

Securities Contracts (Regulation) Act, 1956 (SCRA): Key Coverage Areas

- **Objective:** Regulates securities contracts, stock exchanges, and trading to ensure fair dealings, investor protection, and market transparency.
- **Definition of Securities (Sec 2(h)):** Broadly includes shares, stocks, bonds, debentures, derivatives, mutual fund units, and other marketable instruments.
- **Recognition of Stock Exchanges (Sec 3):** Central Government (delegated to SEBI) grants recognition; can withdraw if conditions violated.
- **Corporatization and Demutualization (Sec 4A-4B):** Mandates stock exchanges to convert into corporate form with $\geq 51\%$ public shareholding, separating ownership from trading rights.
- **Central Government's Power for Returns (Sec 6):** Authority to call for periodical financial/statistical returns from exchanges for oversight.
- **SEBI's Power over By-Laws (Sec 10):** SEBI can approve, make, or amend by-laws of recognized exchanges to align with public interest.
- **Supersession of Governing Body (Sec 11):** Central Government (via SEBI) can suspend/replace exchange's governing body for up to 6 months in cases of misconduct.
- **Suspension of Business (Sec 12):** Power to prohibit/suspend trading or dealings on exchanges during emergencies or violations.
- **Prohibition of Undesirable Speculation (Sec 16):** Regulates forward trading and options in securities to curb excessive speculation.
- **Listing Requirements (Sec 21):** Exchanges must ensure securities meet listing norms; refusal grounds appealable to SEBI/Central Government.
- **Penalties (Sec 23):** Violations punishable by up to 10 years imprisonment and fines up to ₹25 crore; civil liabilities for damages.

Aspect	Callable Bonds	Puttable Bonds
Definition	Bonds where the issuer has the right to redeem early before maturity.	Bonds where the bondholder has the right to sell back to the issuer before maturity.
Option Holder	Issuer (borrower).	Bondholder (lender/investor).
When Exercised	Typically when interest rates fall, allowing issuer to refinance at lower rates.	Typically when interest rates rise, allowing investor to reinvest at higher rates.
Yield Impact	Higher yield (lower price) due to call risk for investors.	Lower yield (higher price) as it protects investors from rate rises.
Prevalence	More common.	Less common.

As per the Companies Act, 2013 - A company must pay the declared dividend within 30 days from the date of its declaration.

If the company fails to pay the dividend within this period (without valid reasons), it may be liable to penal consequences, including interest and fines.

Corporate actions are regulated by provisions of the following:

- Provisions of the Companies Act, 2013,
- Relevant regulations of SEBI, and

<ul style="list-style-type: none"> • Terms of the listing agreement entered into with the stock exchange
Company A has a higher return on equity (ROE) compared to Company B. combination of factors have favourably contributed to the higher ROE: Higher net profit margin and higher activity ratio (asset turnover)
Current Ratio: ability of the company to satisfy its short term obligations as and when they come due
<p>An income statement (also called profit and loss statement) summarizes revenues, expenses, and profits over a specific period (e.g., quarter or year). Unlike the balance sheet (snapshot of assets/liabilities), it focuses on operational performance. Common items include:</p> <ul style="list-style-type: none"> • Revenue (Sales/Top Line): Total income from core business activities. • Cost of Goods Sold (COGS): Direct costs of producing goods/services sold. • Gross Profit: Revenue minus COGS. • Operating Expenses: Indirect costs like salaries, rent, marketing (SG&A). • Operating Income (EBIT): Gross profit minus operating expenses. • Non-Operating Items: Interest expense, gains/losses from investments. • Taxes: Income tax expense. • Net Income (Bottom Line): Final profit after all expenses (basis for EPS).
<p>Private placement involves issuing securities directly to a select group of investors (up to 200 in a year) without public offers, governed by Section 42 of Companies Act, 2013, and SEBI regulations for listed firms. The two main types are:</p> <ol style="list-style-type: none"> 1. Preferential Allotment: Issuing shares/debentures at a predetermined price to specific investors (e.g., promoters, institutions), often for strategic funding; requires valuation report and shareholder approval. 2. Qualified Institutional Placement (QIP): For listed companies, quick fundraising via equity/debt to Qualified Institutional Buyers (QIBs) like mutual funds or FIIs; faster than preferential, with pricing based on average market price.
<div style="display: flex; align-items: center;"> <div style="margin-right: 20px;"> $ROE = \frac{\text{Net Profit}}{\text{Margin}} \times \frac{\text{Return on Assets}}{\text{Assets}} \times \frac{\text{Financial Leverage}}{\text{Equity}}$ $ROE = \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$ </div> <div> <p>DUPONT (Net-Paisa/Sahi) = NPM-Roa-Faltu</p> </div> </div>
Dupont: It can also be used to do diagnostic study to understand fall or rise in ROE.
A high inventory of finished goods may mean that the sales are slowing down and high raw material inventory may mean poor production planning. High trade receivables will indicate that the company is selling on credit and not able to realize cash from its debtors. On the other hand, high trade payables may indicate the strength of the company in getting best credit terms from its suppliers.
<p>Quick Ratio: Accounts receivable, cash, investments in liquid funds, are all included in calculating quick ratio.</p> <p>Higher the ratio better the liquidity, but lesser will be the returns as cash is not a great source of generating returns.</p>
The profitability of a company can be evaluated at each level of P/L statement. The two main parameters of profitability are EBITDA Margin and Net Profit Margin (NPM) or Profit After Tax margin (PAT margin).

Aspect	PAT Margin (NP/sales)	EBITDA Margin (EBIDTA/Sales)	
Focus	Overall profitability (post-all costs)	Operational efficiency (pre-financing/non-cash)	
Sensitivity	High (to taxes, interest, D&A)	Low (ignores leverage, taxes, D&A)	
Use Case	Investor returns, dividend potential	Peer comparisons, M&A valuations	
Limitation	Distorted by non-operating items	Overstates cash flow if capex high	
<p>Auditor's reports, based on assessment, include:</p> <p>(i) Clean Report: No issues; standard format with varying CARO disclosures, affirming true and fair view.</p> <p>(ii) Disclaimer: Issued when auditors can't verify financials due to info unavailability.</p> <p>(iii) Qualified Report: For discrepancies in accounting policies or serious errors, denying true and fair view.</p> <p>Disclaimers/qualified reports detail reasons; analysts must review for reservations before using financial statements.</p>			
<p>Off-balance sheet items are assets/liabilities absent from the balance sheet, e.g., operating leases (asset financing alternative to on-sheet loans), contingent liabilities, and derivatives (disclosed in notes, not recorded).</p> <p>Analysts must scrutinize them deeply, as derivatives have threatened many global businesses.</p>			
<p>CONTINGENT LIABILITIES ARE:</p> <ul style="list-style-type: none"> • Outstanding lawsuits • Disputes with Tax Authorities • Bank Guarantees provided • Product Warranty Claims • Pending Investigations or cases • Change in FX, Govt Policies etc 			
RA: grievance is resolved within 30 days> SCORES portal			
With regard to physical complaints, investors may send their complaints to: Office of Investor Assistance and Education,SEBI			
<p>Chinese Wall</p> <p>To prevent the misuse of confidential information the organisation / firm shall adopt a “Chinese Wall” policy which separates those areas of the organisation/firm which routinely have access to confidential information, considered “insider areas” from those areas which deal with sale/ marketing/investment advice or other departments providing support services considered public areas and processes which would permit any designated persons to cross the wall”.</p>			
<p>SEBI (PFUTP) Regulations, 2003</p> <p>Enacted post-1992 scam to prohibit fraud/manipulation in securities markets; applies to all dealings in listed/proposed-listed securities. Amended (e.g., 2008 for fraud scope, 2018 for algo trading, June 2024 for surveillance). Divided into 5 chapters: Preliminary, Prohibitions, Investigation, Powers/Adjudication, Miscellaneous.</p> <p>Key Definitions (Reg. 2(1))</p> <ul style="list-style-type: none"> • Fraud (Reg. 2(1)(c)): Deliberate misleading via misrepresentation/concealment of material facts; false promises; reckless statements; deceptive schemes depriving consent; or acts fraudulent under other laws. 			

- **Manipulative/Deceptive Devices:** Schemes/tools to artificially influence prices/induce transactions.
- **Unfair Trade Practices:** Rumors, trading without genuine ownership transfer.

Prohibited Practices

Regulation	Prohibition	Analyst Examples
Reg. 3	Fraudulent dealings	False recommendations concealing facts; biased reports creating artificial prices.
Reg. 4	Manipulative/deceptive devices	Using price-sensitive info unfairly; pump-and-dump via hype.
Reg. 5	Unfair trade practices	Price influence via false info; misleading reports inducing buys/sells.

Analysts must ensure factual, non-manipulative recommendations; avoid selective disclosure/hype.

Enforcement (Chapters III-IV)

- **Investigation (Reg. 5-9):** SEBI probes via officers; summons/seizes; analyzes trading patterns for evidence.
- **Adjudication/Penalties (Reg. 10-15):** Monetary fines (up to ₹25 Cr or 3x profits); restrain access/suspend trading; disgorge gains.
- **Appeals:** To SAT.

Analyst Relevance

- Aligns with SEBI Research Analysts Regs., 2014: Prohibits fraudulent/misleading reports concealing risks.
- Cases: *Satyam v. SEBI (2014)* (misleading statements); *Vijay Mallya v. SEBI (2017)* (full disclosure).
- Emphasizes ethical reporting for fair markets; non-compliance risks penalties.

As of Oct 2025, no major post-June 2024 amendments; refer SEBI gazette for full text.

Post 2009: Satyam Computers has since been acquired by Tech Mahindra.

Other Companies: Enron, WorldCom

Michael Milken, Raj Rajaratnam

Warren Buffett once stated ***“People with pen do much bigger thefts than the people with guns.”***

Dr. Nicholas Taleb mentions *“Black Swan events pose significant risk in this integrated world”*.

‘Mark Twain’ here who stated *“We learn from the past that we don’t learn from the past.”*

Nicholas Leeson @ Barings (London): Huge position NIKKEI

Generating cash is essential for a firm's long-term sustainability. Unlike the profit and loss statement or balance sheet, which rely on accrual accounting, these do not directly reflect cash movements. Under accrual basis, revenues are recorded when earned (not received), and expenses when incurred (not paid), leading to discrepancies between reported profits and actual cash generated.