because funds remain inside the applicant's bank account, savings account interest continues to accrue uninterrupted throughout the bidding window.
- **Elimination of Refund Cheques:** ASBA completely eliminated the issuance of physical refund orders, reducing the primary market issue settlement cycle from over 21 days down to modern T+3 business days.
- **Self-Certified Syndicate Banks (SCSBs):** Only commercial banks recognized and certified by SEBI as SCSBs are legally authorized to block and transfer funds under ASBA protocols. Over 50 commercial banks in India operate as active SCSBs.

2.2 UPI-Based ASBA Application Workflow

To enable seamless mobile IPO applications through fintech discount brokers, SEBI and the National Payments Corporation of India (NPCI) introduced the Unified Payments Interface (UPI) ASBA mechanism for retail applications up to ₹5,00,000.

End-to-End UPI ASBA Application Flow T+3 Listing Timeline
Step 1: Bid Submission: The retail investor enters the bidding interface on their broker app (e.g., Zerodha, Groww), selects the lot quantity, chooses the Cut-off Price, and inputs their registered UPI Virtual Payment Address (VPA / UPI ID).
Step 2: Order Routing: The broker's OMS routes the bid electronic record to the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE) IPO bidding platform.
Step 3: Mandate Generation: The stock exchange transmits the bid and UPI ID to NPCI, which triggers an electronic mandate request to the investor's bank UPI application (Google Pay, PhonePe, BHIM, Paytm).
Step 4: Mandate Authorization: The investor opens their UPI application, reviews the corporate issue name, blocked amount, and validity date, and enters their confidential 4 or 6-digit UPI PIN to authorize the mandate.
Step 5: Fund Lien Placement: The investor's bank places a formal debit freeze (lien) on the specified sum. The funds cannot be withdrawn or spent, but continue earning regular interest.
Step 6: Basis of Allotment & Settlement: Upon finalization of allotment by the Registrar and Transfer Agent (RTA):

- *Successful Allottee:* The exact allotment sum is debited from the bank account, and equity shares are credited directly into the demat account.

- *Non-Allottee / Unsuccessful Applicant:* The mandate is unblocked by the bank, instantly releasing the lien and making the full funds available for withdrawal.

2.3 Offline Banking and Non-UPI ASBA Channels

For institutional bidders, high-net-worth individuals applying for sums exceeding ₹5,00,000, or individuals choosing not to utilize UPI, alternative ASBA submission paths exist:

- **NetBanking ASBA:** The investor logs directly into their internet banking portal of an SCSB (e.g., HDFC NetBanking, SBI Internet Banking, ICICI Bank), navigates to the 'e-Services / IPO Investment' section, selects the active issue, inputs their Demat Depository details (NSDL DP ID and Client ID, or CDSL 16-digit BO ID), specifies the bid quantity and price, and directly blocks funds internally within the bank's core banking system (CBS).
- **Physical Syndicate ASBA:** The investor downloads and prints the physical bidding form, fills in demat and bid specifications, and submits the physical form to a registered syndicate member, sub-broker, or designated SCSB branch. The bank officer blocks the funds and uploads the bid electronically onto the exchange bidding engine.

3. Prospectus Architecture & IPO Evaluation

The primary market operates under the doctrine of *full, true, and fair disclosure*. Section 26 of the Companies Act, 2013, read alongside SEBI ICDR Regulations, establishes the legal and structural disclosures an issuing corporation must provide to prospective investors.

3.1 Hierarchy of Prospectus Documents

- **Draft Red Herring Prospectus (DRHP):** The preliminary draft document prepared by the Lead Book Running Merchant Bankers and submitted to SEBI and stock exchanges for regulatory review. The DRHP contains comprehensive operational details, promoter background, audited financials, risk factors, and capitalization plans, but omits the price of the issue and the exact number of shares. The DRHP is made available to the public for at least 21 days for comments and objections.
- **Red Herring Prospectus (RHP):** The document filed with the Registrar of Companies (RoC) at least three days prior to the opening of the bidding subscription window. It contains all operational and material financial disclosures, accompanied by the discovered *Price Band* or floor price, but excludes the final discovered issue price and total issue quantum.
- **Final Prospectus:** Filed with the RoC upon the conclusion of the book-building process. It incorporates the final cut-off issue price, exact total number of shares allotted, aggregate funds mobilized, and list of anchor institutional allottees.
- **Shelf Prospectus & Information Memorandum:** Pertains primarily to debt and non-convertible debenture issues, allowing an issuer to raise capital in multiple tranches over a one-year validity window without re-filing a fresh prospectus for each issue.
- **Abridged Prospectus:** A condensed statutory summary containing the salient features of a prospectus as specified by SEBI under Section 33 of the Companies Act, 2013. A physical or electronic copy of the abridged prospectus must accompany every application form distributed to investors.

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3.2 Investor Categories and Quota Allocations

SEBI ICDR Regulations mandate structural allocations across investor classes to ensure balanced, equitable market participation:

- **Qualified Institutional Buyers (QIBs):** Institutional entities with specialized financial expertise, including mutual funds, scheduled commercial banks, foreign portfolio investors (FPIs), insurance corporations, and pension funds. Typically allocated up to 50% of the net issue (or at least 75% in issues where profitability criteria are not met under SEBI Regulation 6(2)).
  - *Anchor Investors:* A sub-class of QIBs applying for a minimum value of ₹10 Crores each, allotted shares one day prior to public issue opening. Anchor allocations build institutional credibility but carry a mandatory 30-day (for 50% shares) and 90-day (for remaining 50% shares) lock-in period.
- **Non-Institutional Investors (NIIs) / High-Net-Worth Individuals (HNIs):** Individual investors, NRIs, trusts, and corporate bodies bidding for an aggregate amount exceeding ₹2,00,000. Allocated 15% of the net offer. This category is subdivided into:
  - *Small NII (sNII):* Applications between ₹2,00,000 and ₹10,00,000 (one-third of NII quota).
  - *Big NII (bNII):* Applications exceeding ₹10,00,000 (two-thirds of NII quota).
- **Retail Individual Investors (RIIs):** Individual investors, including NRIs and HUFs, whose total application value does not exceed ₹2,00,000 in the issue. Allocated a minimum of 35% of the net public offer (or 10% under Regulation 6(2)). In oversubscribed issues, allotment to retail applicants is conducted on a proportionate lottery basis, ensuring maximum possible individual applicants receive at least one minimum lot.

3.3 Rigorous Analytical Framework for Evaluating an IPO

Investing in an IPO requires critical scrutiny of the prospectus rather than relying on unofficial speculative hype. Analysts evaluate an IPO across five structural pillars:

- **1. Objects of the Issue:** Identifying how the mobilized funds will be utilized. Investors favor issues where funds are channeled toward capital expenditure (setting up new manufacturing plants, expanding capacity, debt repayment) over issues dominated by Offer for Sale (OFS), where proceeds go entirely to exiting private equity funds or promoters.
- **2. Promoter Track Record and Governance:** Scrutinizing promoter backgrounds, litigations, tax disputes, and related party transactions disclosed under the 'Risk Factors' section of the RHP.
- **3. Restated Financial Statements:** Analyzing trends in Revenue from Operations, EBITDA Margins, Net Profit Margins, Return on Net Worth (RoNW), and Free Cash Flow generation over the preceding three to five fiscal years.
- **4. Relative Valuation Metrics:** Comparing the issue price band against listed peer competitors using Price-to-Earnings (P/E) multiple, Price-to-Book (P/B) ratio, and EV/EBITDA multiples. An issue priced at a steep premium to established market leaders without superior growth metrics signals overvaluation.
- **5. Grey Market Premium (GMP) Dynamics & Caution:** The grey market is an unofficial, unregulated over-the-counter market where application forms and unallotted shares are traded before formal listing. While GMP indicates short-term speculative sentiment, it is completely non-

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statutory, volatile, and prone to artificial operator manipulation. Long-term investment decisions must never rely primarily on GMP.

4. Secondary Market Ecosystem: Stock Exchanges & Indices

Once securities are allotted in the primary market, they are listed on recognized stock exchanges, entering the secondary market. Here, liquidity is continuously provided, enabling investors to convert long-term assets into cash at transparently determined market clearing prices.

4.1 Stock Exchanges in India & Demutualization

The institutional architecture of Indian stock exchanges underwent historical reform through **demutualization**, mandated by SEBI following the recommendations of the Justice Kania Committee. Historically, stock exchanges functioned as brokers' clubs where brokers were simultaneously owners, managers, and traders—creating massive conflicts of interest and regulatory failures. Demutualization separated three vital functions: Ownership, Management, and Trading Rights into distinct, independent hands.

- **Bombay Stock Exchange (BSE):** Established in 1875 as 'The Native Share & Stock Brokers' Association', BSE is Asia's oldest stock exchange. Operating on the BOLT (BSE Online Trading) platform, BSE lists over 5,000 companies and operates market indices including S&P BSE SENSEX.
- **National Stock Exchange of India (NSE):** Promoted by leading financial institutions and incorporated in 1992, NSE revolutionized the Indian financial architecture by pioneering countrywide, screen-based automated trading (NEAT - National Exchange for Automated Trading) and establishing the nation's first electronic clearing corporation and depository (NSDL). NSE is the premier exchange in equity cash turnover and the world's largest derivatives exchange by contract volume.

4.2 Market Indices & Free-Float Market Capitalization

A stock market index is a statistical barometer reflecting aggregate price movements and economic sentiment across a defined basket of representative equity stocks. Indices perform multiple vital functions: serving as broad economic health barometers, benchmarks for active mutual fund performance evaluation, and underlying instruments for index derivatives (Futures and Options) and Exchange Traded Funds (ETFs).

The Free-Float Market Capitalization Methodology Mathematical Framework
Free-Float Capitalization Concept:
Total market capitalization represents the gross value of all outstanding company shares. However, large blocks of shares are locked with corporate promoters, strategic government holdings, cross-holdings, and employee welfare trusts, making them unavailable for routine open-market trading. The Free-Float methodology weights companies exclusively on shares readily available for public trading.

Step 1: Total Market Capitalization Calculation:
Total Market Capitalization = Total Outstanding Shares * Current Market Price per Share

Step 2: Free-Float Factor (Investible Weight Factor - IWF):
IWF represents the percentage of total shares available for open public trading (excluding promoter

holdings, government stakes, FDI, and locked shares). Expressed as a decimal between 0.00 and 1.00.

Step 3: Free-Float Market Capitalization Calculation:
Free-Float Market Capitalization = Total Market Capitalization * Free-Float Factor (IWF)

Step 4: Index Level Determination:
Current Index Level = [Current Aggregate Free-Float Market Capitalization of Basket / Base Market Capitalization] * Base Index Value

Numerical Illustration of Free-Float Index Weighting:
Suppose a simplified 2-stock index has a base market capitalization of ₹50,000 Crores with a base index value of 1,000 points:
• Company A: 10 Crore shares @ ₹2,000. Total Cap = ₹20,000 Cr. Promoter lock-in = 60%. IWF = 0.40. Free-Float Cap = ₹8,000 Cr.
• Company B: 50 Crore shares @ ₹1,000. Total Cap = ₹50,000 Cr. Promoter lock-in = 40%. IWF = 0.60. Free-Float Cap = ₹30,000 Cr.
• Aggregate Current Free-Float Cap = ₹8,000 Cr + ₹30,000 Cr = ₹38,000 Cr.
• Current Index Value = [₹38,000 Cr / ₹50,000 Cr] * 1,000 = 760.00 points.

Index Characteristic	NIFTY 50 (NSE)	S&P BSE SENSEX (BSE)
Constituent Count	50 diversified, liquid mega-cap blue-chip companies.	30 financially sound, actively traded mega-cap corporations.
Base Year & Value	Base Year: 1995 | Base Value: 1,000 points.	Base Year: 1978-79 | Base Value: 100 points.
Weighting Methodology	Free-Float Market Capitalization.	Free-Float Market Capitalization (transitioned from full cap in 2003).
Sectoral Representation	Spans ~13 economic sectors (Banking, IT, Oil & Gas, FMCG, Auto, Pharma).	Spans key core industrial and financial engines of the Indian economy.

5. Trading Mechanics: Market Watch, Order Types & Execution Dynamics

Navigating secondary equity markets requires operational proficiency in reading electronic market data feeds and executing targeted order strategies on brokerage trading terminals.

5.1 Market Watch Interface & Price Feed Attributes

- **Last Traded Price (LTP):** The exact nominal price at which the most recent trade match was executed on the exchange order book.
- **OHLC Metrics:** Open (first trade price of the day), High (maximum price reached during the session), Low (minimum price traded during the session), and Close (volume-weighted average price across the final 30 minutes of trading from 3:00 PM to 3:30 PM).
- **Market Depth (Level 2 Quotes):** A real-time electronic table showing the top 5 bid prices (buyers) and top 5 ask/offer prices (sellers), accompanied by the exact quantity demanded or

offered at each price point. The difference between the best bid and best ask is the *Bid-Ask Spread*, which measures immediate instrument liquidity.

- **Volume & Turnover:** Volume indicates the aggregate number of shares traded during the trading day, while turnover indicates the gross monetary value of those transactions (Volume * Price).
- **Circuit Limits (Price Bands):** Regulatory boundaries established to prevent extreme panic and market manipulation:
  - *Individual Stock Circuit Limits:* Capped at dynamic price bands of 2%, 5%, 10%, or 20% based on security surveillance frameworks. Stocks with active derivative contracts do not have fixed circuit limits but undergo temporary cooling periods.
  - *Index-Wide Market Halts:* Circuit breakers applied to NIFTY 50 and SENSEX at 10%, 15%, and 20% thresholds, halting nationwide trading across all cash and derivative segments for periods ranging from 45 minutes to the remainder of the trading day.

5.2 Trading Sessions: The Pre-Open Auction and Normal Market

The trading day on Indian equity exchanges is partitioned into discrete operational phases:

- **Pre-Open Call Auction Session (9:00 AM – 9:15 AM):**
  - *9:00 AM – 9:08 AM:* Order entry, modification, and cancellation period where market participants place buy and sell orders.
  - *9:08 AM – 9:12 AM:* Order matching and equilibrium price discovery. The matching engine computes the single clearing price that maximizes tradable volume. All eligible trades execute at this single discovered price, establishing the official 'Open' price for the day. This auction absorbs overnight global news shocks smoothly without triggering order execution panics.
  - *9:12 AM – 9:15 AM:* Buffer period facilitating smooth transition into normal continuous trading.
- **Continuous Normal Market (9:15 AM – 3:30 PM):** Orders match continuously on a strict **Price-Time Priority algorithm** (orders at the best price execute first; among orders at the same price, the order placed earliest in time executes first).
- **Closing Call Auction Session (3:30 PM – 3:40 PM):** Facilitates computation of closing prices and post-market execution at the discovered closing rate.

5.3 Order Types & Execution Parameters

1. Market Order

An order to buy or sell a security immediately at the best available prevailing market price on the exchange order book. Prioritizes execution speed over price certainty. Vulnerable to *slippage* in illiquid or highly volatile markets.

2. Limit Order

An order to buy at or below a specified limit price, or sell at or above a specified limit price. Prioritizes price certainty over execution certainty. If market prices do not touch the limit price, the order remains unexecuted.

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3. Stop-Loss Limit (SL)

A conditional risk-mitigation order containing a *Trigger Price* and a *Limit Price*. When the market trades at the trigger price, a limit order at the specified limit price is automatically placed onto the active exchange order book.

4. Stop-Loss Market (SL-M)

A conditional risk-mitigation order containing only a *Trigger Price*. When the market touches the trigger price, the order instantly converts into a market order and executes immediately at prevailing rates.

5. Good Till Triggered (GTT)

A feature allowing investors to place standing buy or sell trigger orders that remain active for up to one year. When target prices are reached, the system automatically fires the order to the exchange, eliminating the need to monitor charts daily.

6. After Market Order (AMO)

Allows investors who cannot monitor active trading hours to place buy or sell orders outside exchange sessions (between 4:00 PM and 8:59 AM). The broker queues the order and fires it into the pre-open auction at 9:00 AM.

6. Clearing, Settlement, Contract Notes & Transaction Charges

The post-trade infrastructure ensures that every executed trade culminates in the physical transfer of securities to the buyer and monetary proceeds to the seller, eliminating counterparty default risks.

6.1 T+1 Rolling Settlement & Clearing Corporation Novation

Indian equity markets operate on the world's most advanced rolling settlement cycle: **T+1 (Trade Date + 1 Business Day)**, with phased pilot transitions toward instant T+0 settlement.

- **Clearing Corporations:** Clearing and settlement are conducted by institutional bodies such as the NSE Clearing Limited (NCL) and Indian Clearing Corporation Limited (ICCL).
- **Doctrine of Legal Novation:** The clearing corporation interposes itself between the buyer and seller, becoming the legal counterparty to every trade (the buyer to every seller and the seller to every buyer). This guarantees complete settlement even if a member brokerage firm defaults.
- **Multilateral Netting:** Consolidates thousands of trades executed by a broker throughout the day into a single net obligation per scrip (shares deliverable/receivable) and a single net funds obligation (funds payable/receivable).

6.2 The Contract Note (Form A)

A **Contract Note** is the statutory legal record issued by a SEBI-registered stockbroker to the client confirming the execution of trades on the stock exchange floor. Issued in electronic format (Electronic Contract Note - ECN) within 24 hours of trade execution, signed with a valid digital signature certificate.

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- **Statutory Disclosures:** Must mandatorily specify trade date, settlement date, unique trade number, execution time, security ISIN, scrip name, buy/sell action, quantity, trade price, brokerage charged, and an itemized breakdown of statutory levies.
- **Legal Admissibility:** The contract note serves as conclusive legal evidence in court proceedings, income tax assessments, and arbitration hearings before stock exchange grievance committees.

6.3 Comprehensive Breakdown of Transaction Charges

Charge Component	Statutory Authority / Recipient	Rate & Application Standard
Brokerage Fee	Stock Broker	Flat fee (e.g., ₹20 per executed order in discount brokers) or percentage (0.1% - 0.5% in full-service brokers). Max capped by SEBI at 2.5%.
Securities Transaction Tax (STT)	Central Government (Ministry of Finance)	0.1% on both Buy and Sell in Equity Delivery; 0.025% on Sell side only in Equity Intraday.
Exchange Transaction Charges	Stock Exchange (NSE / BSE)	Approx 0.00297% on total turnover for cash market equities.
Stamp Duty	State Governments (Collected via Central Act)	0.015% on Buy side in Equity Delivery; 0.003% on Buy side in Equity Intraday.
SEBI Turnover Fee	SEBI (Regulatory Fee)	₹10 per Crore of turnover (0.0001%).
Goods & Services Tax (GST)	Central & State GST Departments	18% levied strictly on [Brokerage + Exchange Transaction Charges + SEBI Turnover Fee]. (Not levied on STT or Stamp Duty).
Depository Participant (DP) Charges	Depository (CDSL/NSDL) + DP	Flat fee (≈ ₹13.50 to ₹18.50 per scrip per day) debited exclusively when shares are sold from demat delivery.

Practical Case Illustration: Contract Note Charge Computation Worked Example
Scenario: An investor executes an equity delivery purchase of 100 shares of a blue-chip company at ₹2,500 per share (Total Buy Value = ₹2,50,000) and subsequently sells them at ₹2,800 per share (Total Sell Value = ₹2,80,000) via a discount broker charging ₹20 flat brokerage per executed order.

1. Buy Leg Costs (Total Consideration: ₹2,50,000):
• Brokerage: ₹20.00
• STT (0.1% on ₹2,50,000): ₹250.00
• Exchange Transaction Fee (0.00297% on ₹2,50,000): ₹7.43
• Stamp Duty (0.015% on ₹2,50,000): ₹37.50
• SEBI Turnover Fee (₹10/Cr on ₹2,50,000): ₹0.25
• GST (18% on [₹20.00 + ₹7.43 + ₹0.25] = ₹27.68): ₹4.98
Total Cost on Purchase: ₹320.16 | Total Cash Inflow Required: ₹2,50,320.16

2. Sell Leg Costs (Total Consideration: ₹2,80,000):
• Brokerage: ₹20.00
• STT (0.1% on ₹2,80,000): ₹280.00
• Exchange Transaction Fee (0.00297% on ₹2,80,000): ₹8.32
• Stamp Duty on Sell: ₹0.00 (exempt on sell leg)
• SEBI Turnover Fee: ₹0.28
• GST (18% on [₹20.00 + ₹8.32 + ₹0.28] = ₹28.60): ₹5.15
• DP Debit Charges: ₹15.93 (including 18% GST)
Total Deductions on Sale: ₹329.68 | Net Realized Bank Credit: ₹2,79,670.32

3. Net Realized Investment Return:
Gross Capital Gain = ₹2,80,000 - ₹2,50,000 = ₹30,000.00
Total Statutory & Brokerage Friction = ₹320.16 + ₹329.68 = ₹649.84
Net Pre-Tax Profit = ₹30,000 - ₹649.84 = ₹29,350.16.

7. Taxation of Stock Market Investment and Trading

Taxation on stock market earnings depends fundamentally on whether transactions are treated as capital gains from investments or business income from active trading operations under the Income Tax Act, 1961.

7.1 Capital Gains Framework (Investors)

- **Equity Delivery Holding Period Threshold:** For listed equity shares and equity mutual funds subject to STT, the threshold separating short-term and long-term holding is **12 months**.
- **Short-Term Capital Gains (STCG) u/s 111A:** If equity shares are held for 12 months or less and sold at a gain with STT paid, the profits are taxed at a concessional rate of **20%** (revised from 15% under the Finance Act 2024), plus applicable surcharge and 4% Health & Education Cess.
- **Long-Term Capital Gains (LTCG) u/s 112A:** If shares are held for more than 12 months, long-term capital gains are taxed at **12.5%** (revised from 10% under Finance Act 2024) on aggregate capital gains exceeding the statutory threshold of **₹1,25,000** in a financial year (exemption expanded from ₹1,00,000). No indexation benefit is permissible on listed equity shares.
- **Dividend Taxation:** Dividends received from domestic companies are taxable at normal slab rates in the hands of the shareholder under 'Income from Other Sources'. Companies deduct TDS u/s 194 at 10% if aggregate dividends paid to an individual exceed ₹5,000 in a financial year.

7.2 Business Income Framework (Intraday & Derivatives)

- **Intraday Equity Trading (Speculative Business Income):** Under Section 43(5) of the Income Tax Act, intraday equity trading without delivery is classified as *Speculative Business Income*. Taxed at regular slab rates. Speculative losses can be set off only against speculative business profits and carried forward for up to 4 assessment years.
- **Derivatives Trading (Non-Speculative Business Income):** Under Section 43(5)(e), exchange-traded derivatives (Futures and Options) are statutorily classified as *Non-Speculative Business Income*. Business expenses (brokerage, advisory, software, internet, depreciation on

trading computers) can be deducted from gross gains. Non-speculative losses can be set off against any business income and carried forward for up to 8 assessment years.

Summary Synthesis

Domain	Key Structural Features	Operational Takeaway
Primary Market	IPO, FPO, Rights Issue, Book Building (Price Band, Cut-off).	Primary market issues expand corporate equity bases; book building provides dynamic market price discovery.
ASBA & UPI	Bank fund lien, NPCI mandate, T+3 listing lifecycle.	Protects investor liquidity by holding funds in interest-bearing accounts until allotment confirmation.
Secondary Market & Indices	NSE, BSE, Free-Float Market Capitalization (NIFTY 50, SENSEX).	Demutualized exchanges ensure impartial order matching; free-float indices serve as market barometers and derivative underlyings.
Order Execution	Market, Limit, Stop-Loss (SL / SL-M), GTT, Circuit Limits.	Disciplined order selection balances execution speed against slippage; circuit bands safeguard market stability.
Settlement & Charges	T+1 Clearing Corporation Novation, Contract Note, Brokerage, STT, GST.	Clearing corporations eliminate counterparty risk; statutory contract notes detail all transaction levies.
Taxation Structure	STCG u/s 111A (20%), LTCG u/s 112A (12.5% > ₹1.25L), Speculative vs Non-Speculative.	Delivery investments benefit from lower capital gains rates, while trading activities are assessed as business income.

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