<u>Capital Market:</u> A **capital market** is a financial market in which long-term (over a year) instruments (i.e debt) or equity-backed securities are bought and sold. **Capital markets** consist of the primary **market**, where new securities are issued and sold, and the secondary **market**, where already-issued securities are traded between investors.

1. **Equity** (ownership Instrument): Equity shares are instruments issued by companies to raise capital and it represents the title to the ownership of a company. You become an owner of a company by subscribing to its equity capital (whereby you will be allotted shares) or by buying its shares from its existing owner(s). As a shareholder, you bear the entrepreneurial risk of the business venture and are entitled to benefits of ownership like share in the distributed profit (dividend) etc. The returns earned in equity depend upon the profits made by the company. company's future growth etc.

2. **Debt (loan instruments)**
   a. **Corporate debt**

   • **Debentures** are instrument issued by companies to raise debt capital. As an investor, you lend you money to the company, in return for its promise to pay you interest at a fixed rate (usually payable half yearly on specific dates) and to repay the loan amount on a specified maturity date say after 5/7/10 years (redemption).

   Types of debentures that are offered are as follows:

   - Non-convertible debentures (NCD) – Total amount is redeemed by the issuer
   - Partially convertible debentures (PCD) – Part of it is redeemed and the remaining is converted to equity shares as per the specified terms
   - Fully convertible debentures (FCD) – Whole value is converted into equity at a specified price

   - **Bonds** are broadly similar to debentures. Bonds are issued by companies, financial institutions, municipalities or government companies and are normally not secured by any assets of the company (unsecured).

   Types of bonds

   Regular Income Bonds provide a stable source of income at regular, predetermined intervals

   Tax-Saving Bonds offer tax exemption up to a specified amount of investment, depending on the scheme and the Government notification.

b. **Government debt:**
   - **Government securities (G-Secs)** are instruments issued by Government of India to raise money. G Secs pays interest at fixed rate on specific dates on half-yearly basis. It is available in wide range of maturity, from short dated (one year) to long dated (up to thirty years). Since it is sovereign borrowing, it is free from risk of default (credit risk). You can subscribe to these bonds through RBI or buy it in stock exchange.

c. Money Market instruments (loan instruments up to one year tenure)
   - **Treasury Bills (T-bills)** are short term instruments issued by the Government for its cash management. It is issued at discount to face value and has maturity ranging from 14 to 365 days. Illustratively, a T-bill issued at Rs. 98.50 matures to Rs. 100 in 91 days, offering an yield of 6.25% p.a.

   - **Commercial Papers (CPs)** are short term unsecured instruments issued by the companies for their cash management. It is issued at discount to face value and has maturity ranging from 90 to 365 days.

   - **Certificate of Deposits (CDs)** are short term unsecured instruments issued by the banks for their cash management. It is issued at discount to face value and has maturity ranging from 90 to 365 days.

3. **Hybrid instruments** (combination of ownership and loan instruments)
   - **Preferred Stock / Preference shares** entitle you to receive dividend at a fixed rate. Importantly, this dividend had to be paid to you before dividend can be paid to equity shareholders. In the event of liquidation of the company, your claim to the company's surplus will be higher than that of the equity holders, but however, below the claims of the company's creditors, bondholders / debenture holders.

   - **Cumulative Preference Shares**: A type of preference shares on which dividend accumulates if remains unpaid. All arrears of preference dividend have to be paid out before paying dividend on equity shares.

   - **Cumulative Convertible Preference Shares**: A type of preference shares where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

   - **Participating Preference Shares** gives you the right to participate in profits of the company after the specified fixed dividend is paid. Participation right is linked with the quantum of dividend paid on the equity shares over and above a particular specified level.

4. **Mutual Funds**

Mutual funds is an instrument where money are collected from many investors and invested in equity, debt or a combination of both, in a professional and transparent manner. In return of investment, investor receives units of mutual funds which entitle them to the benefit of the collective return earned by the fund, after reduction of management fees.

Mutual funds offer different schemes to cater to the needs of the investor are regulated by securities and Exchange board of India (SEBI)

Types of Mutual Funds

At the fundamental level, there are three types of mutual funds:

- Equity funds (stocks)
- Fixed-income funds (bonds)
- Money market funds

Classification of mutual funds

a. **By structure**

- Open-ended Funds: An open-ended fund does not have a maturity date.
- Closed-end Funds: Closed-end funds run for a specific period.

b. **By investment objective**

- Growth Funds: A mutual fund scheme investing in equity
- Bond / Income Funds: A mutual fund scheme investing primarily in government and corporate debt to provide income on a steady basis.
- Balanced Funds: A mutual fund scheme investing in a mix of equity and debt.
- Money Market Funds: A mutual fund scheme investing in money market instruments.

c. **Others**

Tax savings schemes (Equity Linked Saving SchemeELSS) Equity funds along with tax benefits to the investors and has a lock in period of three years.

• Sector funds