MASTERING THE INDIAN STOCK MARKET

VOLUME ONE OF FIVE · IN ₹

SHARES · EXCHANGES · SEBI · DEPOSITORIES · CLEARING · INDICES · IPOS

I

₹

A DEEP, FROM-SCRATCH GUIDE · VOLUME ONE

How the Market Works

Everything behind the "Buy" button — what a share truly is, how an exchange matches your order in microseconds, how an IPO is born, and how the whole Indian market machine fits together. Explained in depth, in rupees.

SEVEN PARTS · TWENTY-TWO CHAPTERS · BUILT FOR THE COMPLETE BEGINNER WHO WANTS MASTERY

How the Market Works. Volume One of *Mastering the Indian Stock Market* — a five-volume series. First Edition · 2026. A self-contained broadsheet volume of seven parts and twenty-two chapters.

The series. Vol. I — *How the Market Works* (this book). Vol. II — *Fundamental Analysis.* Vol. III — *Technical Analysis* (candlesticks, patterns, indicators). Vol. IV — *Investing, Funds, SIP & Portfolio.* Vol. V — *Derivatives, Taxation, Psychology & Safety.* Each volume stands on its own; together they form a complete education.

Education, not advice. This book explains how the Indian securities market *works*; it is not investment advice and contains no tips. Companies are named only as examples. Markets carry real risk. Verify current rules and figures before acting, and consult a SEBI-registered professional where needed.

Accuracy. Mechanics were cross-checked against SEBI, NSE, BSE, NSE Clearing, NSDL/CDSL and RBI material. Where a number can change (fees, thresholds, settlement timelines), it is described as "current rules." Source notes appear in the back matter.

Set in Fraunces, Spectral & Archivo. Diagrams are original vector graphics; the four photographs are used under free licences and credited; all images are embedded so the book works offline.

STANDARD RISK DISCLOSURE — PLEASE READ

Investments in the securities market are subject to market risks. You can lose money, including your entire capital. Past performance is not indicative of future results, and no return is ever assured.

This book is **investor education, not investment advice.** The author is not your stockbroker, research analyst, portfolio manager or investment adviser, and nothing here is a recommendation to buy, sell or hold any security. Companies and funds are named only as *examples* to illustrate a concept. Before investing, read all offer documents carefully, do your own research, and — where you need advice — consult only a **SEBI-registered** investment adviser. Anyone promising guaranteed or assured returns is, by the laws of finance, misleading you.

BEFORE YOU BEGIN

A Sober Word

This volume teaches how the market works. It does not teach you to trade, and it will not make you rich by Friday. Please carry these four truths into every page.

> RAVI — OPENING HIS FIRST DEMAT ACCOUNT
>
> **Ravi, now 24, finally opens a brokerage account.** Not because he plans to trade stocks — he learned in Book 2 that he shouldn't — but because his mutual-fund SIP got transferred to a demat-linked platform and he had to.
>
> His broker offers him: derivatives access, intraday margin, an "expert calls" subscription at $30/month, a margin trading facility, and a "pre-IPO allocation" service for an additional fee. Ravi declines all of them. He pulls down the contract note for his first SIP purchase and reads it: $8.40 in total charges on a $1,000 purchase, or 0.84%. Once a year, no commitment, no leverage, no entanglement. P3 Costs compound — and Ravi has just made sure his are minimal. The expert-calls subscription alone, at $360/year compounding against him for 30 years, would have cost him $30,000 in lost wealth.

One — the market is genuinely risky. It is not a salary, a fixed deposit, or a slot machine with good odds. Prices fall as well as rise, sometimes violently, and some companies go to zero. Understanding the machinery (this book) reduces your *confusion*; it does not reduce the market's *risk*.

Two — the data on short-term trading is brutal. Regulatory studies in India have repeatedly found that the large majority of individual traders — especially in Futures & Options — *lose* money after costs. The people getting rich from frantic trading are usually the ones selling courses, tips and brokerage, not the ones trading. We treat this honestly throughout the series.

Three — almost everything that works is boring. Diversify, keep costs low, invest regularly, hold for years, and control your emotions. None of it is exciting, and all of it is hard precisely because it is boring. If a strategy feels thrilling, treat the thrill as a warning light.

Four — there are no shortcuts, and anyone offering one is selling something. “Guaranteed returns,” “sure-shot tips,” “double your money” — these are the vocabulary of fraud, no matter whose name or logo is attached. Verify, never venerate; reject every guarantee.

Knowledge is your edge. Patience is your engine. Skepticism is your shield. Begin.

“Know what you own, and know why you own it.”

— PETER LYNCH

CONTENTS · VOLUME ONE

What's Inside

This volume answers one question completely: *how does the Indian stock market actually work?* Seven parts take you from the meaning of ownership, through the machinery of the exchange and its plumbing, to the full life of an IPO and how prices really move.

FOREWORD

How to Read This Volume

Most beginners learn which button to tap long before they understand what happens when they tap it. This volume reverses that. By the end you'll understand the machine so completely that every later decision — which stock, which fund, when to act — rests on solid ground.

There is a reason this is Volume One. You cannot sensibly analyse a company (Volume II) or read its chart (Volume III) until you grasp what a share is, where it lives, how it trades, and who guarantees that your money and shares actually change hands. That plumbing is invisible to most investors — and invisibility breeds both fear and gullibility. We are going to make it visible.

This is a *deep* book, not a cheat-sheet. We will slow down where others skim: an entire chapter on how a single order is matched; four chapters on the life of an IPO; a careful look at the clearing corporation that stands behind every trade you'll ever make. Take it a chapter at a time. Nothing here is hard — there is just more of it, because understanding, not memorising, is the goal.

The recurring features

- **In Depth** — the mechanism explained fully, with a diagram.
- **In Rupees** — worked examples with real Indian numbers.
- **Did You Know?** — history and surprises from the Indian market.
- **Watch Out** — the misunderstandings and traps that cost beginners.
- **Compare & Understand** — side-by-side tables for clarity.
- **Key Takeaways** — the chapter, distilled, at its end.

Understand the machine, and you will never again be at the mercy of someone who claims to.

A note for the impatient: yes, you can open an account and buy a share today without reading any of this. But the investors who last are the ones who understood the ground they were standing on. Let's build that ground, floor by floor.

❖ ❖ ❖

We begin not with the share, but with the thing a share is a piece of — the company itself.

A

PART A

Ownership & the Idea of a Market

A share is a piece of a company; a market is where those pieces trade. Before either makes sense, we need to understand the company itself — one of the most powerful inventions in human history, and the reason ordinary people can own slivers of giants.

THE COMPANY | LIMITED LIABILITY | WHAT A SHARE IS | GOING PUBLIC

CHAPTER ONE

The Company: Humanity's Money Machine

You cannot understand a share without understanding the thing it is a share of. The company — and one quiet legal idea buried inside it — is what made it possible for thousands of strangers to pool their money, build something enormous, and each own a piece without risking everything they have.

IN THIS CHAPTER YOU WILL LEARN

- Why business ownership evolved from sole proprietor to the limited company.
- What “limited liability” means and why it is the bedrock of the stock market.
- The pecking order — why owners enjoy the upside but rank last in a wind-up.

Imagine a small sweet shop run by one person, Anil. He owns everything and keeps every rupee of profit — but he is also *personally* responsible for every debt. If the shop fails owing ₹10 lakh, lenders can come after his house, his savings, his car. His business and his self are legally the same thing. This is a **sole proprietorship**, and it is how most enterprises begin. It is simple, and it is dangerous.

The Ladder of Ownership

As ambitions grow, so must the structure. Anil might take a partner to share the work and capital — a **partnership** — but now *both* partners are personally liable, even for each other's mistakes. To build something truly large — a factory, a bank, a railway — you need money from many people who have never met, and none of them will hand over their savings if it means risking their homes. Something had to change. That something was the **limited company**.

FIGURE 1.1 · THE LADDER OF BUSINESS OWNERSHIP

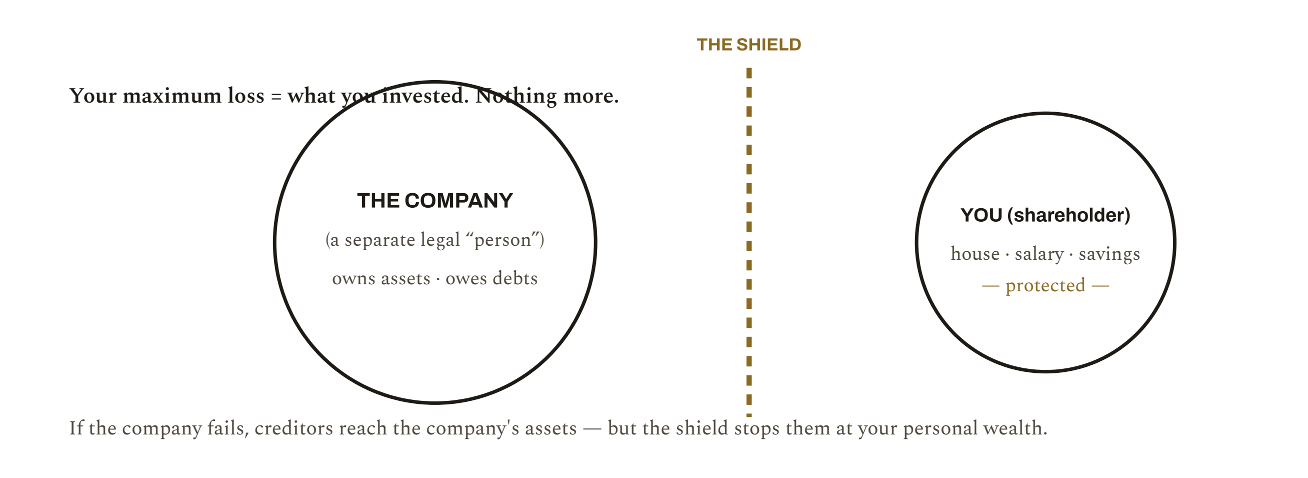
As you climb, ownership widens and personal risk shrinks — culminating in the listed company, owned by the public.

From one owner to the public. *Each rung lets more people share ownership while risking less of their personal wealth. The listed public company at the top is what this entire book is about — and the rung that makes a "stock market" possible at all.*

The Great Invention: Limited Liability

Here is the idea that changed the world. When you form a **limited company**, the law treats the company as a separate "person" — it can own property, sign contracts, sue and be sued, all in its own name, distinct from its owners. Crucially, the owners' liability is **limited** to the money they put in. If the company collapses owing crores, creditors can seize the *company's* assets — but not the shareholders' homes, salaries, or savings. The most a shareholder can lose is the amount they invested. Not one rupee more.

FIGURE 1.2 · THE LIMITED-LIABILITY SHIELD



Why anyone dares to invest. *Without this shield, buying a share would mean gambling your entire net worth on strangers' decisions — no one would do it. Limited liability is the quiet legal magic that lets millions of cautious people fund bold, risky enterprises. It is the bedrock of the stock market.*

Why This Matters for You

This single principle has two profound consequences for you as an investor. First, it caps your risk: buy ₹20,000 of a company's shares and the worst case — total collapse — costs you ₹20,000, never your home. That asymmetry (limited downside, unlimited upside if the company soars) is what makes equity investing rational. Second, it explains the **pecking order** when things go wrong: if a company is wound up, its assets pay off lenders and creditors *first*; shareholders, as owners, get only what's left — often nothing. Owners enjoy the upside but stand last in line for the downside. Remember this; it echoes through everything that follows.

DID YOU KNOW?

A 17th-century company you could buy a piece of

The idea of public shareholding is over four centuries old. In 1602 the *Dutch East India Company* became the first company to sell shares to the general public and have them trade freely — financing risky, lucrative voyages by spreading both the cost and the risk across many investors. It even paid dividends for nearly two centuries. The structure you'll use to buy a share of an Indian company tomorrow is, in essence, that same 400-year-old invention.

Private limited vs. public limited (India)

Under India's Companies Act, a **Private Limited** (**Pvt Ltd**) company has a small, closed group of owners and cannot offer shares to the public — most startups and family firms are private. A **Public Limited** (**Ltd**) company is allowed to offer shares to the public and, if it chooses, to *list* them on an exchange. Note the distinction: every *listed* company is public, but not every public company is listed. Listing — selling shares to the public via the market — is the leap we explore in Chapter 3.

WATCH OUT

"Owning shares" doesn't mean running the company

Beginners sometimes imagine that buying a few shares lets them walk into the office and give orders. It doesn't. Shareholders *own* the company but delegate its running to a board of directors and management. Your power is indirect: you vote on big matters (in proportion to your shares) and you can sell if you disapprove. Ownership and control are separate — a theme that becomes important when we discuss promoters, boards, and your rights in Chapter 2 and Chapter 22.

KEY TAKEAWAYS

1. **Business ownership climbs a ladder:** sole proprietor → partnership → private company → public listed company.
2. **A limited company is a separate legal "person";** owners' liability is capped at what they invested.
3. **Limited liability is the bedrock of the stock market** — it makes investing in strangers' ventures rational.
4. **Shareholders enjoy the upside but rank last** if a company is wound up (creditors are paid first).
5. **Owning shares ≠ controlling the company;** you own, management runs.

SELF-CHECK

1. In one sentence: what does limited liability protect, and what is your maximum loss as a shareholder?
2. If a company is wound up, rank by who is paid first: equity shareholders, lenders.
3. Why would almost no one buy shares in a world without limited liability?
4. Does owning a few shares let you give orders to management? Explain.

RECALL · THE SEVEN PRINCIPLES FROM BOOK 1

The mental models this book leans on most.

1

Return follows risk

· no exceptions, anywhere, ever.

2

Time beats timing

· years invested > markets timed.

3

Costs compound

· every basis point against you

over
decades.

4

Diversification buys survival

·
survival
>
maximisation.

5

Price and value are different

·
market
quotes
prices,
not
values.

6

Behaviour dominates analysis

· your
discipline
> your

stock picks.

7

Complexity is expensive

· if you need a paragraph to explain it, you don't own it.

CHAPTER TWO

What a Share Really Is

"A share is a piece of a company" is true but incomplete. A share is really a bundle of legal rights — to a slice of profits, to a vote, and to whatever is left if the company is sold. Understanding that bundle, and how a company's capital is structured, turns you from a price-watcher into an owner.

IN THIS CHAPTER YOU WILL LEARN

- The four legal rights bundled into one equity share.
- How equity shares differ from preference shares.

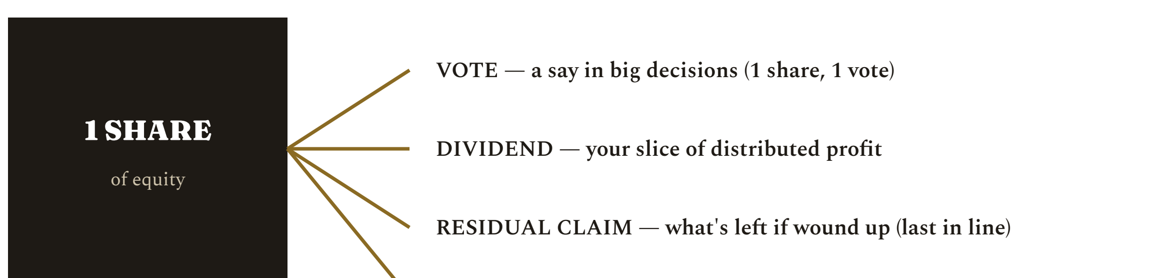
- The layers of share capital, and why face value is not market price.

When you buy one equity share, you don't get a brick of the factory or a chair from the office. You get a precisely defined set of entitlements, identical for every other holder of that share class. Let's open the bundle.

The Bundle of Rights

An ordinary **equity share** typically carries four rights. The **right to vote** on major decisions (electing directors, approving big deals), usually one vote per share. The **right to dividends** — your proportional slice of any profit the company chooses to distribute. The **residual claim** — if the company is wound up, you get your share of whatever remains *after* all debts and other claims are paid (the last-in-line rule from Chapter 1). And certain **information and pre-emption rights** — to receive accounts, and often first refusal on new shares (a "rights issue," Chapter 17).

FIGURE 2.1 · ONE EQUITY SHARE = A BUNDLE OF RIGHTS



Not a brick — a bundle. *Every equity share of a class is identical and carries the same rights. When you grasp that you're buying votes, a profit-claim and a residual stake — not a lottery number — your whole approach to choosing shares changes.*

Equity vs. Preference Shares

Not all shares are equal. The two broad families:

COMPARE & UNDERSTAND · EQUITY VS. PREFERENCE SHARES

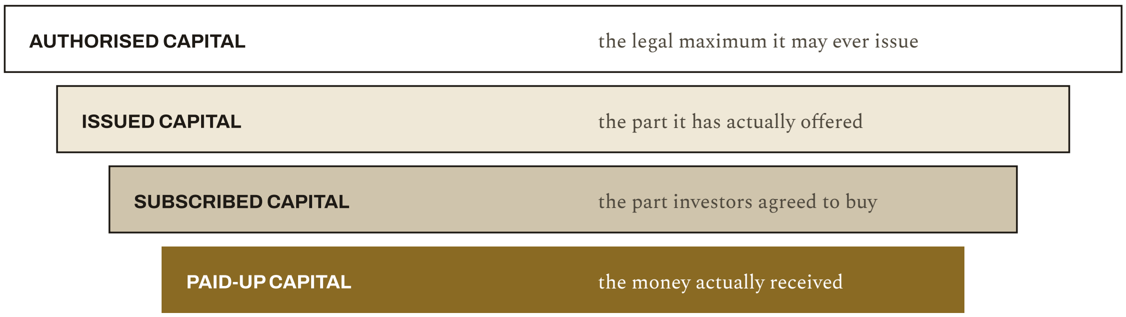
	EQUITY (ORDINARY) SHARES	PREFERENCE SHARES
Profit	Variable dividend (or none); unlimited upside	Fixed, preferential dividend, paid first
Voting	Yes — a say in the company	Usually none
If wound up	Paid *last* (residual)	Paid before equity, after creditors
Feel of it	True ownership & risk	More like a hybrid of ownership & lending

When people say “shares” and “the stock market,” they almost always mean **equity shares** — and so do we, throughout this series, unless stated otherwise. Preference shares exist but are far less common for the retail investor.

A Company's Capital, in Layers

You'll meet a confusing family of “capital” terms in annual reports. They're simply nested layers, from a legal ceiling down to money actually received:

FIGURE 2.2 · THE LAYERS OF SHARE CAPITAL



From legal ceiling to cash in hand. *Most established companies have issued and fully paid-up nearly all they intend to. The key figure for you is the number of shares actually out there ("shares outstanding"), because that's what you divide the company's value by to get a per-share figure (Chapter 13).*

Face Value, Premium & Market Price

Three prices confuse every beginner. **Face value** (or par value) is a nominal accounting figure set at birth — commonly ₹1, ₹2, ₹5 or ₹10 in India — used for dividends and corporate actions. When a company first sells a share for more than its face value, the extra is the **premium** (a ₹10 face-value share sold at ₹150 carries a ₹140 premium). The **market price** is what the share trades at today on the exchange, driven by supply and demand, and bears no fixed relationship to face value at all. A ₹1 face-value share can trade at ₹3,000.

> **WATCH OUT**
>
> ### Face value tells you almost nothing about value
>
> Two traps follow. First, never judge whether a share is "cheap" or "expensive" by its face value or even its market price alone — only by its price *relative to the company's earnings and size* (Volume II). Second, when a company changes its face value in a **stock split** (say, splitting a ₹10 face value into ten ₹1 shares), your number of shares multiplies and the price divides proportionally — your total wealth is unchanged. "Free shares" from a split or bonus create no new value (Chapter 17).

DID YOU KNOW?

The “promoter” — a very Indian word

In India, the founders or controlling family of a company are called its **promoters**, and the law requires every listed company to disclose its “promoter holding” each quarter. A high, stable promoter stake is often read as confidence (“skin in the game”); a falling stake, or heavily *pledged* (mortgaged) promoter shares, is a caution flag. This promoter-centric lens is distinctive to India and matters when you analyse companies in Volume II.

KEY TAKEAWAYS

1. **A share is a bundle of rights:** to vote, to dividends, to the residual on wind-up, and to information/pre-emption.
2. **Equity shares** = true ownership (variable dividend, votes, last in line); **preference shares** = fixed dividend, paid first, usually no vote.
3. **Share capital nests in layers:** authorised → issued → subscribed → paid-up.
4. **Face value is a nominal figure;** market price is set by the market and unrelated to it.
5. **In India, watch the promoter holding** and any pledging.

SELF-CHECK

1. Name the four rights an equity share carries.
2. A ₹2 face-value share trades at ₹900 — what, if anything, does the ₹2 tell you about its value?
3. How does a preference share differ from an equity share on voting and dividends?
4. Order from largest to smallest: paid-up, authorised, subscribed, issued capital.

CHAPTER THREE

Going Public: Why Companies List

A company can grow for years as a private firm. So why do its owners eventually choose to sell shares to the public and list on an exchange — opening their books, their decisions, and their share price to the whole world's scrutiny? The answer reveals what a stock market is really for.

IN THIS CHAPTER YOU WILL LEARN

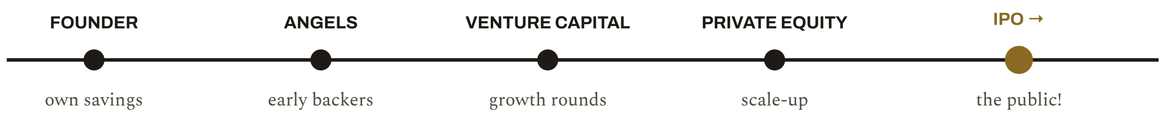
- The funding stages from founder to IPO.
- The real reasons companies list — and the costs of doing so.
- Why a company's reason to list is not your reason to buy.

Every great listed company you know — Reliance, Infosys, HDFC Bank, Zomato — was once a private venture funded by a handful of people. The journey from a founder's idea to a publicly traded giant follows a recognisable path of funding stages, and "going public" is one specific, momentous step along it.

The Funding Lifecycle of a Company

FIGURE 3.1 · HOW A COMPANY IS FUNDED, STAGE BY STAGE

Each stage brings bigger money — and at each, early owners sell a slice for capital.



The IPO is the moment the doors open to ordinary investors like you — the subject of Part E.

From a founder's savings to the public. *Private money (angels, VCs, PE) funds a company while it's young and risky. The IPO is the graduation: the company is now mature enough to invite the general public to own it — and early backers get a liquid market to sell into.*

Why Go Public? The Real Reasons

Listing is expensive, exposing, and irreversible in practice — so the benefits must be large. They are:

- **To raise large capital** for growth — building plants, repaying debt, funding expansion — by selling new shares to the public (a “fresh issue”).
- **To give early investors and founders an exit** — VCs and angels who backed the company years ago finally get a liquid market to sell their stakes into (an “offer for sale”).
- **To create a currency** — listed shares can be used to acquire other companies or to reward employees (ESOPs) with something easily valued and sold.
- **Prestige, trust & visibility** — a listing brings credibility with customers, lenders and partners, and constant public attention.

The Price of Going Public

Listing is not free in any sense. The company must **disclose** vast amounts about itself — financials, risks, salaries, litigation — to the world and to competitors. It submits to **SEBI's continuous scrutiny** and reporting rules. Its managers face relentless **short-term pressure** to hit quarterly numbers, sometimes at the cost of wise long-term decisions. And the founders **dilute their control**, answerable now to thousands of outside shareholders. Some excellent companies deliberately stay private for exactly these reasons.

COMPARE & UNDERSTAND · PRIVATE VS. LISTED PUBLIC COMPANY

	PRIVATE COMPANY	LISTED PUBLIC COMPANY
Who can own it	A closed circle	Anyone, via the exchange
Selling your stake	Hard — find a private buyer	Instant — sell on the market (liquidity)
Disclosure	Minimal	Extensive, continuous, public
Raising big money	Limited to private investors	Access to the whole investing public
Pressure	Patient, long-term	Quarterly, public, intense

DID YOU KNOW?

India is the world's busiest IPO market

In recent years India has seen *more companies list than any other country on Earth* — hundreds in a single year, from billion-rupee giants to tiny SMEs. This reflects a booming economy and a deep, confident pool of domestic investors. But abundance brings froth: in hot markets, weaker companies rush to list at stretched prices. We devote four full chapters (Part E) to understanding IPOs precisely so you can tell the gold from the glitter.

WATCH OUT

"Listing" doesn't mean "good investment"

A company being newly listed, heavily advertised, and widely discussed says nothing about whether its shares are worth buying at the offered price. Listing is a fundraising and exit event for the company and its early owners — who, naturally, want to sell at the highest price the market will bear. Your job as a buyer is the opposite: to judge whether that price is sensible. Never confuse a company's *desire* to list with *your* reason to buy.

KEY TAKEAWAYS

1. **Companies are funded in stages:** founder → angels → VC → PE → IPO (going public).
2. **Firms list to raise capital, give early owners an exit, create an acquisition/ESOP currency, and gain prestige.**
3. **The cost of listing** is heavy disclosure, regulatory scrutiny, short-term pressure, and diluted control.
4. **Listed** = **liquid & public; private** = **illiquid but patient.**
5. **A company's reason to list is not your reason to buy** — judge the price yourself.

SELF-CHECK

1. List the funding stages a company typically passes before an IPO.
2. Give two genuine reasons a company lists, and two costs of listing.
3. True or false: a heavily advertised new listing is, by that fact, a good investment. Why?
4. Why might an excellent company deliberately choose to stay private?

B

PART B

The Exchange, In Depth

When you tap "Buy," your order vanishes into the exchange and a trade appears a heartbeat later. What happens in that heartbeat is one of the most elegant machines ever built. This part takes it apart, gear by gear.

CHAPTER FOUR

A History of the Stock Exchange

To understand why the Indian market looks the way it does today — electronic, transparent, tightly regulated — you have to know where it came from: a banyan tree, a trading ring full of shouting brokers, and a scandal so large it forced the whole system to reinvent itself.

IN THIS CHAPTER YOU WILL LEARN

- How exchanges evolved from Amsterdam and a Bombay banyan tree to screens.
- Why the old open-outcry ring was unfair to the small investor.
- How the 1992 scam reshaped the market — SEBI, the NSE, and demat.

A stock exchange is just a formalised meeting place for buyers and sellers of shares. The idea is old; the technology has transformed beyond recognition. Tracing that arc — from Amsterdam to Dalal Street to the screen in your hand — explains every feature of the market you'll use.

From Amsterdam to the Banyan Tree

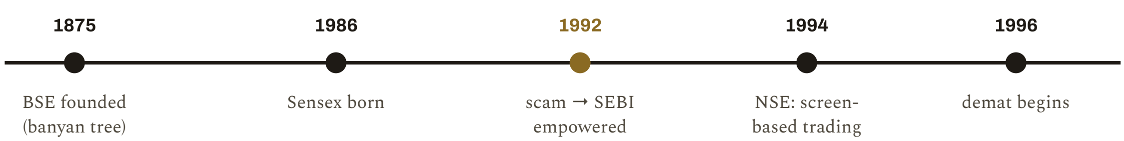
The world's first true stock exchange grew up in **Amsterdam in the 1600s**, trading shares of the Dutch East India Company (Chapter 1). London's brokers gathered in coffee houses; New York's signed an agreement under a buttonwood tree in 1792. India's story begins in **Bombay in the 1850s–1870s**, when stockbrokers — many trading in cotton during the American Civil War boom — gathered informally under a *banyan tree* near the Town Hall. As their numbers grew, they moved, eventually settling on a street that took its name from them: **Dalal Street** (“dalal” means broker). In **1875** they formalised as the **Bombay Stock Exchange** — Asia's oldest.

PLATE 4.1 · THE BSE ON DALAL STREET, MUMBAI — ASIA'S OLDEST EXCHANGE (EST. 1875)

Phiroze Jeejeebhoy Towers. *The tower still stands on Dalal Street — the address that gave Indian broking its very name — even though almost all trading now happens silently inside servers.*

PHOTOGRAPH VIA WIKIMEDIA COMMONS, USED UNDER A FREE LICENCE.

FIGURE 4.1 · THE INDIAN MARKET'S JOURNEY



In a single decade (1992–96), India leapt from paper certificates and a trading ring to a modern electronic market.

A market reborn in a decade. *For over a century the BSE ran on "open outcry" — brokers shouting and signalling in a crowded ring. The crisis of 1992 became the catalyst for a stunningly fast modernisation that leapfrogged India ahead of many older markets.*

The Open-Outcry Era — and Its Flaws

For most of its life the BSE traded by **open outcry**: brokers physically gathered in a ring, shouting bids and offers and signalling with hands. It was colourful and, by modern standards, deeply flawed. Prices weren't transparent — an ordinary investor in Pune had no idea what was really being quoted in Mumbai. Brokers could favour clients, front-run orders, and settle trades slowly through a system of carry-forward ("badla") that piled on risk. Trust depended on personal relationships, and the small investor was usually the last to know anything.

1992: The Scandal That Forced Change

In 1992 a massive securities scam — in which a broker exploited loopholes in bank settlement to pump money into select shares — sent the market into a frenzy and then a crash, wiping out countless small investors (we examine it as a case study in this series). The shock did something productive: it gave the newly formed **SEBI** real statutory teeth (Chapter 8), and it spurred the creation of a brand-new exchange built to be everything the old ring was not.

1994: The NSE and the Screen

The **National Stock Exchange** launched screen-based trading in 1994. There was no ring and no shouting — just an electronic order book accessible from terminals across the country, matching orders by impartial computer. Suddenly a trader in a small town saw the *same* prices, at the *same* instant, as a Mumbai institution. Prices became transparent; access became democratic; trades settled faster and more safely. The BSE rapidly went electronic too. Then, from 1996, shares began moving from paper certificates into electronic **demat** form (Chapter 9), ending forgery, theft and endless paperwork. In one remarkable decade, India built one of the most modern markets on Earth.

PLATE 4.2 · THE NSE, BANDRA KURLA COMPLEX, MUMBAI — INDIA'S FIRST FULLY ELECTRONIC EXCHANGE (1994)

Exchange Plaza, BKC. *No trading ring, no shouting — just servers matching orders by impartial rule (Chapter 6). Screen-based trading from here democratised the market: a trader in a small town now sees the same prices, at the same instant, as a Mumbai institution.*

PHOTOGRAPH VIA WIKIMEDIA COMMONS, USED UNDER A FREE LICENCE.

DID YOU KNOW?

“Dalal Street” literally means “Broker Street”

Just as “Wall Street” is shorthand for American finance, **Dalal Street** is shorthand for Indian finance — and the name is delightfully literal: *dalal* is the Hindi/Urdu word for a broker or middleman. The street earned its name from the brokers who congregated there in the 19th century. Today the BSE's iconic tower still stands on it, even as most “trading” happens silently inside server farms.

Why the history still shapes your experience

Every modern safeguard you'll rely on exists because the old system lacked it. Transparent live prices? A reaction to the opaque ring. SEBI's strict rules? Born from 1992. Demat accounts? An answer to stolen and forged paper certificates. The fast, guaranteed T+1 settlement (Chapter 10)? The opposite of the risky carry-forward of old. When you understand the history, the rules stop feeling like bureaucracy and start feeling like hard-won protection.

KEY TAKEAWAYS

1. **Exchanges began in 1600s Amsterdam;** India's BSE (1875) grew from brokers under a banyan tree on Dalal Street.
2. **The old "open outcry" ring** was opaque, slow, and stacked against the small investor.
3. **The 1992 scam empowered SEBI** and spurred the 1994 launch of the screen-based NSE.
4. **1994–96 transformed India** with electronic trading and dematerialisation — modern, transparent, fast.
5. **Today's safeguards exist because the old system lacked them.**

SELF-CHECK

1. What was wrong, for a small investor, with the old open-outcry system?
2. What three lasting changes followed the 1992 crisis?
3. In which year did the BSE form, and what does "Dalal Street" literally mean?
4. Why did screen-based trading make the market more democratic?

CHAPTER FIVE

What an Exchange Actually Does

We say shares "trade on the NSE," but what is the exchange actually doing? It performs five distinct jobs — and once you can name them, the roles of every other institution (SEBI, depositories, clearing corporations) snap neatly into place.

IN THIS CHAPTER YOU WILL LEARN

- The five functions of a stock exchange.
- The market's segments beyond cash equities.
- What an "MII" is and why SEBI holds it to a higher standard.

> ***You walk into a market with $5,000 and want to buy 100 shares of a company. You hand the money to a seller. He hands you a paper certificate. Then he disappears. Who do you complain to? How do you prove the shares are yours? What happens if the seller never owned them? An exchange is the answer to all three questions.***

An exchange is far more than a price screen. It is a tightly engineered system whose entire purpose is to let strangers trade with total confidence that the rules are fair and the trade will complete. Here are its five functions.

FIGURE 5.1 · THE FIVE JOBS OF A STOCK EXCHANGE

1 · LISTING vets & admits companies; sets disclosure rules	**2 · MATCHING & PRICE DISCOVERY** pairs buy & sell orders; reveals the fair price
3 · CLEARING & SETTLEMENT ensures money & shares actually change hands (T+1)	**4 · SURVEILLANCE & RISK** watches for manipulation; circuit breakers; margins

5 · FAIR, EQUAL ACCESS
same prices, same rules, same instant — for a giant fund and for you

Five jobs, one promise. *Listing, matching, settlement, surveillance, and equal access. Notice that jobs 3 and 4 — settlement and surveillance — are why you can trade with a total stranger and never worry they'll vanish with your money. That confidence is the product the exchange sells.*

1 — Listing: The Gatekeeper

Before a company's shares can trade, the exchange must **admit** them, checking that the company meets size, track-record and disclosure standards (which differ for the mainboard versus the SME platforms). Listing is a privilege with ongoing obligations: a listed company must keep disclosing results, major decisions and price-sensitive news. The exchange can suspend or delist those who break the rules.

2 — Matching & Price Discovery: The Heart

This is the function most people picture: the exchange continuously **matches** compatible buy and sell orders and, in doing so, performs **price discovery** — letting the collective push and pull of supply and demand reveal a single, live, fair price for each share. We dedicate the whole of Chapter 6 to exactly how this works, because it is the beating heart of the market.

3 — Clearing & Settlement: The Guarantee

Matching two orders is only a promise; **settlement** is the keeping of it — actually moving money from buyer to seller and shares from seller to buyer. Modern exchanges work with a **clearing corporation** that *guarantees* every trade, so that even if the party on the other side defaults, you still get what you're owed. This is so important it gets its own chapter (Chapter 10).

4 & 5 — Surveillance and Equal Access

The exchange runs constant **surveillance** — algorithms hunting for manipulation, unusual moves, and insider activity — and imposes **risk controls** like circuit breakers (Chapter 7) and margins. And it guarantees **fair**, **equal access**: the order book shows the same prices to everyone, and orders are treated by impartial rules (Chapter 6), not by who you know. This is the democratic promise the old open-outcry ring could never honour.

The Market Is More Than Cash Equities

A beginner imagines "the market" means buying and selling company shares. That cash-equity segment is the heart of this volume, but the same exchange runs several parallel **segments**, and it's worth knowing the whole map exists.

FIGURE 5.2 · THE SEGMENTS THAT TRADE ON ONE EXCHANGE

CASH / EQUITY shares · this volume	**DERIVATIVES (F&O)** futures & options · Vol V	**DEBT** bonds & G-Secs
CURRENCY & COMMODITY forex & commodity F&O	**FUNDS ON EXCHANGE** ETFs, REITs, InvITs, SGBs	**SME PLATFORM** NSE Emerge · BSE SME

All run on the same infrastructure under SEBI. This volume focuses on cash equities; later volumes visit the rest.

One exchange, many segments. *Shares are just one room in a large building. ETFs, REITs, InvITs and Sovereign Gold Bonds trade like shares; derivatives, debt, currency and commodity have their own segments and rules. Knowing the map prevents the beginner's error of thinking equities are the whole market.*

Market Infrastructure Institutions (MIIs)

Regulators give the exchanges, the depositories (NSDL/CDSL) and the clearing corporations a collective name: **Market Infrastructure Institutions**, or **MIIs** — the systemically important "rails" on which the whole market runs. Because a failure here would endanger everyone, SEBI holds MIIs to especially high standards of governance, technology and risk management. When you hear "MII," picture these three pillars — the subject of Part C — working in concert beneath every trade.

An exchange is a business — and a quasi-regulator

The NSE and BSE are themselves companies (the BSE is even listed). But they also act as "first-line regulators" of their members and listed companies, under SEBI's overall authority. So there's a hierarchy of trust: SEBI regulates the exchanges; the exchanges regulate brokers and companies; brokers serve you. Each layer watches the one below, which is why fraud, while never impossible, is far harder than in the wild days of the past.

KEY TAKEAWAYS

1. **An exchange does five jobs:** listing, matching/price discovery, clearing & settlement, surveillance/risk, and fair equal access.
2. **Price discovery** — revealing a fair live price from supply and demand — is its core function.
3. **The settlement guarantee** lets you trade safely with total strangers.
4. **Exchanges are businesses that also act as first-line regulators** under SEBI.

SELF-CHECK

1. Name the five jobs of an exchange.
2. Which two functions let you trade safely with a total stranger?
3. Name three segments that trade on the same exchange besides cash equity.
4. What are the three Market Infrastructure Institutions?

CHAPTER SIX

The Order Book: How a Trade Is Matched

This is the most important chapter in the volume. When you understand the order book — the live list of who wants to buy and sell, and at what price — you understand the literal mechanism of the market. Everything else is built on this.

IN THIS CHAPTER YOU WILL LEARN

- How to read a two-sided order book — bid, ask, spread, depth.
- The price-time priority matching rule.
- The market-versus-limit trade-off, and what slippage is.

There is no auctioneer and no shouting. A modern exchange matches trades with a piece of software called the **matching engine**, and the data it works on is the **order book**: two stacked lists, one of buyers, one of sellers. Let's look at a real one.

Bid, Ask & the Two-Sided Book

For any share at any instant there is a list of **bids** (buy orders, each with a price and quantity) and a list of **asks** or offers (sell orders). The highest bid and the lowest ask are the two prices that matter most: the **best bid** (most anyone will currently pay) and the **best ask** (least anyone will currently accept). The gap between them is the **spread**. In your trading app, the “market depth” window shows the top few levels of each side.

FIGURE 6.1 · A LIVE ORDER BOOK (MARKET DEPTH)

	BUYERS (BIDS)			SELLERS (ASKS)		
	QTY	PRICE ₹		PRICE ₹	QTY	
BEST▶	320	499.70	SPREAD = ₹0.20	499.90	410	◀BEST
	560	499.65		499.95	700	
	900	499.60		500.00	2,500	
	1,200	499.55		500.10	1,150	

Best bid ₹499.70 · Best ask ₹499.90. No trade happens yet — the highest buyer still won't meet the lowest seller.

A trade occurs only when someone “crosses the spread”: a buyer agrees to pay ₹499.90, or a seller accepts ₹499.70.

The deeper the book (big quantities at each level), the more “liquid” the stock — you can trade size without moving the price.

The market, laid bare. *Buyers stack up on the left (highest price on top), sellers on the right (lowest price on top). The market “price” you see quoted is simply where the last trade happened, sitting in the gap between these two walls of orders. This window is in every trading app — now you can read it.*

The Two Rules: Price, then Time

The matching engine obeys one simple priority, called **price-time priority**. *Price first:* the order offering the best price is served first — the highest bid and the lowest ask are at the front of the queue. *Then time:* among orders at the *same* price, the one placed earliest is filled first. That's it. No favouritism, no relationships — just price, then the clock. This impartial rule is what makes the screen-based market fair in a way the old ring never was.

Watch a Trade Happen

IN DEPTH · A MARKET ORDER MEETS THE BOOK

Using the book above, suppose you place a **market order to buy 1,000 shares** — "buy now, whatever the price." The engine walks *up* the sell side, filling you at each level by price-time priority: it takes the 410 shares offered at ₹499.90, then 590 of the 700 shares at ₹499.95 — 1,000 shares filled. Your *average* price is about ₹499.92, and the best ask is now ₹499.95 with 110 left. Notice three things: (1) a market order guarantees execution but not price; (2) a big order "eats into" the book and pushes the price up — this is **slippage**; (3) in a *liquid* stock with huge quantities at each level, your 1,000 shares would barely move the price at all. *(Illustrative.)*

Now contrast a **limit order to buy at ₹499.70**. It does *not* cross the spread, so it doesn't trade immediately; instead it *joins* the bid side at ₹499.70, queuing behind any earlier orders at that price. It will execute only if a seller later drops to ₹499.70 — and if the price runs away upward, it may never fill at all. This is the fundamental trade-off you meet every time you trade: **market orders buy certainty of execution; limit orders buy certainty of price.** You cannot have both.

WATCH OUT

Market orders in thin stocks are dangerous

In an illiquid small-cap, the book is shallow — tiny quantities at each level, with big gaps between prices. A market order can "walk up the book" and fill several percent worse than the quote you saw, because there simply aren't enough sellers near it. The order-book view warns you: if the depth is thin and the spread wide, *always* use a limit order. Liquidity isn't an abstraction; it's literally how much is stacked in this book.

DID YOU KNOW?

The fastest traders measure time in microseconds

Because price-time priority rewards being *early*, professional firms invest fortunes to shave microseconds off the time it takes their orders to reach the exchange's matching engine — even renting server space physically close to it ("co-location"). This is high-frequency trading. It's a humbling reminder for the individual: in the short-term game of speed you cannot win. Fortunately, the long-term game of *owning good businesses patiently* doesn't require speed at all — which is exactly the game this series teaches.

KEY TAKEAWAYS

1. **The order book is two stacked lists:** bids (buyers) and asks (sellers); the gap between best bid & ask is the spread.
2. **Matching follows price-time priority:** best price first, then earliest order — impartially, by computer.
3. **A trade happens only when someone crosses the spread.** Market orders cross it; limit orders join the queue.
4. **Market order = certain execution, uncertain price** (slippage); **limit order = certain price, uncertain execution.**
5. **"Liquidity" is literally the depth of the book** — thin books punish market orders.

SELF-CHECK

1. Define best bid, best ask, and spread.
2. State the two-part rule by which orders are matched.
3. A large market buy in a thin stock — what is the danger, and what is it called?
4. Which order guarantees price but not execution?

CHAPTER SEVEN

Order Types & the Trading Day

Now that you can read the order book, you can master the toolkit that acts on it. There are more order types than the two you've met — each a precise instruction — and the trading day itself has distinct sessions, each with its own rules.

IN THIS CHAPTER YOU WILL LEARN

- The main order types and what each instructs.
- How a stop-loss works — and why it is not foolproof.
- The sessions of a trading day, and what circuits do.

Every order you place is a sentence in a precise language the matching engine understands. Knowing the full vocabulary lets you express exactly what you want — and avoid the costly accidents that come from using the wrong word.

The Order Types You'll Actually Use

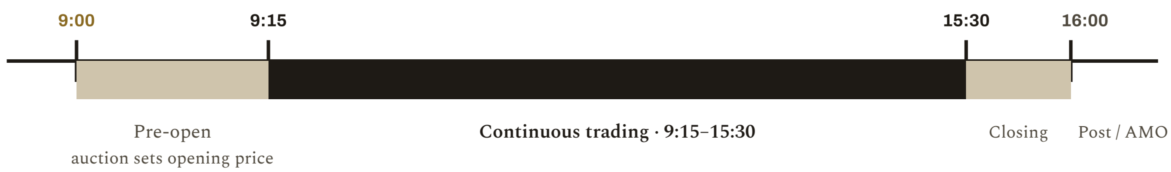
COMPARE & UNDERSTAND · THE ORDER-TYPE TOOLKIT

ORDER TYPE	WHAT IT INSTRUCTS	WHEN TO USE IT
Market	"Fill now, at the best available price."	Liquid stocks, when speed matters more than a few paise
Limit	"Fill only at my price or better."	Almost always for beginners — you control the price
Stop-Loss (SL)	"If price hits my trigger, then place my (limit) order."	To cap a loss / protect a position automatically
Stop-Loss Market (SL-M)	"If price hits my trigger, sell at market."	To guarantee exit once triggered (price not guaranteed)
GTT	"Good-Till-Triggered" — rests for many days till your condition is met	Set-and-forget targets/stops without watching daily
AMO	"After-Market Order" — queued when the market is closed	Placing orders at night for the next session

The **stop-loss** deserves a moment. It's an order that sits dormant until the price touches a *trigger*, then springs to life. Suppose you own a share at ₹500 and want to cap your loss: you set an SL trigger at ₹460. If the price falls to ₹460, your sell order activates automatically — you don't have to be watching. It is the closest thing to an automatic seatbelt the market offers, though, as we'll see, it isn't foolproof in a fast crash (the price can "gap" straight past it).

The Anatomy of the Trading Day

FIGURE 7.1 · THE SESSIONS OF A TRADING DAY



The pre-open auction (9:00–9:15) collects orders, then computes a single fair "equilibrium" opening price — taming the early rush.

Not one long session, but several. *The* **pre-open** *uses a call auction to discover a sensible opening price.* **Continuous trading** *(the order-book matching of Chapter 6) runs 9:15–3:30. A brief* **closing** *session sets the official close, and* **after-market orders** *queue overnight for the next day.*

Circuit Limits: The Brakes on the Engine

To curb runaway prices and manipulation, the exchange imposes **price bands** (**"circuits"**). Individual stocks have daily limits (commonly 5%, 10% or 20%) beyond which they can't move that day — a stock "hitting the upper circuit" has buyers but no sellers willing to trade at the cap, and vice versa. Separately, **market-wide circuit breakers** halt all trading if a benchmark index (Sensex/Nifty) moves 10%, 15% or 20% in a day, for staggered durations. These brakes don't change a company's value; they simply force a pause for information and sanity to catch up.

WATCH OUT

A stop-loss is not a guarantee

Beginners trust a stop-loss like a force field. But in a sudden crash a price can *gap* — leap straight from ₹460 to ₹430 with no trades in between — so an SL-market order may sell well below your trigger, and an SL-limit order may not execute at all if the price blows past your limit. Stop-losses reduce risk; they don't abolish it. Position size and diversification (covered later in the series) are the deeper protections.

KEY TAKEAWAYS

1. **Beyond market & limit:** stop-loss (SL/SL-M) automate exits; GTT rests for days; AMO queues overnight.
2. **A stop-loss lies dormant until a trigger price,** then activates — an automatic (imperfect) seatbelt.
3. **The day has sessions:** a pre-open auction sets the opening price; continuous trading runs 9:15–3:30.
4. **Circuit limits** cap daily moves on stocks, and halt the whole market at 10/15/20% index moves.
5. **Stop-losses can be skipped by price "gaps"** — they reduce, not remove, risk.

SELF-CHECK

1. What does a stop-loss do, and how can a price "gap" defeat it?
2. What happens in the 9:00–9:15 pre-open session?
3. Distinguish a stock-level circuit from a market-wide circuit breaker.
4. When would you prefer a limit order over a market order?

C

PART C

The Plumbing

Behind the price screen sits invisible machinery that makes the whole thing trustworthy: a regulator that polices the game, depositories that hold your shares, and a clearing corporation that guarantees every trade. Most investors never see it. You're about to.

SEBI | DEPOSITORIES & DEMAT | CLEARING & SETTLEMENT | BROKERS

CHAPTER EIGHT

SEBI: The Regulator, In Depth

Every fair game needs a referee with real authority. In the Indian market that referee is SEBI — and the more you understand its three jobs and its genuine powers, the more confidently (and safely) you can play.

FROM INDIAN HISTORY · THE BROKER WHO BROKE THE BANK

HARSHAD MEHTA — THE SCAM THAT RESHAPED INDIAN MARKETS

1992

In the early 1990s, a Bombay stockbroker named Harshad Mehta exploited a loophole in the inter-bank securities settlement system. Banks could lend each other money against government securities; Mehta used forged "bank receipts" to obtain bank loans that he funnelled into the stock market, driving certain stocks (especially ACC) up 4-fold in months. The Sensex more than doubled in fifteen months on what was, ultimately, borrowed and stolen money.

When the scam broke in April 1992, the Sensex fell 50% over the next year. Banks lost an estimated ₹4,000 crore (over ₹40,000 crore in 2026 money). Mehta was charged with 72 criminal cases and 600 civil suits; he died in custody in 2001 with most cases unresolved.

The institutional response shaped modern India's market structure: the National Stock Exchange opened in 1994 (electronic, transparent, broker-independent), SEBI gained real regulatory teeth, the depository system replaced paper certificates (Chapter 9), and the T+1 settlement cycle that Chapter 10 of this book describes is a direct descendant of "never let a Harshad Mehta happen again." The system you trade in today was built on the lessons of 1992.

IN THIS CHAPTER YOU WILL LEARN

- SEBI's three-part mandate.
- The three kinds of power SEBI uniquely combines.

- What SEBI does for you, and how to verify a registration.

The **Securities and Exchange Board of India** began life in 1988 as a toothless advisory body. After the 1992 scam exposed how exposed investors were, Parliament gave it statutory teeth through the SEBI Act of 1992. Today it is one of the most powerful financial regulators in the world, and its existence is the single biggest reason the Indian market is safer than it has ever been.

PLATE 8.1 · SEBI BHAVAN, MUMBAI — HEADQUARTERS OF THE MARKET'S REGULATOR

The referee's home. *From here SEBI writes the rules, registers and inspects brokers and funds, investigates fraud, and runs the SCORES grievance portal — the machinery that makes today's market trustworthy.*

SEBI's Three Jobs

SEBI's mandate, written into its founding law, balances three sometimes-competing aims:

FIGURE 8.1 · SEBI'S THREE-PART MANDATE

Protect, develop, regulate. *These pull against each other — protecting investors can slow development; developing the market can raise risk. SEBI's constant balancing act explains much of what it does, from approving a new product to banning a dubious one.*

Powers That Actually Bite

SEBI is unusual in combining three kinds of power that are normally separated. It has **legislative** power — it writes binding regulations (you'll meet two big ones: the *ICDR* rules that govern how shares are issued, and the *LODR* rules that force listed companies to keep disclosing). It has **executive** power — it registers and inspects brokers, exchanges, mutual funds and advisers, and investigates wrongdoing. And it has quasi-**judicial** power — it can hold hearings, impose fines, disgorge ill-gotten gains, ban people from the market, and order the freezing of assets. A single body makes the rules, enforces them, and judges breaches.

What SEBI Does for You, Specifically

- **Registration:** every legitimate broker, mutual fund, and investment adviser must be SEBI-registered, with a number you can verify online. (Anyone offering “advice” without it is acting illegally.)
- **Disclosure:** SEBI forces companies to publish results and price-sensitive news promptly, so you aren't trading blind against insiders.
- **Enforcement:** it pursues insider trading, manipulation and fraud — and regularly bars offenders and claws back gains.

- **Grievance & education:** it runs the **SCORES** complaint portal, an investor charter, and extensive free investor-education material.

DID YOU KNOW?

SEBI has fined and banned the powerful

SEBI's authority isn't theoretical. Over the years it has barred prominent promoters and even entire firms from the market, ordered the return of hundreds of crores in unlawful gains, and forced a giant unregistered investment scheme to refund investors. For the ordinary investor the lesson is reassuring: there is a powerful body whose entire purpose is to keep the game honest — and whose complaint portal (SCORES) is open to *you.*

WATCH OUT

“SEBI-registered” is checkable — and often faked

Fraudsters love to claim they are “SEBI-registered advisors” or that a scheme is “SEBI-approved.” SEBI registers *intermediaries*; it does not “approve” or guarantee any investment or its returns. Always verify a registration number directly on SEBI's official website, and treat any promise of assured returns as a lie regardless of what regulator is name-dropped. Real authority is verifiable; fake authority hopes you won't check.

KEY TAKEAWAYS

1. **SEBI** (statutory since 1992) is the market's referee, born from the 1992 scam.
2. **Three-part mandate:** protect investors, develop the market, regulate participants.
3. **It combines legislative, executive and quasi-judicial powers** — it can make rules, investigate, fine, and ban.
4. **For you:** registration to verify, disclosure to rely on, enforcement to deter fraud, and SCORES to complain.
5. **“SEBI-registered” is verifiable; “SEBI-approved returns” is always a scam.**

SELF-CHECK

1. State SEBI's three-part mandate.
2. Which three powers does SEBI combine in one body?
3. How can you check whether a broker or adviser is genuine?
4. Is "SEBI-approved returns" a real thing? Explain.

CHAPTER NINE

Depositories & the Demat Revolution

Your shares are not paper in a cupboard, and they are not "inside your app." They live as electronic entries in a national depository. Understanding where they truly sit — and how they got there — removes a surprising amount of beginner anxiety.

IN THIS CHAPTER YOU WILL LEARN

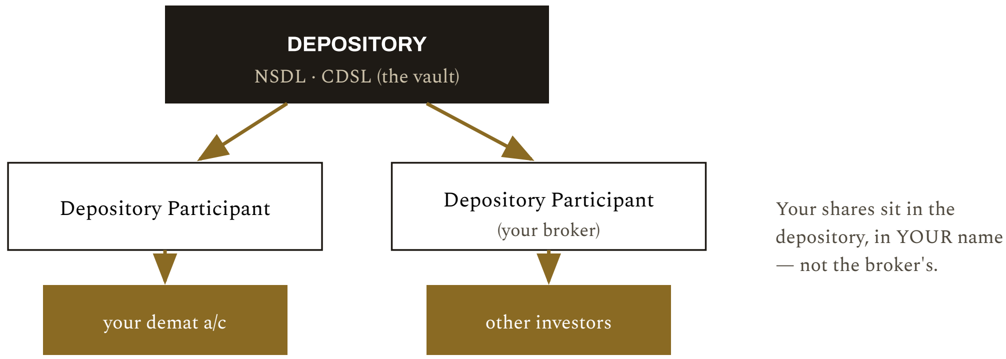
- What dematerialisation solved.
- Where your shares actually live, and in whose name.
- How a demat account differs from a trading account.

Until the mid-1990s, owning shares in India meant holding physical **paper certificates**. They could be forged, stolen, lost, damaged, or delayed in the post; transferring them meant signature checks and weeks of paperwork. The market literally drowned in paper. The fix — **dematerialisation**, or "demat" — was as transformative as the move to screen-based trading.

What "Demat" Means

To **dematerialise** is to convert a physical certificate into an electronic record. Since the late 1990s, shares trade only in demat form. They are held in a **depository** — India has two, **NSDL** (established 1996) and **CDSL** — which function as giant, secure electronic vaults for the nation's securities. Your personal account inside a depository is your **demat account**; you access it through a **Depository Participant** (DP), which is almost always your broker.

FIGURE 9.1 · WHERE YOUR SHARES ACTUALLY LIVE



Your name is on the shares. *A crucial reassurance: shares in your demat account are held in your name at the depository, separate from your broker's own assets. If your broker were to fail, your shares are not theirs to lose — a structural protection that simply didn't exist in the paper era.*

How a Trade Moves Your Shares

When you buy, the shares are credited to your demat account (by the settlement process in Chapter 10); when you sell, they're debited from it. Each company's shares carry a unique **ISIN** code, so there's never ambiguity about what you hold. You can log in any time and see your holdings; the depositories even send you a periodic statement and SMS/email alerts whenever securities move — a built-in fraud check.

Demat account vs. trading account — the recurring confusion

They are different things that work together (we'll formalise it in Chapter 11). The **demat account** is the *vault* where your shares rest. The **trading account** is the *mechanism* that places buy/sell orders on the exchange. Buying pushes money out (via your bank) and pulls shares into the demat; selling does the reverse. Brokers bundle the two so seamlessly that beginners think they're one — but knowing they're separate explains where your shares “are” at every step.

DID YOU KNOW?

India once lost shares to floods, fire and forgery

In the paper era, “bad delivery” — certificates rejected for a mismatched signature or a torn corner — was a routine nightmare, and stories abound of share certificates destroyed by floods, fires, or simply lost in transit, sometimes wiping out an investor's holding entirely. Dematerialisation didn't just speed things up; it abolished an entire category of loss. The boring electronic entry in your demat account is quietly one of the great consumer protections in Indian finance.

KEY TAKEAWAYS

1. **Demat = shares as secure electronic records,** replacing forgeable paper certificates (since the late 1990s).
2. **Two depositories** — **NSDL & CDSL** — are the national vaults; you reach them via a DP (your broker).
3. **Shares sit in your name at the depository,** separate from the broker's own assets — a key protection.
4. **Demat** (**vault**) **and trading** (**order-placing**) **accounts are different** but work together.

SELF-CHECK

1. Name India’s two depositories.
2. In whose name are your demat shares held — and why does that protect you if your broker fails?
3. What is the role of a Depository Participant?
4. Which account holds shares, and which places orders?

CHAPTER TEN

Clearing & Settlement: The Invisible Guarantee

Here is the question that should worry every beginner — but almost never does, because the system solved it so well: when you buy from a stranger, what stops them from taking your money and never delivering the shares? The answer is one of the most ingenious institutions in finance.

IN THIS CHAPTER YOU WILL LEARN

- What clearing and settlement each do.
- How novation removes counterparty risk.
- The default waterfall and the T+1 settlement cycle.

A matched trade (Chapter 6) is just a promise: I'll pay, you'll deliver. **Clearing** works out exactly who owes what to whom; **settlement** is the actual exchange of money and shares. Between the two sits a guardian that removes the risk that either side fails to keep its promise — the **clearing corporation**.

Novation: The Trick That Removes Counterparty Risk

When your buy order matches a stranger's sell order, you do *not* end up legally trading with that stranger at all. Instead, the **clearing corporation** (NSE Clearing for the NSE; ICCL for the BSE) steps into the middle through a legal process called **novation**: it becomes the *buyer to every seller* and the *seller to every buyer*. This makes it the “central counterparty” (CCP) to all trades.

FIGURE 10.1 · NOVATION: THE CLEARING CORPORATION STEPS IN

You never have to trust the stranger on the other side — only the clearing corporation, which guarantees both legs.

If the seller defaults, the clearing corp delivers anyway — and chases the defaulter itself, backed by a huge guarantee fund.

The middle that removes the risk. *Because the clearing corporation guarantees both sides, a default by your unknown counterparty is its problem, not yours. India's clearing corporations were among the first in the world to guarantee settlement, and maintain a multi-thousand-crore "Core Settlement Guarantee Fund" precisely for this.*

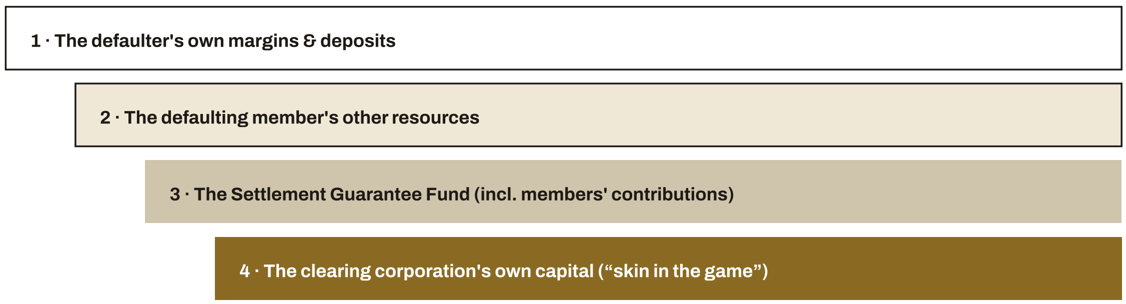
Netting: Why Only the Difference Moves

The clearing corporation also performs **netting**. If, across a day, a broker's clients bought 10,000 shares of a company and sold 9,300, only the *net* 700 need to be delivered — not all 19,300 gross. Netting massively reduces the money and shares that must actually move, making settlement faster, cheaper and safer. It's invisible to you, but it's why the system can handle crores of trades a day without seizing up.

The Default Waterfall: Why the Guarantee Is Credible

A guarantee is only as good as the money behind it. So what actually happens if a member *does* fail to pay or deliver? The clearing corporation absorbs the loss through a defined sequence — the **default waterfall** — dipping into one pool only after the previous one is exhausted:

FIGURE 10.3 · THE DEFAULT WATERFALL



Each layer is tapped only after the one above is exhausted — so an ordinary investor is many lines removed from any loss.

Layered protection. *India's clearing corporations maintain a* **Core Settlement Guarantee Fund** *running into thousands of crores, and contribute their own capital to it — meaning the institution has its own money at risk, aligning its incentives with safety. For you, the takeaway is simple: a counterparty default is absorbed by deep, pre-funded layers long before it could ever reach your settled holdings.*

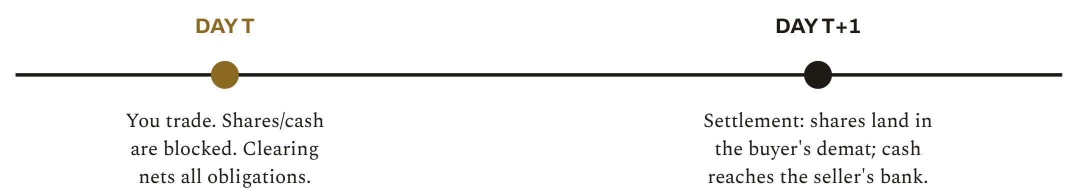
Where Settlement Is Heading

The plumbing keeps modernising. Having led the world to **T+1**, India has introduced an *optional* **same-day** (**T+0**) settlement for a limited, growing set of stocks — and is rolling out a **UPI-block** (**ASBA-like**) **facility for the secondary market**, so that, just as in an IPO, your money can stay blocked in your own bank account (earning interest, under your control) until a trade actually settles, rather than sitting with the broker. The direction of travel is unmistakable: faster, safer, and with your money staying closer to you.

T+1: The Settlement Timeline, Day by Day

India settles equity trades on a **T+1** cycle — one working day after the trade. India was the first major market to complete this move (in a phased rollout finishing in January 2023), ahead of the United States. Here's what actually happens:

FIGURE 10.2 · THE T+1 SETTLEMENT TIMELINE



Trade today, settle tomorrow. *On day T your trade is locked and obligations are netted; by the end of T+1, money and shares have genuinely changed hands. (India is also piloting an optional* **same-day T+0** *settlement, which may spread over time.) Until settlement completes, the clearing corporation's guarantee stands behind it all.*

DID YOU KNOW?

India out-modernised Wall Street

For decades India's market was dismissed as a developing-world afterthought. Yet India completed its phased move to **T+1 settlement in January 2023** — and the United States only followed in **May 2024.** India's clearing infrastructure is now studied by other countries as a model. The plumbing you'll rely on as a beginner is, genuinely, among the most advanced anywhere.

WATCH OUT

You can't (usually) sell what hasn't settled — and beware “auctions”

Because of T+1, shares you buy are firmly yours to *re-sell as delivery* only after they settle. And if a seller fails to deliver shares they sold, the exchange buys them in the open market through an **auction** and charges the defaulter the cost — which can be painful. The practical lesson: don't sell shares you don't actually hold in demat (“short delivery”), and understand that the settlement system, while a guarantee *to* you, also imposes discipline *on* you.

KEY TAKEAWAYS

1. **Clearing works out who owes what; settlement moves the money and shares.**
2. **Novation** puts the clearing corporation in the middle as buyer-to-every-seller and seller-to-every-buyer, removing counterparty risk.
3. **A huge guarantee fund** means a stranger's default is the clearing corp's problem, not yours.
4. **Netting** moves only net obligations, making settlement efficient.
5. **T+1** (India led the world) completes settlement one working day after the trade.

SELF-CHECK

1. Explain novation in one sentence.
2. What is netting, and why does it make settlement efficient?
3. List the layers of the default waterfall in order.
4. On a T+1 cycle, when do shares and cash actually change hands?

CHAPTER ELEVEN

Brokers & the Account Ecosystem

You cannot walk up to the NSE and buy a share. By law, you must go through a SEBI-registered broker — your gateway to the exchange, your depository participant, and the business whose incentives you should understand before you trust it.

IN THIS CHAPTER YOU WILL LEARN

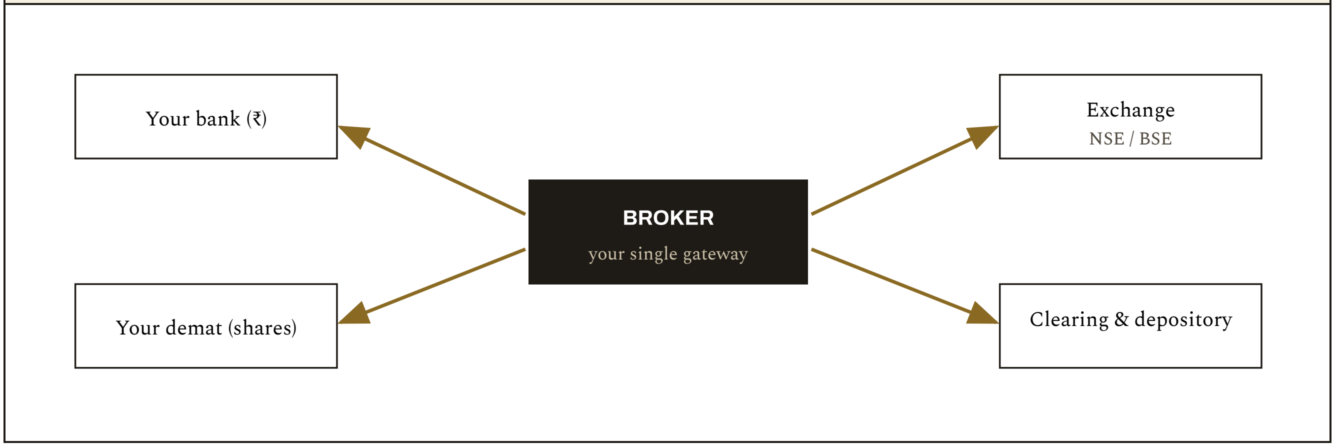
- The three linked accounts and how the broker connects everything.
- How brokers earn money — and why that shapes their behaviour.
- Discount versus full-service, and how to verify and guard your account.

The broker is the one piece of the machine you'll interact with daily, so it pays to understand exactly what it is, how it connects you to everything else in this part, and — crucially — how it makes its money, because that shapes how it behaves.

The Three Accounts, Formalised

We can now assemble the whole picture. To invest you need three linked accounts: a **bank account** (holds your rupees), a **trading account** (places orders on the exchange), and a **demat account** (holds your shares at the depository). The broker provides the trading account and, acting as your **Depository Participant**, the demat account too, and links both to your bank.

FIGURE 11.1 · THE BROKER CONNECTS EVERYTHING



One gateway, four connections. *The broker links your bank, your demat account, the exchange, and the clearing/depository system into a single app. Everything in Parts B and C is stitched together here — which is why understanding those parts first makes the broker feel transparent rather than magical.*

How Brokers Make Money (and Why It Matters)

"Zero brokerage" is a famous pitch — so how do brokers earn? Several ways: **brokerage fees** (often flat per trade, or a small percentage), interest on the cash and on **margin** they lend you, fees on premium features and derivatives, and other charges. The key insight is that many brokers earn more when you *trade more*. That creates a subtle pull — gamified apps, "free" intraday leverage, nudges to act — that quietly works against the patient investor's interest. Understanding a business's incentives is the first step to resisting them.

COMPARE & UNDERSTAND · DISCOUNT VS. FULL-SERVICE BROKERS

	DISCOUNT BROKER	FULL-SERVICE BROKER
Brokerage	Very low / flat; often zero on delivery	Higher, sometimes a % of trade value
Research & advice	Minimal — do-it-yourself	Reports, tips, relationship manager
Best for	Self-directed, cost-conscious investors	Those who want hand-holding (and will pay for it)
Watch for	Gamification nudging over-trading	Advice that may push you to trade/buy products

WATCH OUT

Margin & leverage — the broker's most profitable trap

Brokers may offer to lend you money ("margin") so you can buy more than your cash allows, charging interest. It magnifies gains — and losses — and is a major reason beginners blow up. For everything in this volume, use only your own money ("delivery," paid in full). Leverage is a tool for professionals managing risk, not a shortcut for beginners; we treat it carefully in Volume V.

Choosing & verifying a broker

For most readers of this series — who intend to buy and hold quality companies and index funds — a low-cost **discount broker** is the sensible default; every rupee saved in fees stays invested and compounds. Whatever you pick: confirm it is **SEBI-registered** and a member of NSE/BSE (the registration is public); prefer well-established names; and never, ever share your password or OTP, or let anyone "trade on your behalf for guaranteed returns." Your accounts are yours alone.

KEY TAKEAWAYS

1. **You must trade through a SEBI-registered broker** — your single gateway to exchange, clearing and depository.
2. **Three linked accounts:** bank (money), trading (orders), demat (shares); the broker provides the latter two.
3. **Many brokers earn more when you trade more** — beware gamification and margin.
4. **Discount brokers suit most long-term investors;** always verify SEBI registration and guard your login.

SELF-CHECK

1. Name the three accounts and what each holds.
2. Give two ways a broker earns money — why does that create a pull toward over-trading?
3. What is "margin," and why should beginners avoid it?
4. State two non-negotiable account-safety rules.

D

PART D

Indices & Market Measurement

"Sensex up 400 points." "A large-cap stock." "India's market cap crossed $5 trillion." These phrases are everywhere — and most people repeat them without knowing what they mean. Two chapters fix that for good.

HOW AN INDEX IS CALCULATED | FREE-FLOAT METHOD | MARKET CAPITALISATION | LARGE/MID/SMALL-CAP

CHAPTER TWELVE

How an Index Is Built & Calculated

An index is a single number standing in for a whole market. But where does that number come from, why do bigger companies move it more, and what does it really mean when the Sensex "crosses 80,000"? Let's build one from scratch.

IN THIS CHAPTER YOU WILL LEARN

- How index members are chosen and weighted.
- The free-float method, and the role of the hidden divisor.
- How to translate index "points" into a percentage move.

You cannot watch all 5,000 listed companies at once, so the market uses an **index**: a curated basket of important shares, distilled into one figure that rises and falls with the basket's value. India's headline indices are the BSE's **Sensex** (30 companies) and the NSE's **Nifty 50** (50 companies).

Step 1 — Choosing the Members

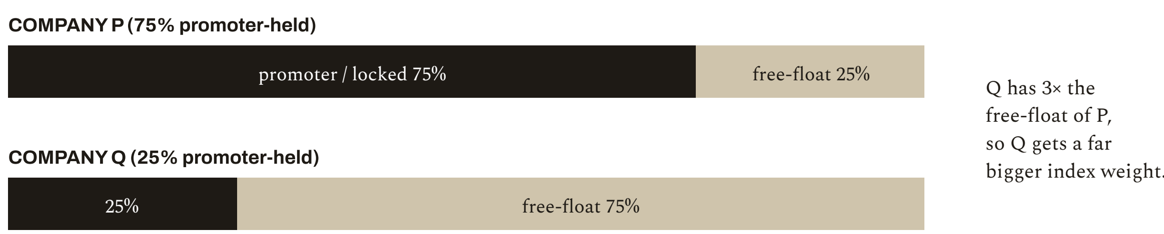
An index provider selects companies by clear rules: they must be large, highly **liquid** (heavily traded), and broadly **representative** of the economy's major sectors — banking, IT, energy, FMCG, autos and so on. The aim is for the basket to behave like a fair sample of "the market." Membership isn't permanent: at each review, fading companies drop out and rising ones are added (more on this below).

Step 2 — Weighting by Free-Float Market Cap

Members are *not* treated equally. Both the Sensex and Nifty are **free-float market-capitalisation weighted**, which means two things. *Market-cap weighted:* a bigger company counts for more, in proportion to its total market value. *Free-float:* only the shares actually **available for public trading** are counted — promoter holdings, government stakes and other locked-in shares are excluded, because they aren't really part of the tradable market.

FIGURE 12.1 · WHY "FREE-FLOAT" CHANGES THE WEIGHT

Two companies, same total market cap of ₹1,00,000 cr — but very different free-floats:



Only the tradable part counts. *Even with identical total value, the company with more shares in public hands gets the bigger index weight — because the index measures the investable market, not shares locked away with promoters. This is why a company's index weight can differ sharply from its raw size.*

Step 3 — The Formula & the Divisor

The index value is computed by comparing today's total free-float market cap of all members to a fixed **base** value from a starting date:

```
Index = (Current free-float market cap ÷ Base market cap) × Base index value
```

The Sensex's base is set so that 1978–79 = 100; the Nifty's base is 1995 = 1,000. There's one elegant complication. When a member does a stock split, bonus, or rights issue — or when a company enters or leaves the index — the raw market cap jumps for reasons that have nothing to do with the market actually moving. To keep the index *continuous*, the provider quietly adjusts a behind-the-scenes number called the **divisor**, so the index doesn't lurch artificially. You never see the divisor, but it's why corporate actions don't create phantom jumps in the Sensex.

Free-float market cap of one company is itself a quick calculation:

```
Free-float mkt cap = price × shares × free-float %
```

WORKED CALCULATION · A THREE-STOCK INDEX, BUILT FROM SCRATCH

```
Base day — total free-float market cap of the three members:
  A ₹4,000 cr + B ₹3,500 cr + C ₹2,500 cr = ₹10,000 cr
  We define this as Index = 1,000.

One year later — caps are now A ₹5,200, B ₹4,300, C ₹2,500 cr:
  New total = 5,200 + 4,300 + 2,500 = ₹12,000 cr

Index = (12,000 ÷ 10,000) × 1,000 = 1,200  (+20%)
```

The index rose 20% — exactly the basket's rise. Note A (the biggest) moving up pulled the index more than C standing still: free-float weighting in action. If B did a 2:1 split, its market cap wouldn't change but its share count would — so the hidden divisor is adjusted to keep the index at 1,200, not jolt it. (Illustrative.)

Step 4 — Rebalancing

Indices are reviewed and **rebalanced** on a schedule — the Nifty 50, for instance, semi-annually (around June and December). Companies that have shrunk or become illiquid are removed; larger, more liquid ones are added. Inclusion in a major index is a big deal: index funds (which must hold exactly what the index holds) are forced to buy the newcomer, often giving it a demand boost — and the reverse for those dropped.

DID YOU KNOW?

The Sensex grew ~800× in four decades

The Sensex began at a base of 100 (for 1978–79). Crossing 80,000 means India's basket of top companies is collectively worth roughly **800 times** its 1979 level — an extraordinary record of long-term economic growth, compounding through every scam, crash and recession along the way. The number isn't magic; it's a measuring stick. But the direction of travel, over decades, tells the story of a rising economy.

WATCH OUT

"Points" are not "percent"

News channels love drama: "Sensex crashes 800 points!" But when the index is at 80,000, an 800-point move is just **1%** — a perfectly ordinary day. The same 800 points when the Sensex was at 8,000 would have been a dramatic 10%. Always translate point-moves into *percentages* before reacting; the headline number is engineered to sound bigger than it is.

KEY TAKEAWAYS

1. **An index is a curated, weighted basket** of liquid, representative shares, shown as one number.
2. **Sensex (30) & Nifty 50** are free-float market-cap weighted — bigger, more public companies count more.
3. **Free-float counts only publicly tradable shares,** excluding promoter/locked holdings.
4. **A hidden "divisor"** keeps the index continuous through corporate actions; indices **rebalance** periodically.
5. **Translate "points" into "percent"** before reacting to headlines.

SELF-CHECK

1. Why does a bigger, more public company move the index more?
2. What does the divisor accomplish?
3. The Sensex moves 800 points from a level of 80,000 — what percentage is that?
4. Why is free-float used instead of total market cap for weighting?

CHAPTER THIRTEEN

Market Capitalisation & the Size of Things

"Market cap" is the single most useful word for measuring size — of a company, a category, or an entire nation's market. Master it and you'll stop being fooled by share prices, and you'll gain a rough gauge of whether the whole market is cheap or dear.

IN THIS CHAPTER YOU WILL LEARN

- How market cap is calculated, and why it is the true measure of size.
- The large/mid/small-cap definition and its risk gradient.
- Free-float versus full market cap, and the market-cap-to-GDP gauge.

We met market cap briefly already; now we give it the depth it deserves, because almost every classification and comparison in investing rests on it.

The Definition That Cures a Common Error

A company's **market capitalisation** is simply:

```
Market cap = share price × total number of shares
```

This is the only honest measure of a company's size — and it cures the beginner's instinct to judge a company by its share price. Watch how the cheaper-looking share is the bigger company:

WORKED CALCULATION · PRICE LIES; MARKET CAP TELLS THE TRUTH

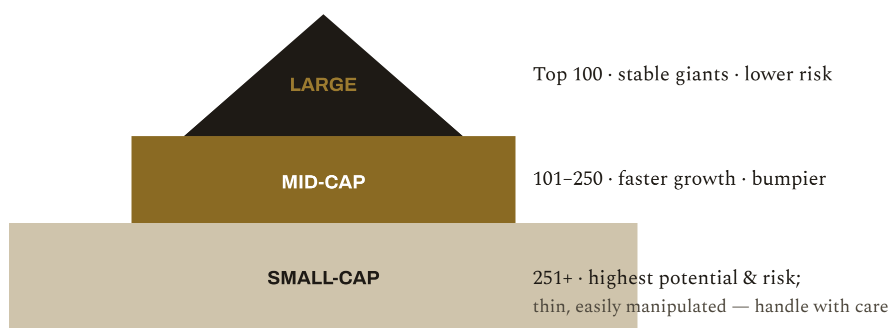
```
Company X: ₹50 × 200 crore shares = ₹10,000 crore
Company Y: ₹5,000 × 1 crore shares = ₹5,000 crore
```

*The ₹50 share (X) belongs to a company **twice** the size of the ₹5,000 share (Y). The per-share price is just an accident of how many slices the ownership was cut into (Chapter 2); market cap is the whole pie. Never judge size — or "expensiveness" — by share price alone.*

Large, Mid & Small-Cap — the SEBI Definition

India classifies companies precisely. SEBI ranks all listed companies by market cap: the **top 100** are **large-caps**, ranks **101–250** are **mid-caps**, and everything from **251 onwards** is **small-cap**. This isn't trivia — mutual funds are categorised by these buckets, and the buckets carry very different risk-and-reward characters.

FIGURE 13.1 · THE MARKET-CAP PYRAMID



As you descend, potential return rises — and so does volatility, illiquidity, and vulnerability to manipulation.

Higher reward, higher risk, lower down. *Large-caps are the steady blue-chips most beginners should anchor to. Mid- and small-caps can grow faster but fall harder and are far easier for manipulators to "pump" (recall the thin order books of Chapter 6). Size is a proxy for safety.*

Free-Float vs. Full Market Cap

Two flavours of market cap matter. **Full** market cap uses all shares; **free-float** market cap counts only publicly tradable shares (Chapter 12), and is what index weights use. For judging a company's economic size, full market cap is fine; for understanding its index influence or how much can actually be bought and sold, free-float is the relevant number.

The Whole Market, and the "Buffett Indicator"

Add up the market cap of *every* listed company and you get the total market capitalisation of India — a figure that has crossed several trillion US dollars, placing India among the world's largest markets. There's a famous, rough valuation gauge built from this: the **market-cap-to-GDP ratio** (sometimes called the "Buffett Indicator"), comparing the value of all shares to the size of the economy. Very high readings hint the market may be expensive relative to the real economy; low readings, cheap. It's a blunt instrument, not a timing tool — but a useful sense-check against euphoria.

IN RUPEES

Imagine a company with a share price of ₹250 and 40 crore shares outstanding. Market cap = ₹250 × 40,00,00,000 = **₹10,000 crore.** If it ranks, say, 180th by size in India, it's a **mid-cap.** Now suppose promoters hold 70%; its free-float is only 30%, so its *free-float* market cap — the part that matters for index weight and liquidity — is just ₹3,000 crore. Same company, two very different "sizes" depending on which lens you use.

> WATCH OUT
>
> ### Beware the "cheap because low price" illusion in small-caps
>
> Manipulators and over-eager beginners both love a ₹15 "penny stock," imagining it's a bargain with room to "easily double." But a low price says nothing about value — and small-caps' thin order books make them the favourite playground of pump-and-dump operators (a recurring theme of this series). Judge by market cap and business quality, never by the smallness of the per-share number.

KEY TAKEAWAYS

1. **Market cap** = **price** × **shares** — the only honest measure of company size.
2. **SEBI buckets:** top 100 = large-cap, 101–250 = mid-cap, 251+ = small-cap; risk rises as size falls.
3. **Free-float market cap** (tradable shares only) drives index weight and liquidity; full market cap measures economic size.
4. **Market-cap-to-GDP** (**"Buffett Indicator"**) is a rough gauge of whether the whole market is dear or cheap.
5. **Never mistake a low share price for "cheap."**

SELF-CHECK

1. Compute the market cap of a ₹250 share with 40 crore shares; if it ranks 180th, what cap-class is it?
2. Why is a ₹15 share not necessarily "cheap"?
3. How does SEBI define large, mid and small-cap?
4. What does a very high market-cap-to-GDP ratio hint at?

E

PART E

The IPO — Full Lifecycle

The IPO is where the public first meets a company — and where beginners most often get hurt, dazzled by hype. Four chapters take you through the entire journey: why a company lists, how its price is discovered, how shares are allotted, and what the corporate actions that follow really mean.

CHAPTER FOURTEEN

The Decision to Go Public & the DRHP

*An **IPO** — Initial Public Offering — is the first time a private company sells its shares to the general public and lists them on an exchange. It is a long, regulated, expensive journey, and it begins with one enormous document that tells you almost everything you'd want to know.*

ARUN — A VETERAN INVESTOR'S FIRST IPO QUESTION

Arun has invested for thirty years. He bought his first mutual funds in 1995, weathered the Harshad Mehta scam aftermath as a young saver, lived through the dot-com crash, the 2008 collapse, and the COVID crash. He has roughly ₹80 lakh saved across PPF, FDs, and equity funds. Through all of it, he has never bought a single individual stock or applied for an IPO. He has always invested through mutual funds.

His 28-year-old daughter is excited about an upcoming IPO and asks him to subscribe in their joint demat account. Arun pauses. He understands the company — an established business with a real product. The valuation seems aggressive but defensible. The IPO will be oversubscribed. Should he participate? *Arun's reasoning, after reading this book:* apply for ₹15,000 (the minimum), accept that he might not get any allotment, and treat it as an educational expense rather than a wealth-building move. For the wealth side of his portfolio, he sticks with the discipline that has worked for thirty years — the funds. New tools don't change old principles.

IN THIS CHAPTER YOU WILL LEARN

- What an IPO is, and fresh issue versus offer for sale.
- The cast of players who run an IPO.
- What the DRHP contains, and the two sections to read first.

Let's define it cleanly. In an IPO, a company offers shares to the public for the first time; investors who apply and are allotted shares become its new part-owners; and once listed, those shares trade freely on the NSE/BSE. It is the bridge between the private world (Chapter 3) and the public market — and crossing it takes months and a small army of specialists.

Fresh Issue vs. Offer for Sale

First, understand *where your money goes*, because an IPO can be two very different things — often blended. In a **fresh issue**, the company creates and sells *new* shares, and the money raised goes *into the company* to fund growth, repay debt, etc. In an **Offer for Sale** (**OFS**), existing owners (promoters, early VCs) sell *their own* shares, and the money goes *to them*, not the company. A pure OFS raises nothing for the business — it's an exit for insiders. Always check the split: a fresh issue funds the future; a large OFS may simply be early backers cashing out.

The Cast of Characters

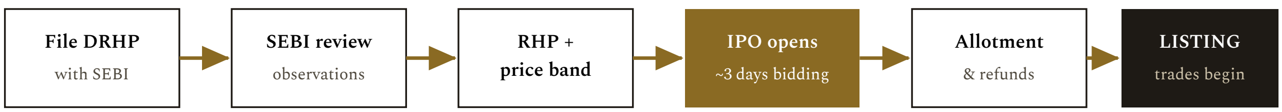
- **Merchant bankers / lead managers** (the "book-running lead managers") — investment banks that orchestrate the whole IPO: due diligence, paperwork, pricing, and marketing.
- **The registrar** — handles applications, allotment, and refunds (you'll see names like KFintech or Link Intime).
- **Underwriters** — who may commit to buy unsold shares, reducing the company's risk.
- **SEBI & the exchanges** — the gatekeepers who review and approve.

The DRHP: The Single Most Useful Document You'll Ignore

Before an IPO, the company files a **Draft Red Herring Prospectus** (**DRHP**) with SEBI — a vast, legally-required disclosure document that lays the company bare. It contains the business model, detailed financials, the promoters and their background, the **"Risk Factors"** (a frank list of everything that could go wrong), pending litigation, debt, and exactly how the IPO money will be used ("Objects of the Issue"). SEBI reviews it and issues observations; the company then files a near-final **Red Herring Prospectus** (**RHP**) with the price band before the IPO opens.

FIGURE 14.1 · THE ROAD TO LISTING

Months of preparation; a few days of public bidding; one dramatic listing day.



The DRHP is public — anyone can read it free on SEBI's or the exchanges' websites before deciding to apply.

From draft to debut. *The whole machinery exists to ensure that by the time you can apply, a vast amount about the company has been disclosed and vetted. The tragedy is that most retail applicants never open the DRHP — and instead bet on rumour (Chapter 16).*

WATCH OUT

Read the "Risk Factors" and "Objects of the Issue"

If you read only two sections of any DRHP, read these. The **Risk Factors** are the company's own legally-required confession of what could go wrong — declining margins, lawsuits, dependence on one customer, promoter issues. The **Objects of the Issue** tell you what the money is for: funding a new plant (good) is very different from mostly letting early investors exit (an OFS). These two sections cut through every glossy advertisement.

KEY TAKEAWAYS

1. **An IPO is a company's first public sale of shares,** bridging the private world and the listed market.
2. **Fresh issue → money to the company;** Offer for Sale → money to existing owners (an exit). Check the split.
3. **Lead managers, registrar, underwriters, SEBI & exchanges** run the months-long process.
4. **The DRHP discloses everything** — especially the Risk Factors and Objects of the Issue. Read them.

SELF-CHECK

1. Where does the money go in a fresh issue versus an offer for sale?
2. What is the DRHP, and which two sections should you read first?
3. Name two key players who run an IPO.
4. Why does a large OFS deserve extra caution?

CHAPTER FIFTEEN

Book-Building: How an IPO Is Priced

How does a company decide that its shares are "worth" ₹540 each at listing? It doesn't simply declare a price — it runs a clever auction-like process called book-building, in which big investors' demand helps discover the price. Understanding it explains the whole circus of "subscription" numbers you see in the news.

IN THIS CHAPTER YOU WILL LEARN

- How book-building discovers an IPO price.
- The three investor categories and the role of anchor investors.
- What subscription numbers do — and do not — tell you.

There are two ways to price an IPO. In a **fixed-price** issue the company simply names one price. Far more common for sizable IPOs is **book-building**, where the company offers a **price band** (say ₹500–₹540) and invites investors to *bid* within it; the final price is then set based on the demand collected. It's price discovery (Chapter 5) applied to a brand-new share.

The Price Band & the Cut-Off

The company and its bankers announce a narrow band with a **floor** and a **cap** (the band's width is regulated to be modest). Investors bid for a quantity at a price within the band; retail investors can simply bid "at cut-off," agreeing to accept whatever final price is set. Once bidding closes (the IPO is typically open about three working days), the bankers examine the aggregate demand and fix the **cut-off price** — usually at or near the top of the band if demand is strong.

The Three Investor Categories

Crucially, an IPO's shares are split into reserved buckets for different kinds of investor, each playing a different role:

FIGURE 15.1 · WHO GETS THE SHARES (BOOK-BUILT IPO)

QIBs — Qualified Institutional Buyers
mutual funds, insurers, banks, FPIs · the big professionals

NIIs / HNIs
bids over ₹2 lakh

RIIs — Retail
bids up to ₹2 lakh (you)

Mainboard split (typical):

- QIBs ≥ 50% (often ~75% for some routes)
- NIIs ~15%
- Retail ~35% (or ~10% on the QIB-heavy route)

Anchor investors (a sub-set of QIBs) may take up to ~60% of the QIB portion a day early, with lock-ins — a vote of big-money confidence.

Exact reservations depend on the IPO route & SEBI rules; the principle is what matters — different investors, different buckets.

Three buckets of buyers. QIBs *are the big institutions whose participation signals professional confidence.* **NIIs/HNIs** *bid above ₹2 lakh, often using borrowed money.* **Retail (RII)** *— you — bid up to ₹2 lakh, with shares reserved so ordinary investors aren't shut out. The reservations are set by SEBI's rules.*

Anchor Investors: The Confidence Signal

A day before the IPO opens to everyone, the company may allot a large slice of the QIB portion to **anchor investors** — marquee institutions that commit big money (each bidding a substantial minimum) at the top of the band, and accept a **lock-in** (they can't sell immediately). Their presence is meant to signal confidence to the rest of the market. It's a useful clue — reputable anchors suggest serious institutional belief — but, like all clues, not a guarantee.

Subscription & Oversubscription

As bids pour in, the IPO's **subscription** is tracked live: “subscribed 1×” means demand exactly matched the shares on offer; “subscribed 40×” means forty times more demand than shares — wildly oversubscribed. Heavy oversubscription, especially in the QIB and retail categories, signals strong appetite — but also means most retail applicants *won't* get an allotment (Chapter 16). It is exciting to watch and easy to over-read.

DID YOU KNOW?

Some Indian IPOs have been subscribed 100× and more

In hot markets, popular Indian IPOs — especially smaller ones — have been oversubscribed dozens or even hundreds of times over, with applications worth lakhs of crores chasing a tiny pool of shares. It looks like a stampede of easy money. But remember: extreme oversubscription means most applicants get *nothing*, and a frenzy at the offer often precedes disappointment after listing. Demand is a measure of excitement, not of value.

WATCH OUT

Don't confuse “heavily subscribed” with “good investment”

A huge subscription number is the most over-weighted signal in retail IPO investing. It reflects crowd excitement (and HNIs using leverage to chase allotment), not the company's quality or the sensibleness of the price. Plenty of massively oversubscribed IPOs have listed flat or fallen. Judge the business and valuation (Volume II) and read the DRHP — the subscription headline is theatre.

KEY TAKEAWAYS

1. **Book-building discovers the price** via a band and investor bids, fixing a final "cut-off"; retail can bid "at cut-off."
2. **Three categories:** QIBs (big institutions), NIIs/HNIs (bids > ₹2 lakh), and Retail/RII (≤ ₹2 lakh), each with reserved buckets.
3. **Anchor investors** (a QIB subset) commit big money early with lock-ins — a confidence signal, not a guarantee.
4. **"Subscribed N×"** shows demand vs. shares offered; heavy oversubscription means most retail applicants get nothing.
5. **Subscription ≠ quality.** It's excitement, not value.

SELF-CHECK

1. What is a price band, and what does bidding "at cut-off" mean?
2. Name the three IPO investor categories and the retail bid limit.
3. What is an anchor investor, and what does its presence signal?
4. "Subscribed 40×" — what does it mean, and what does it imply for retail allotment?

CHAPTER SIXTEEN

Applying, Allotment & Listing Day

Now the practical mechanics: how you actually apply (India's UPI system makes it elegant), why you might not get the shares even after applying, and what really happens on the dramatic "listing day" everyone watches.

A CONTRARIAN TRUTH

"The Indian retail investor pays more in IPO research than the IPOs earn them on average."

Academic studies of Indian IPO returns (NSE-funded research, plus independent work by IIM Ahmedabad in 2019) found that the average retail investor who buys IPOs and holds them for three years *underperforms* the Nifty 50 by roughly 4-6 percentage points per year. The "listing pop" that retail investors chase is real but small — and is more than offset by the long-term underperformance of newly-listed companies that haven't yet proven themselves.

Yet the financial industry — brokerages, fintech apps, advisor channels — sells IPO research aggressively because the application and allotment process generates fees. *The product is not the IPO; the product is your participation in the IPO.* Once you see this, you stop being the customer.

IN THIS CHAPTER YOU WILL LEARN

- How an ASBA/UPI IPO application works.
- Why allotment is often a lottery, and what listing day brings.
- Why GMP and lock-in expiries matter.

Applying for an IPO in India is refreshingly investor-friendly, thanks to a system that blocks your money rather than taking it. But allotment is often a lottery, and listing day is where the hype meets reality.

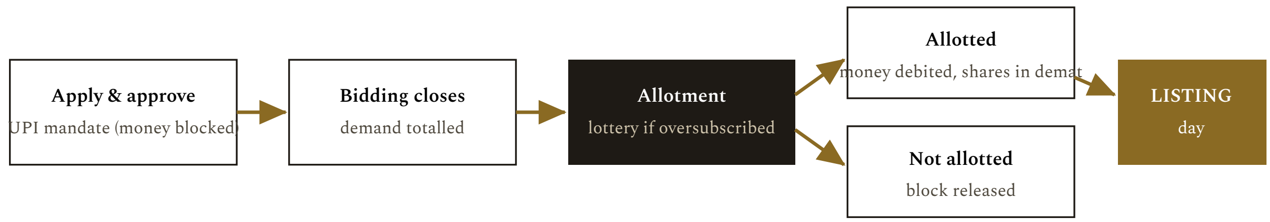
Applying: ASBA & the UPI Mandate

You apply through your broker app or net-banking, choosing a quantity (in multiples of the IPO's **lot size**) and a price (or "cut-off"). The money isn't debited — under **ASBA** ("Application Supported by Blocked Amount"), it is merely *blocked* in your bank account via a **UPI mandate** you approve. The funds keep earning interest and stay yours; they're only actually taken *if* shares are allotted. If you get nothing, the block is simply released. It is one of the cleanest IPO systems in the world.

Allotment: Often a Lottery

If an IPO is oversubscribed in the retail category, not everyone can get shares — so SEBI's rules require a **fair, randomised allotment**. Every valid retail applicant is, as far as possible, treated equally: the system aims to give at least one lot to as many applicants as it can, and where there isn't enough even for that, a computerised **lottery** decides who gets a lot. Applying for more lots does *not* improve your odds of the basic allotment in a heavily oversubscribed retail portion — a crucial and widely misunderstood point.

FIGURE 16.1 · FROM APPLICATION TO LISTING



Thanks to T+1-style IPO timelines, the gap from close to listing is now just a few days.

Block → allot → list, in days. *India has compressed the IPO timeline dramatically; shares now list very soon after the issue closes. If you're allotted, the shares appear in your demat just before listing; if not, your blocked money is freed with nothing lost but a little time.*

Listing Day: Hype Meets Reality

On listing day the share starts trading on the exchange, opening at a price set by a special pre-open session reflecting demand. If it opens above the IPO price, early holders enjoy a **listing gain** (the "pop" everyone chases); if below, a **listing loss** (a "discount"). The opening can be euphoric and volatile. Many retail applicants apply purely hoping to "sell on listing for a quick gain" — sometimes it works, often it doesn't, and it is closer to gambling than investing.

WATCH OUT

The "GMP" is a rumour, not a promise

Before listing, an unofficial, unregulated **grey market** quotes a "Grey Market Premium" (GMP) — a whispered guess at the listing pop. Beginners treat it as a guarantee and apply blindly. But the GMP is opaque, easily manipulated, and frequently wrong; plenty of high-GMP IPOs have listed flat or at a loss. **Never apply because of GMP.** Apply only if you'd be content to *own* the business for years at the offer valuation — the same discipline you'd apply to buying any share.

DID YOU KNOW?

Lock-ins quietly shape the months after listing

Various IPO shares come with **lock-in** periods — anchor investors, promoters and others are barred from selling for set durations. When a big lock-in expires (say, after the anchor's 30- or 90-day window), a wave of selling can hit the stock as those holders finally exit. Savvy investors watch lock-in expiry dates; beginners are often blindsided by the dip. The information is in the prospectus — another reason to read it.

KEY TAKEAWAYS

1. **Apply via ASBA/UPI:** your money is *blocked*, not debited, and released if you get no allotment.
2. **Allotment is a fair lottery** when oversubscribed; applying for more lots doesn't improve basic retail odds.
3. **Listing day** brings a “pop” (gain) or “discount” (loss); chasing the pop is closer to gambling.
4. **Ignore the grey-market GMP;** apply only if you'd own the business at that valuation.
5. **Watch lock-in expiries** — they can trigger post-listing selling.

SELF-CHECK

1. Under ASBA, is your money debited or merely blocked when you apply?
2. Does applying for more lots improve your odds in a heavily oversubscribed retail portion?
3. What is a “listing gain,” and why is chasing it closer to gambling?
4. Why should you ignore the grey-market GMP?

CHAPTER SEVENTEEN

Beyond the IPO: Corporate Actions

An IPO is just a company's first conversation with the public. Afterwards it keeps acting — issuing more shares, splitting them, paying you, buying them back. These "corporate actions" confuse beginners endlessly. Here's what each one really does to your holding.

IN THIS CHAPTER YOU WILL LEARN

- Which corporate actions are value-neutral and which move value.
- How splits and bonuses work.
- Why a rights issue demands a decision from you.

The single most important idea in this chapter: some corporate actions *create or return value*, while others merely *rearrange* it (changing the number or price of your shares with no change in total worth). Mixing these up causes beginners to celebrate non-events and miss real ones.

The Value-Neutral Rearrangements

These change how your ownership is sliced, but not how much you own:

- **Stock split:** each share is divided into more shares of smaller face value (a ₹10 face-value share split into ten ₹1 shares). You hold 10× the shares at 1/10th the price. Total value unchanged — it just improves affordability and liquidity.
- **Bonus issue:** the company gives free additional shares from its reserves (1:1 means one free share per share held). You hold more shares, the price adjusts down proportionally. Total value unchanged — it's an accounting reshuffle, not a gift of wealth.

FIGURE 17.1 · A SPLIT/BONUS CREATES NO NEW WEALTH

BEFORE 1:1 BONUS		AFTER 1:1 BONUS
10 shares @ ₹600 = ₹6,000	→	20 shares @ ₹300 = ₹6,000

Twice the shares, half the price — the same ₹6,000. No wealth created.

Like changing one ₹600 note into two ₹300 notes. Don't buy a stock just because a bonus/split is "coming."

Same pie, more slices. *Splits and bonuses are routinely hyped as bonanzas. They aren't. They can modestly help liquidity and sentiment, but your wealth the moment after is identical to the moment before. Understanding this immunises you against a very common misunderstanding.*

The Actions That Actually Move Value

- **Dividend:** real cash from profits paid to you — genuine value returned (though the share price typically drops by roughly the dividend on the ex-date).
- **Rights issue:** the company offers *existing* shareholders the right to buy new shares, usually at a discount, in proportion to their holding — raising fresh capital. You can take it up (paying in), or (often) sell the right. Ignore it entirely and your stake gets *diluted.*
- **Buyback:** the company uses spare cash to buy back and cancel its own shares, often a sign it believes they're undervalued; it concentrates ownership and can be a tax-efficient way to return cash.
- **FPO / OFS:** ways an already-listed company (or its owners) sells *more* shares to the public after the IPO — a "Follow-on Public Offer" raises new money; an "Offer for Sale" lets large holders sell on the exchange.

COMPARE & UNDERSTAND · DOES IT CHANGE YOUR WEALTH?

CORPORATE ACTION	WHAT HAPPENS	NET EFFECT ON YOUR WEALTH
Stock split	More shares, lower price/face value	Neutral (rearrangement)
Bonus issue	Free extra shares, price adjusts down	Neutral (rearrangement)
Dividend	Cash paid to you; price drops ~dividend	Value returned to you (real cash)
Rights issue	Buy more at a discount, or be diluted	Depends — act, or lose relative stake
Buyback	Company buys & cancels shares	Can add value; returns cash

WATCH OUT

Ignoring a rights issue can quietly cost you

Unlike a bonus, a rights issue asks you to *do* something. If you neither subscribe nor sell your "rights entitlement," your proportional ownership shrinks (dilution) and you forgo the discounted shares — a real, avoidable loss. Always read corporate-action notices from your broker/depository and decide deliberately; the worst response is to do nothing out of confusion.

KEY TAKEAWAYS

1. **Splits & bonuses are value-neutral** — more shares at a proportionally lower price; no new wealth.
2. **Dividends & buybacks return real value;** dividends are cash, buybacks concentrate ownership.
3. **A rights issue requires action** — subscribe or sell the right, or be diluted.
4. **FPO/OFS** are post-IPO ways to sell more shares to the public (new money vs. owners' exit).
5. **Don't chase a stock for an upcoming split/bonus** — it's hype, not wealth.

SELF-CHECK

1. After a 1:1 bonus you hold 20 shares at ₹300 versus 10 at ₹600 before — are you richer?
2. Name two value-neutral actions and two that return or affect value.
3. What happens to your stake if you ignore a rights issue?
4. Why might a buyback signal management confidence?

F

PART F

Prices, Players & Reading the Market

You now know the machinery. This part brings it alive: what actually makes a price move, who is on the other side of your trade, and how to read the quotes and charts on your screen — including the candlestick chart, properly drawn at last.

WHAT MOVES PRICES | THE PLAYERS | QUOTES & DEPTH | CANDLESTICK CHARTS

CHAPTER EIGHTEEN

What Actually Moves a Share Price

A share price is just the last point of agreement between a buyer and a seller (Chapter 6). But what makes that agreement drift from ₹500 to ₹650 — or crash to ₹300? Untangling the forces is the difference between reacting to noise and understanding signal.

IN THIS CHAPTER YOU WILL LEARN

- The three layers — noise, sentiment/flows, fundamentals — and their timescales.
- The recurring drivers of Indian share prices.
- Why prices move on expectations, not just reality.

At the mechanical level, every price move comes from one thing: an imbalance between buyers and sellers in the order book. More eager buyers than sellers, and the price is bid up; the reverse, and it falls. But *why* does that imbalance appear? The reasons stack in layers, from the fleeting to the fundamental.

FIGURE 18.1 · THE LAYERS OF WHAT MOVES A PRICE

NOISE (minutes–days)
rumours, tweets, small order flow, mood — mostly meaningless long-term

SENTIMENT & FLOWS (weeks–months)
FII/DII buying or selling, sector trends, global cues, interest rates

FUNDAMENTALS (quarters–years)
actual earnings, growth, debt, management quality — what truly matters

In the short run the top layer screams loudest; in the long run only the bottom layer is heard.

Graham's "voting machine → weighing machine." The investor's job is to listen to the bottom and ignore the top.

Three layers, three timescales. *Daily moves are mostly* **noise***. Over months,* **sentiment and money flows** *(especially big foreign and domestic institutions) dominate. Over years, only* **fundamentals** *— real earnings — decide the trend. Most beginners trade the top layer and wonder why they lose.*

The Big Recurring Drivers

A few forces move Indian prices again and again. **Earnings & results:** when a company reports quarterly numbers, the price jumps or sinks on whether reality beat or missed expectations — note, it's the *surprise versus expectations* that moves price, not the raw number. **News & events:** a new contract, a regulatory ruling, a management exit, a budget announcement. **Interest rates:** when the RBI raises rates, borrowing costs rise and future profits are "discounted" harder, pressuring prices (especially of richly-valued growth stocks); rate cuts tend to lift them. **Global cues & the rupee:** India doesn't trade in isolation — US markets, crude oil, and the rupee's level all ripple through. And **liquidity & flows:** simply how much money is sloshing toward equities.

PLATE 18.1 · THE RESERVE BANK OF INDIA, MUMBAI — WHERE INTEREST-RATE DECISIONS ARE MADE

The rate-setter. *When the RBI raises or cuts its policy interest rate from this building, the ripple reaches every share price in the country — cheaper money tends to lift markets; dearer money cools them. It is the most powerful single influence on the market that has nothing to do with any one company.*

PHOTOGRAPH VIA WIKIMEDIA COMMONS, USED UNDER A FREE LICENCE.

"Buy the rumour, sell the news"

A famous market saying captures why prices sometimes *fall* on good news. If everyone *expects* a great result and buys in advance, the price already reflects that optimism by the time the news arrives — so when even good news merely *meets* the lofty expectation, early buyers sell to take profit, and the price dips. Prices move on the gap between *reality and expectations*, not on reality alone. This single idea explains a thousand "why did it fall on good news?!" mysteries.

WATCH OUT

Confusing a reason with a cause

Every evening, news anchors confidently "explain" the day's move ("markets fell on profit-booking"). Much of this is storytelling fitted to whatever happened — the honest answer is often "more sellers than buyers today, for many small reasons." Don't build decisions on these tidy after-the-fact narratives. Focus on the bottom layer (fundamentals) and let the daily theatre wash past you.

KEY TAKEAWAYS

1. **Mechanically, price moves from buyer/seller imbalance** in the order book; the *reasons* stack in layers.
2. **Noise** (**days**) → **sentiment & flows** (**months**) → **fundamentals** (**years**). Long-term, only fundamentals matter.
3. **Key drivers:** earnings surprises, news, interest rates, global cues/rupee, and money flows.
4. **Prices move on reality vs. expectations** — hence "buy the rumour, sell the news."
5. **Ignore tidy evening "explanations";** focus on the business.

SELF-CHECK

1. Order by timescale: fundamentals, noise, sentiment/flows.
2. Why can a stock fall on good news?
3. Name three big recurring drivers of price.
4. Over years, which layer ultimately decides the trend?

CHAPTER NINETEEN

The Players: Who Is on the Other Side?

Every time you buy, someone sells to you — and it pays to know who. The Indian market is a contest between very different participants, from a first-time retail investor on a phone to a global fund moving thousands of crores. Knowing the players keeps you humble and sharp.

IN THIS CHAPTER YOU WILL LEARN

- The main participant types and their differing scale and goals.
- The FII–DII tug-of-war and the rise of the SIP flow.
- Why the small investor should play a different game.

The market is not a single crowd; it's an ecosystem of participants with different sizes, goals, time-horizons and information. Understanding who they are explains both how prices move (Chapter 18) and why the small investor must play a different game from the giants.

FIGURE 19.1 · WHO TRADES THE INDIAN MARKET

RETAIL (you)
individuals · small size · many millions of us

HNIs / NIIs
wealthy individuals · larger bets, often leveraged

DIIs — Domestic Institutions
mutual funds, insurers (LIC), EPFO, pension funds

FIIs / FPIs — Foreign Institutions
global funds investing in India · huge, mobile money

Also in the game:

- PROMOTERS — founders/owners (don't trade much, but their buying/selling is a closely-watched signal)
- MARKET MAKERS — provide constant buy/sell quotes, keeping markets liquid
- PROP & ALGO TRADERS — firms & high-frequency machines trading their own capital at huge speed

The humbling truth: most volume is institutional & professional, not retail.

You are the smallest fish — and that's fine. *When you trade, the counterparty is often a fund with analysts, data and speed you can't match. This is exactly why the winning retail strategy isn't to out-trade them, but to do what they can't: be patient, hold for years, and buy index funds — a game where size and speed don't help.*

The FII–DII Tug of War

Two forces especially shape Indian market swings. **FIIs/FPIs** (foreign institutional investors) bring enormous capital but are *mobile* — they pour money into India when the world looks risk-friendly and yank it out during global scares, and these flows can move the whole market. Counterbalancing them are **DIIs** (domestic institutions) — Indian mutual funds, insurers and the EPFO — increasingly powered by the steady monthly river of ordinary Indians' SIP money. In recent years this domestic firepower has often *absorbed* FII selling, cushioning crashes that once would have been brutal. The daily "FII bought / DII sold" figures you see are this tug-of-war, scoreboarded.

DID YOU KNOW?

The "SIP army" changed the market's character

A structural shift has quietly transformed Indian markets: the rise of domestic investors investing steadily every month through SIPs. This relentless, price-insensitive monthly buying — tens of thousands of crores — gives the market a strong domestic anchor that didn't exist two decades ago, when a foreign exit could cause a rout. When you start a SIP, you're not just investing; you're joining a force that now helps stabilise the entire market.

WATCH OUT

Don't blindly "follow" big players

Apps and channels love to flash "FIIs are buying!" or to track a famous investor's portfolio so you can copy it. But you don't know *why* they bought, their time-horizon, their hedges, or when they'll sell — and by the time a big holding is public, it may be months old. Their constraints and goals aren't yours. Learn from how the masters *think* (a theme of this series), not by mimicking positions you don't understand.

KEY TAKEAWAYS

1. **The market is an ecosystem:** retail, HNIs, DIIs, FIIs, promoters, market makers, and algo/prop traders.
2. **Most volume is institutional & professional** — you are the small fish, so play a different game (patience, index funds).
3. **FIIs bring big but mobile money; DIIs (fuelled by SIPs) increasingly counterbalance them** — the daily tug-of-war.
4. **The domestic "SIP army"** now structurally stabilises the market.
5. **Don't blindly copy big players** — their goals and constraints aren't yours.

SELF-CHECK

1. Distinguish FIIs from DIIs, and why FII money is called "mobile."
2. Who is usually on the other side of your trade, and what does that imply for strategy?
3. How has steady domestic SIP money changed the market's stability?
4. Why is blindly copying a big investor's holdings unwise?

CHAPTER TWENTY

Reading the Market: Quotes, Depth & Charts

Open any stock and you face a cockpit of numbers and a wall of coloured bars. This chapter teaches you to read all of it — the live quote, the market depth, the corporate announcements, and, at last, a proper candlestick chart, drawn and dissected.

IN THIS CHAPTER YOU WILL LEARN

- How to read a live quote and the market-depth window.
- How a candlestick encodes four prices; line versus candlestick.
- Why corporate announcements are the official source, and a chart's limits.

Everything in this volume converges on the screen in front of you. Let's decode it, piece by piece, ending with the chart that beginners find most intimidating and most fascinating: the candlestick chart.

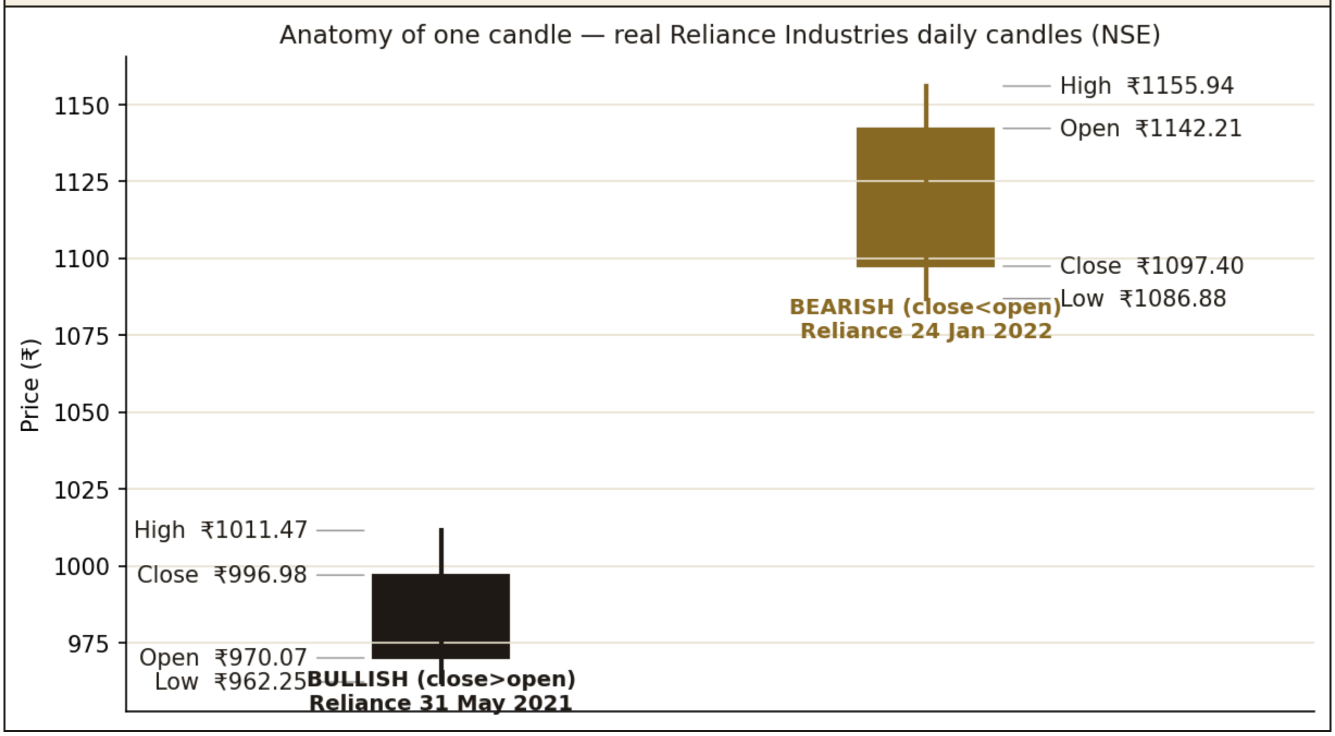
The Live Quote

A stock's quote packs several numbers. The **LTP** (Last Traded Price) is the price of the most recent trade — "the price." The **day**'s **open**, **high**, **low** and previous close give context. The **% change** shows the move from yesterday's close. **Volume** is how many shares have traded today — a gauge of activity and liquidity. And the **market depth** window shows the top few bids and asks (the order book of Chapter 6). Together these answer: what's the price, how much has it moved, and how easily can I trade?

Line Charts vs. Candlestick Charts

A **line chart** just joins each period's closing price — simple, clean, good for seeing the long-term trend. A **candlestick chart** shows far more: for each period (a day, an hour, a minute) it draws a "candle" capturing four prices — the *open, high, low and close*. First, the anatomy of a single candle:

FIGURE 20.1 · ANATOMY OF ONE CANDLE — REAL RELIANCE DAILY CANDLES (NSE)

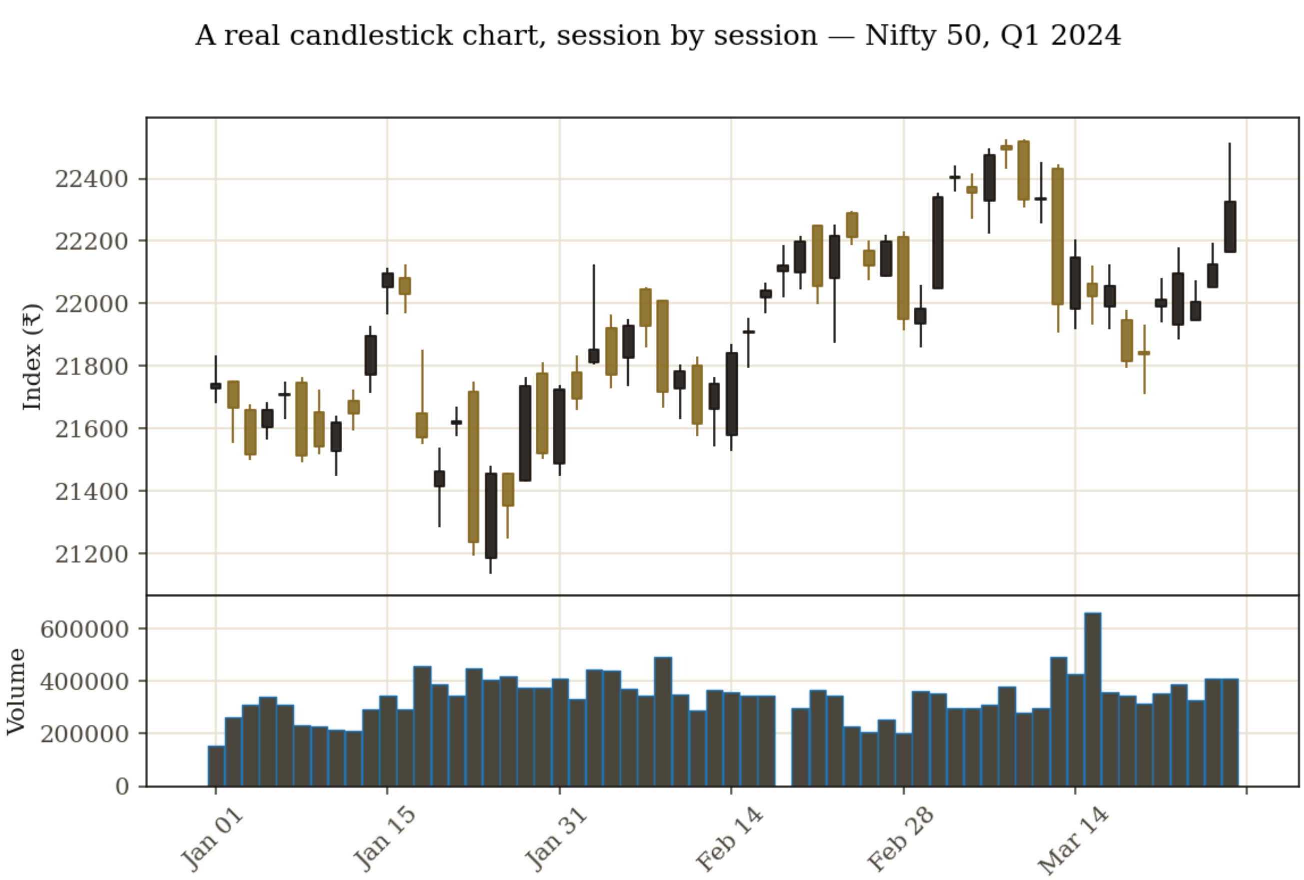


Read it like a thermometer of mood. *Two real Reliance Industries daily candles from the NSE, every price labelled in ₹. The body spans the open and close; the wicks reach the high and low. Here a* **dark** *candle is bullish (close above open) and a* **gold** *candle bearish (close below open) — colour conventions vary by platform but the logic doesn't.*

A Real Candlestick Chart, Read

String many candles together and you get a chart that shows not just *where* the price went but the *battle* between buyers and sellers in each period. Here is a stock over about sixteen sessions:

FIGURE 20.2 · A REAL CANDLESTICK CHART, SESSION BY SESSION — NIFTY 50, Q1 2024



Real sessions, strung together. *The Nifty 50 across early 2024, one candle per trading day, with volume below. Strung together the candles tell the day-by-day story of mood — opens, closes, intra-day battles — far more richly than any line chart can. This is what a chart looks like on your broker's screen, drawn from real prices.*

Corporate Announcements: The Official Truth

Beyond price, every listed company must file **announcements** with the exchanges — results, board meetings, dividends, mergers, large orders, and any "price-sensitive" information. These appear on the NSE/BSE websites and in your app, and they are the *official*, regulated source — far more reliable than any tip or social-media rumour. Learning to check the company's filings directly is one of the most empowering habits a beginner can build.

WATCH OUT

A chart is a rear-view mirror, not a windscreen

Candlestick charts show, beautifully, what *has* happened. They do not reliably predict what *will* happen — and the industry selling "chart courses" that promise otherwise vastly overstates their power (a theme we treat honestly in Volume III). Use charts to understand price action and to time entries into businesses you already want to own for good reasons. Never mistake a pattern in the mirror for a guarantee about the road ahead.

KEY TAKEAWAYS

1. **The quote** = LTP, open/high/low, % change, volume, and market depth (the live order book).
2. **A line chart shows closes;** a candlestick shows open/high/low/close for each period.
3. **One candle** = **four prices** (body = open–close, wicks = high & low); many candles tell a trend story with volume.
4. **Corporate announcements** on NSE/BSE are the official, reliable source — check them, not rumours.
5. **Charts describe the past, not the future** (full candlestick/indicator depth comes in Volume III).

SELF-CHECK

1. What four prices does a single candle encode?
2. What does LTP mean, and what does volume tell you?
3. Where should you check a company's official news, rather than tips?
4. Can a chart predict the future? Explain.

G

PART G

Costs, Rights & Safe Participation

Two final, deeply practical chapters: what a trade truly costs once every small charge is added up, and the rights you hold — plus exactly where to go when something goes wrong. Knowing these turns nervousness into confidence.

THE CONTRACT NOTE | TRUE COST OF A TRADE | YOUR RIGHTS | WHERE TO COMPLAIN

CHAPTER TWENTY-ONE

The Contract Note & the True Cost of a Trade

“Zero brokerage!” the apps shout. Yet no trade is truly free. A small stack of charges rides on every buy and sell — trivial for the patient investor, but a slow bleed for the frequent trader. Learn to read the document that lays it all bare: the contract note.

IN THIS CHAPTER YOU WILL LEARN

- The stack of charges that rides on every trade.
- How to read a contract note.
- Why charges are trivial for investors but corrosive for frequent traders.

After every trading day on which you transact, your broker must send you a **contract note** — the official, legally-binding record of what you traded, at what price, and exactly what it cost. Most beginners never open it. Reading it once teaches you more about the real economics of trading than any advertisement.

The Stack of Charges

On top of the share price, a trade carries several small levies, each going to a different party:

FIGURE 21.1 · WHAT'S INSIDE THE COST OF A TRADE

ON A TYPICAL DELIVERY TRADE, YOU PAY:

- Brokerage — to your broker (often ₹0 on delivery)
- STT (Securities Transaction Tax) — to the govt
- Exchange transaction charge — to NSE/BSE
- SEBI turnover fee — to the regulator
- Stamp duty — to the state (on buys)
- GST — on brokerage + some charges

For a long-term investor:

A handful of trades a year — these total a few rupees. Negligible.

For a frequent trader:

Hundreds of trades — the same small charges, multiplied, quietly devour returns. Activity is the enemy.

Small individually, ruinous in bulk. *Notice why this matters: the charges are per trade, so they scale with activity, not wisdom. The patient investor who buys and holds barely notices them; the hyperactive trader pays them hundreds of times over — one more reason the calm strategy wins.*

Let's itemise it for real. You buy **₹50,000** of a share (a delivery trade) on a zero-delivery-brokerage app. Each charge has its own rate; here is the full stack:

WORKED CALCULATION · TRUE COST OF A ₹50,000 DELIVERY BUY

```
Brokerage (zero on delivery)            = ₹0.00
STT (0.1% on buy)      0.001 × 50,000 = ₹50.00
Exchange txn (~0.00297%) 0.0000297 × 50,000 = ₹1.49
SEBI fee (₹10 per crore)   0.000001 × 50,000 = ₹0.05
Stamp duty (0.015% on buy) 0.00015 × 50,000 = ₹7.50

GST (18% on brokerage + txn + SEBI):
  0.18 × (0 + 1.49 + 0.05) = ₹0.28

Total charges = 0 + 50.00 + 1.49 + 0.05 + 7.50 + 0.28 = ₹59.32
= about 0.12% of the trade. Hold for years and that's the entire cost.
```

But a day-trader turning over ₹50,000 ***fifty times a month*** *pays such charges 50+ times — and intraday adds brokerage too. That's thousands of rupees a month bled before the market has moved at all. (Illustrative; rates vary and change — verify current SEBI/exchange rates.)*

How to Read Your Contract Note

The contract note lists each trade with its time, quantity, price, and the broker's unique trade and order numbers — followed by an itemised breakdown of every charge and the net amount debited or credited. Two habits pay off: (**1**) reconcile it against what you intended (right stock, right quantity, sensible price), and (**2**) note the total charges occasionally, to feel the real cost of your activity. It is your receipt and your proof; keep them (brokers also archive them).

> **WATCH OUT**
>
> ### "Free" is a feature designed to make you trade more
>
> Zero-brokerage delivery is genuinely good for long-term investors — but remember the broker's incentive (Chapter 11): it earns more when you trade more, especially on leveraged intraday and derivatives where charges and interest are higher. The "free" headline is bait for activity. Enjoy the low delivery cost; decline the invitation to churn.

KEY TAKEAWAYS

1. **No trade is truly free:** brokerage, STT, exchange & SEBI fees, stamp duty and GST ride on every trade.
2. **The contract note** is your official, itemised receipt — read and reconcile it.
3. **Charges scale with activity**, so they're trivial for investors and corrosive for frequent traders.
4. **"Zero brokerage" is real but is bait for churn** — take the low cost, skip the over-trading.

SELF-CHECK

1. Name three charges besides brokerage that ride on a trade.
2. What is a contract note, and what two habits should you apply to it?
3. Why does "zero brokerage" still leave a cost — and for whom does it matter most?
4. Why does frequent trading quietly bleed returns?

CHAPTER TWENTY-TWO

Your Rights, and Where to Complain

The single biggest fear that keeps beginners out of the market is: "What if I get cheated and have no recourse?" This closing chapter dissolves that fear. You have real, enforceable rights and a clear ladder of places to turn — built by the very institutions of Parts B and C.

IN THIS CHAPTER YOU WILL LEARN

- The concrete rights you hold as an investor.
- Nomination and transmission — protecting your family.
- The escalating ladder of grievance redress.

Everything you've learned in this volume — SEBI's authority, the depository holding shares in your name, the clearing corporation's guarantee — exists to protect you. Here is how that protection translates into concrete rights and remedies.

The Rights You Hold

- **Your shares are yours.** They sit in your demat account in your name at the depository (Chapter 9), separate from the broker's assets — so a broker's failure doesn't make your shares theirs.
- **The settlement guarantee.** The clearing corporation stands behind every trade (Chapter 10), so a counterparty's default isn't your loss.
- **Transparency.** You're entitled to a contract note for every trade, periodic demat statements, and SMS/email alerts whenever securities move — a built-in fraud alarm.
- **Nomination.** You can (and should) nominate a beneficiary, so your holdings pass smoothly to family.
- **Grievance redress.** A defined, free, escalating process to complain and seek compensation.

What Happens to Your Shares When You're Gone

This is the most neglected — and most important — right of all, and unclaimed investments worth thousands of crores sit stranded in India precisely because families never plan for it. Two simple steps protect your loved ones.

First, **nomination**. You can name a *nominee* on your demat account — the person to whom your shares pass on your death. It costs nothing, takes minutes, and spares your family a long, painful legal process. SEBI has repeatedly pushed investors to either nominate or formally opt out; do not leave it blank. (A nominee receives and holds the shares; who ultimately *inherits* them is still governed by your will or succession law — so a will matters too.)

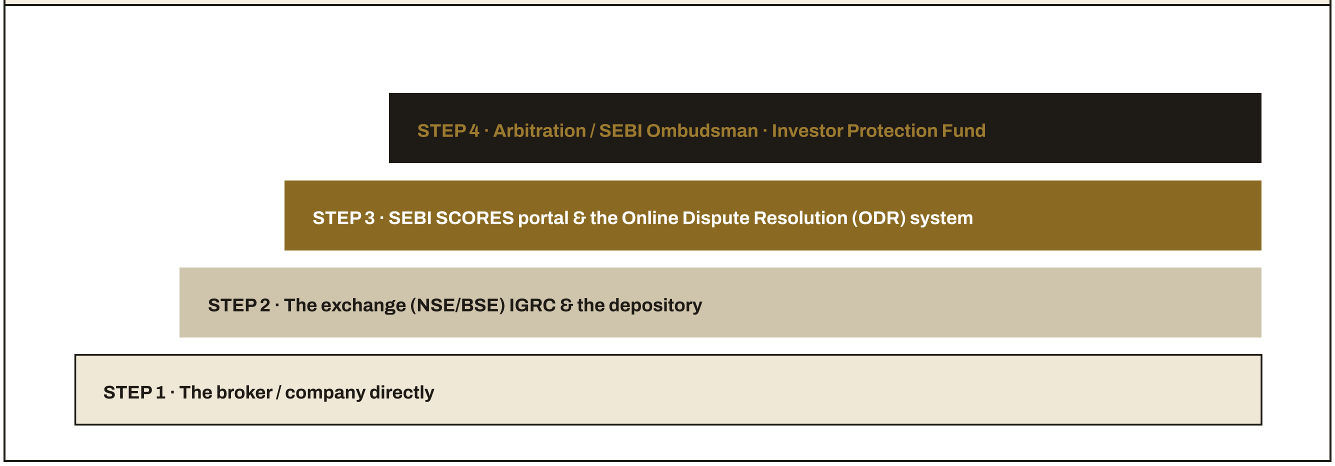
Second, understand **transmission** — the process by which shares legally move to a nominee or legal heir after death (distinct from a *transfer*, which is a sale between living parties). With a registered nominee, transmission is straightforward: the nominee submits a death certificate and a short form to the depository participant. Without one, heirs face succession certificates, probate and delay. The same applies in reverse: hold critical assets in **joint demat accounts** where sensible, so a survivor retains access.

A 20-minute gift to your family

Today, do three things: (**1**) add or confirm a **nominee** on your demat and bank accounts; (**2**) tell a trusted family member that the account exists and how to reach your broker/DP; and (**3**) make a simple **will**. Most investors obsess over which stock to buy and never spend twenty minutes on this — yet nothing you do will matter more to the people you leave behind. The market's machinery can move your shares to your family smoothly, but only if you set it up while you can.

The Ladder of Complaint

FIGURE 22.1 · WHERE TO TURN, STEP BY STEP



You are not alone. *Start with the broker; if unresolved, escalate to the exchange's grievance cell and the depository; then to SEBI's* **SCORES** *portal and the online dispute-resolution mechanism; finally to arbitration. There's even an* **Investor Protection Fund** *to compensate, within limits, if a broker defaults. Knowing this ladder exists is what makes confident participation possible.*

Your Own First Line of Defence

Institutions protect you, but your own habits matter most. **Guard your login** — never share passwords or OTPs, and never let anyone "trade on your behalf for assured returns." **Verify before you trust** — check a broker's or adviser's SEBI registration directly (Chapter 8). **Read your alerts** — the SMS/email when securities leave your demat is your early-warning system. And **reject every guarantee** — in a market governed by genuine risk, "assured profit" is the one universal signature of a fraud, no regulator's name attached can change that.

DID YOU KNOW?

The system is designed to assume the worst

Many of the safeguards you now understand — shares in your own name, the settlement guarantee, mandatory alerts, the SCORES portal — exist precisely *because* earlier generations of Indian investors were cheated when these protections didn't exist (Chapter 4). The modern market is, in effect, a fortress built from the lessons of past failures. That's why it can be trusted far more than its reputation among the uninformed suggests.

Understand the machine, guard your login, reject every guarantee — and the market becomes not a casino, but a tool.

KEY TAKEAWAYS

1. **You have real rights:** shares held in your name, the settlement guarantee, contract notes & alerts, nomination, and grievance redress.
2. **The complaint ladder:** broker → exchange/depository → SEBI SCORES & ODR → arbitration; an Investor Protection Fund backs it.
3. **Your habits matter most:** guard logins, verify SEBI registration, read alerts, reject all "assured returns."
4. **The modern market is a fortress built from past failures** — far safer than its reputation suggests.

SELF-CHECK

1. Name three rights you hold as an investor.
2. What is the difference between transmission and transfer?
3. Why should you add a nominee and make a will today?

4. List the escalating steps of the complaint ladder.

CHAPTER TWENTY-THREE

Fair Play: Surveillance, Manipulation & Insider Trading

A market only works if the game is honest. Behind the calm screen, an unblinking surveillance machine watches every trade for cheating — and there are names for the cheats, tools that flag them, and laws that jail them. Knowing all three turns you from a potential victim into a hard target.

IN THIS CHAPTER YOU WILL LEARN

- How exchanges and SEBI watch the market, and what the **ASM, GSM and T2T** flags mean for you.
- The main kinds of manipulation — **pump-and-dump, circular trading, front-running, spoofing** — and how they're detected.
- What **insider trading** and **UPSI** are, and why the "trading window" closes.
- How SEBI now regulates **finfluencers**, and the universal signature of a scam.

Chapter 5 listed "surveillance" as one of the exchange's five jobs and moved on. It deserves far more, because for a retail investor this is where most real-world danger lives — not in honest price falls, but in stocks that are quietly rigged. The good news: the system leaves visible fingerprints you can learn to read.

The Surveillance Machine

Every order and trade on the NSE and BSE is monitored in real time by automated surveillance systems, with SEBI's integrated surveillance sitting above the exchanges. They hunt for the statistical signatures of manipulation: prices moving without news, the same small group trading a stock back and forth, sudden volume in an obscure scrip, suspicious activity just before an announcement. When something looks wrong, the stock can be put under tighter rules — and that label is a gift to you, because it is the market openly flagging "handle with care."

FIGURE 23.1 · THE SURVEILLANCE FLAGS — READ THEM BEFORE YOU BUY

NORMAL
trades freely; nothing unusual flagged

ASM — Additional Surveillance Measure
unusual price/volume → higher margins, extra scrutiny. *Caution.*

GSM — Graded Surveillance Measure
poor fundamentals + suspicious price → escalating curbs. *Serious warning.*

T2T — Trade-to-Trade / periodic call auction
no intraday trading; every trade must be taken to delivery. *Tightly leashed.*

All four labels are public — shown on exchange sites and most apps. A small-cap wearing ASM/GSM is the market warning you.

The market's hazard lights. **ASM** *and* **GSM** *lists name stocks behaving suspiciously;* **T2T** *bars the rapid intraday churn manipulators rely on. None of these prove wrongdoing, but for a beginner the rule is simple: a little-known stock under these measures is one to avoid, not to chase. Check the flag before you buy.*

The Cheats, by Name

Manipulation isn't mysterious; it comes in a few well-worn forms:

COMPARE & UNDERSTAND · HOW MARKETS ARE RIGGED

SCHEME	HOW IT WORKS	THE TELL
Pump-and-dump	Operators accumulate a cheap stock, hype it (tips, fake news), then sell into the retail rush	An obscure stock suddenly "the talk," racing up on no real news
Circular trading	A ring trades the same shares among themselves to fake volume and a rising price	High volume but the same few hands; price up without delivery
Front-running	Someone with knowledge of a big pending order trades ahead of it for themselves	Suspicious buying just before a large/known order or news
Spoofing	Placing large fake orders to mislead the order book, then cancelling them	Big bids/asks that vanish before they trade

Surveillance systems are built precisely to spot these patterns, and SEBI has barred operators, frozen accounts and clawed back gains for all of them. But enforcement is after the fact; your first defence is simply not to be in the manipulated stock in the first place (Figure 23.1).

Insider Trading & the Trading Window

The fairness of the market rests on everyone seeing the important news at the same time. **Insider trading** breaks that: it is trading on **Unpublished Price-Sensitive Information** (**UPSI**) — material facts not yet public, such as results, a merger, or a big order — by those who have access to it ("insiders": directors, employees, their connections). It is a serious offence. To prevent it, listed companies close a **"trading window"** — barring their designated employees from trading in the company's shares during sensitive periods, for instance ahead of results. The principle to absorb: *if information isn't public, acting on it isn't an edge — it's a crime.*

WATCH OUT

The finfluencer trap — and SEBI's response

Social media overflows with “finfluencers” promising sure-shot calls and guaranteed returns. Many are unregistered, take payment whether you win or lose, and occasionally sell to their own followers. SEBI has moved against this — restricting its *registered* intermediaries (brokers, advisers) from associating with unregistered finfluencers, and acting against those giving unauthorised “advice.” Your rule of thumb is unchanged and absolute: only a **SEBI-registered investment adviser** may advise you for a fee, an adviser never guarantees returns, and anyone who does guarantee them is breaking the law.

DID YOU KNOW?

The market can “see” a rigged stock before you can

Surveillance algorithms routinely detect manipulation that looks, to a retail eye, like a thrilling “multibagger” on a hot streak. By the time an ordinary investor notices a tiny stock “only going up,” the exchange's systems may already have flagged it for ASM/GSM. That is why the single most protective habit you can build costs nothing: before buying any unfamiliar small-cap, check whether it carries a surveillance flag. The market is quietly trying to warn you — most people just never look.

INVESTOR PSYCHOLOGY

Why we volunteer to be the victim

Pump-and-dumps work because they hijack greed and the fear of missing out (Chapter 18): a stock “only going up,” a friend who “doubled his money,” a tip that feels like inside knowledge. The manipulators understand your psychology better than you do — the rocketing chart *is* the bait. The defence isn't smarter analysis; it's a rule made in advance: *I do not buy obscure, surging stocks on tips, ever.* A rule you set when calm protects you from the self who turns greedy later.

KEY TAKEAWAYS

1. **The market is watched in real time;** ASM, GSM and T2T are public flags that warn you off suspicious stocks — check them.
2. **Manipulation has names:** pump-and-dump, circular trading, front-running, spoofing — all detectable, all illegal.
3. **Insider trading** = acting on non-public price-sensitive information (UPSI); the "trading window" closes to prevent it.
4. **Finfluencers are now regulated;** only SEBI-registered advisers may advise, and none may guarantee returns.
5. **Your best defence is avoidance:** don't be in the rigged stock — never chase obscure surging scrips on tips.

SELF-CHECK

1. You spot a little-known stock up 15% for the fifth day running, with a "target" doing the rounds on WhatsApp. What two things do you check, and what do you most likely do?
2. What is the difference between ASM and GSM, and what does T2T prevent?
3. Define UPSI in your own words. Why does a company close its "trading window" before results?
4. Distinguish circular trading from a pump-and-dump.
5. Who, in India, is legally allowed to give you investment advice for a fee — and what will they never promise?

APPENDIX A

Glossary

Every key term from this volume, in plain English.

Anchor investor — a large institution allotted IPO shares a day early, with a lock-in; a confidence signal.

ASBA — IPO application where money is *blocked* in your bank (via UPI), not debited, until allotment.

Ask (**offer**) — the lowest price a seller will currently accept.

Bid — the highest price a buyer will currently pay.

Bonus issue — free extra shares from reserves; value-neutral (price adjusts down).

Book-building — IPO pricing via a price band and investor bids.

Buyback — a company buying back & cancelling its own shares.

CCP / **clearing corporation** — the central counterparty that guarantees every trade (NSE Clearing, ICCL).

Circuit breaker — an automatic trading halt when prices move too far, too fast.

Contract note — the official, itemised record of your day's trades and charges.

DRHP / **RHP** — the (draft) red herring prospectus; an IPO's full disclosure document.

Demat — shares held as secure electronic records, not paper.

DII / **FII** (**FPI**) — domestic / foreign institutional investors.

Divisor — a hidden adjustment keeping an index continuous through corporate actions.

Free-float — shares actually available for public trading (excludes promoter/locked shares).

Fresh issue vs OFS — IPO money to the company vs. to existing owners.

GMP — unofficial, unreliable “grey market premium” before listing.

Index — a weighted basket of shares shown as one number (Sensex, Nifty 50).

IPO — a company's first public offering of shares.

Limit order — trades only at your price or better.

Liquidity — how easily you can trade; literally the depth of the order book.

Lock-in — a period during which certain holders can't sell.

Market cap — share price × number of shares; the true measure of size.

Market order — trades immediately at the best available price (no price guarantee).

NSDL / CDSL — India's two depositories (the electronic vaults for shares).

Novation — the clearing corp becoming buyer-to-every-seller & seller-to-every-buyer.

Order book — the live, stacked list of all bids and asks.

Price-time priority — matching rule: best price first, then earliest order.

Promoter — a company's founder/controlling group (India).

QIB / NII / RII — IPO investor categories: institutions / wealthy individuals / retail (≤₹2 lakh).

Rights issue — existing holders offered new shares at a discount (act or be diluted).

SEBI — the market regulator (statutory since 1992).

Slippage — getting a worse price as a big order "eats" the order book.

Spread — the gap between the best bid and best ask.

Stock split — one share divided into more, lower-priced shares; value-neutral.

Stop-loss — an order that activates at a trigger price to cap a loss.

STT — Securities Transaction Tax, auto-deducted on trades.

T+1 — settlement one working day after the trade.

APPENDIX B

Index

Where each key concept is explained, by chapter — for quick reference and revision.

Trading day & sessions — Ch 7

What moves a price — Ch 18

APPENDIX C

Resources & Source Notes

Where to go deeper, and where this volume's facts came from.

Free, Reliable Resources

- **SEBI Investor** (investor.sebi.gov.in) — official basics & the SCORES grievance portal.
- **NSE & BSE** (nseindia.com, bseindia.com) — live data, circulars, corporate announcements, IPO & index info.
- **NSE Clearing** — settlement & risk-management details.
- **NSDL & CDSL** — depository services and how demat works.
- **Zerodha Varsity** — an excellent, free, in-depth course on Indian markets.
- **RBI** (rbi.org.in) & **RBI Retail Direct** — monetary policy and government bonds.

Source Notes

Mechanics in this volume were cross-checked against material from SEBI, NSE, BSE, NSE Clearing, and the depositories. Key specifics: order matching by **price-time priority** in a limit order book; the BSE founded **1875**, SEBI statutory from **1992**, NSE screen-based trading from **1994**, dematerialisation from **1996**; indices are **free-float market-cap weighted** with a divisor and periodic (≈semi-annual) rebalancing; the clearing corporation acts as a **central counterparty via novation** backed by a large settlement-guarantee fund; India completed its phased move to **T+1** settlement in January 2023 (ahead of the US's May 2024 move) and is piloting optional T+0. IPO mechanics — DRHP/RHP, book-building, investor categories (QIB/NII/RII), anchor investors with lock-ins, ASBA/UPI — follow SEBI's ICDR framework. Exact fees, thresholds, reservations and timelines are set by regulation and *can change*; always verify the current rules before acting.

Diagrams are original vector graphics. Worked examples are clearly labelled illustrative and use stated assumptions — they teach a method, not a forecast. This volume is education, not investment advice, and names companies only as examples.

What's Next in the Series

You now understand *how the market works.* The remaining volumes build on this foundation: **Volume II — Fundamental Analysis** (reading a business and judging what a share is worth); **Volume III — Technical Analysis** (candlestick patterns, chart patterns and indicators, in full depth); **Volume IV — Investing, Funds, SIP & Portfolio**; and **Volume V — Derivatives, Taxation, Psychology & Safety.**

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"In investing, what is comfortable is rarely profitable."

— ROBERT ARNOTT

How the Market Works

Mastering the Indian Stock Market · Volume One of Five · First Edition, 2026 · Set in Fraunces, Spectral & Archivo

Education, not advice. Markets carry risk. Understand the machine, guard your login, and reject every guarantee.