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CLASS X · INTRODUCTION TO FINANCIAL MARKETS (405) · SKILL SUBJECT · CBSE BOARD EXAMINATION 2027

PART B · UNIT 3

Primary Market

Unit Booklet · Short Notes · Board-Pattern Questions · Model Answers

Part B · 7 of 40 theory marks | 29 questions with model answers | Manish Mathur Sir | Taught: Tue 24 Nov

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STUDENT DETAILS

NAME _____

CLASS & SECTION _____

ROLL NO. _____

UNIT FINISHED ON _____

OBJECTIVE SELF-CHECK _____ / 16

1

READ THIS FIRST · SHORT NOTES

Unit Notes

How companies raise new money: the primary market, face value, premium and discount, the kinds of issues, public issue vs private placement, IPO, fixed-price and book-building issues, price band and cut-off price, the registrar, NSE's facilities, and raising money abroad through ADRs and GDRs.

THIS UNIT IN THE BOARD PAPER

7 / 40

Unit 3 carries **7 marks**, one of the two biggest units. In the CBSE sample paper it gave **4 one-mark items** (rights issue, the 20% price-band limit, IPOs, Euro issues), a **2-mark** question (IPO vs rights issue) and a **4-mark** question (SEBI disclosure rules and the prospectus).

SYLLABUS 2026–27 · WHAT CBSE LISTS FOR THIS UNIT

- Role of the primary market; face value, debenture, premium, discount
- Why companies issue securities; kinds of issues
- Public issue vs private placement; IPO
- Book building, normal (fixed-price) public issue, price band, cut-off price
- Role of the registrar; facilities provided by NSE
- Foreign capital issuance: ADR and GDR

HOW THE CBSE SKILL-SUBJECT PAPER IS SET (THEORY 50 MARKS · 2 HOURS)

1 mark
Objective: MCQ, assertion–reason, fill in the blank, true/false, match. Q1 is Part A; Q2–Q5 (answer 5 of 6 in each) are Part B.

2 marks
Short answer in **20–30 words**: two clear points. Part B: answer any 4 of 6 (Q11–Q16).

4 marks
Long answer in **50–80 words**: four points, or 2 + 2. Answer any 3 of 5 (Q17–Q21); often case-based.

Part B = 40
Objective 20 + short 8 + long 12. Part A (Employability Skills) = 10. Practical = 50.

Write in points, start each point with the key word, and stay inside the word limit. Objective answers: write the option letter **and** the answer.

1 Primary market

Primary market (new issue market): the market in which securities are sold **for the first time**. The money goes **directly to the issuing company** (or government).

- Has no fixed place: applications are made online and through banks and brokers.
- **Role:** brings savings into business (capital formation); funds new projects and expansion; gives investors new chances to invest; leads to **listing**, after which shares trade in the secondary market.

2 Face value, premium, discount

Term	Meaning	Example
Face value (par value)	The value printed on the share; dividends are declared as a % of it	₹1, ₹2, ₹5 or ₹10 a share
Issue at premium	Issue price **above** face value; premium = issue price – face value	FV ₹10, issued at ₹250 → premium **₹240**
Issue at discount	Issue price **below** face value	Not allowed for shares under the Companies Act, 2013 (except sweat-equity shares); debentures may be issued at a discount
Debenture	A company's acknowledgement of a **loan**; pays fixed interest; holder is a **creditor**	10% debentures of ₹1,000 each

3 Why companies issue securities

- Money for a **new project**, expansion or modernisation.
- To **repay loans** and reduce interest burden.
- **Working capital** for daily operations.
- **Listing** brings visibility, trust and easy trading of shares.
- Let existing shareholders sell part of their holding (**offer for sale**).

4 Kinds of issues

Issue	To whom	Key point
IPO (Initial Public Offer)	General public, **first time**	An **unlisted** company makes a fresh issue, an offer for sale, or both; then gets listed
FPO (Follow-on Public Offer)	General public	A **listed** company issues more shares
Rights issue	**Existing shareholders**	Offered in proportion to holding, as on a **record date**, e.g. 1:4 (one new for four held); usually below market price
Bonus issue	Existing shareholders	**Free** shares from reserves; no money is raised
Private placement	A **small chosen group**	e.g. preferential allotment, QIP to institutions; quick and cheaper

RIGHTS RATIO

Ravi holds 200 shares. A 1:4 rights issue lets him buy 200 ÷ 4 = **50** new shares.

5 Public issue vs private placement

Basis	Public issue	Private placement
Offered to	The general public	A few selected investors
Offer document	Full prospectus filed with SEBI	Shorter offer letter
Cost and time	High; takes months	Low; quick
Listing	Leads to listing on exchange	Not always

6 Fixed-price issue and book building

	Fixed-price (normal public issue)	Book-building issue
Price	Fixed in advance and printed in the offer document	Discovered from bids within a **price band**
Demand	Known only after the issue closes	Seen **every day** while bidding is open
Document	Prospectus with the price	Red Herring Prospectus (no final price)

- **Price band:** the range for bids. Lower end = **floor price**, upper end = **cap**. The cap can be at most **120%** of the floor (spread up to **20%**). Example: floor ₹100 → cap at most ₹120.
- **Cut-off price:** the **final issue price** fixed after bidding closes, at which shares are allotted. Small (retail) investors may tick "cut-off" instead of quoting a price.
- Bidding stays open at least **3 working days**.
- **ASBA:** the application money stays **blocked** in the investor's bank account and is taken only if shares are allotted (UPI for retail).
- Shares are now listed within **3 working days** of the issue closing (T + 3).

7 Prospectus and SEBI disclosure

SEBI requires the company to give **full and true information** so investors can judge the issue. A draft offer document (DRHP) is filed with SEBI first. The prospectus tells:

- **Objects** of the issue and how the money will be used.
- Issue size, price or price band, and dates.
- Company's history, business, **promoters** and management.
- Past **financial results** and the project cost and means of finance.
- **Risk factors**, pending legal cases, underwriting details.

8 Registrar and NSE facilities

Registrar to an issue (RTA): collects and checks applications; works out the **basis of allotment** with the exchange; credits shares to demat accounts; unblocks money for those not allotted; answers investor complaints.

Other intermediaries: merchant banker / book-running lead manager, underwriters, bankers to the issue, brokers (syndicate members).

Facilities provided by NSE in the primary market:

- A **nationwide electronic bidding platform**: investors bid through brokers and banks from any town.
- **Transparency**: demand at each price is shown online during bidding.
- Online and UPI applications; quicker allotment and listing; lower cost.

9 Raising money abroad: ADR and GDR

	ADR	GDR
Full name	American Depository Receipt	Global Depository Receipt
Issued and traded in	The **USA** (e.g. NYSE, NASDAQ)	**More than one country**, mostly Europe (London, Luxembourg)
Currency	US dollars	US dollars or euros

A depository receipt is a certificate issued by a foreign bank that stands for shares of an Indian company held with a custodian in India. ADRs, GDRs and foreign currency convertible bonds are together called **Euro issues**. Infosys was the first Indian company to list ADRs on NASDAQ (1999).

Key terms

16 terms

- **Primary market:** market for new issues
- **Face value:** value printed on a share
- **Premium:** issue price above face value
- **IPO:** first public issue by an unlisted company
- **FPO:** further public issue by a listed company
- **Rights issue:** offer to existing shareholders
- **Bonus issue:** free shares from reserves
- **Private placement:** issue to a small chosen group
- **Book building:** price discovered through bids
- **Price band:** range between floor and cap price
- **Cut-off price:** final price fixed after bidding
- **ASBA:** application money blocked, not paid
- **Red Herring Prospectus:** offer document without final price
- **Registrar (RTA):** handles applications and allotment
- **ADR:** receipt traded in the USA
- **GDR:** receipt traded in several countries

Common mistakes and exam tips

AVOID THESE

- IPO = **unlisted** company, first time; FPO = **listed** company, again.
- Rights issue goes to **existing** shareholders; bonus shares are **free** and raise no money.
- Price band cap ≤ **120% of floor** (20% spread) – a favourite one-mark question.
- Premium = issue price – face value (not issue price – market price).
- ADR = USA only; GDR = more than one country.

A

PART A · 1 MARK EACH

Objective Questions

16 questions: MCQs, assertion–reason, fill in the blanks and true/false, like Q2–Q5 of the board paper. Answers in Part E.

ASSERTION–REASON: HOW TO ANSWER

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A1. The market where a company sells its securities for the first time is the: [1]

(a) Secondary market
(b) Primary market
(c) Derivatives market
(d) Money market

A2. An offer of new shares only to existing shareholders, in proportion to their holding, is a: [1]

(a) Bonus issue
(b) Rights issue
(c) IPO
(d) Private placement

A3. In a book-built issue the floor price is ₹200. The highest cap price allowed is: [1]

(a) ₹210 **(b)** ₹220 **(c)** ₹240 **(d)** ₹400

A4. A share of face value ₹10 is issued at ₹180. The premium is: [1]

(a) ₹180 **(b)** ₹190 **(c)** ₹170 **(d)** ₹18

A5. The final price at which shares are allotted in a book-built issue is the: [1]

(a) Floor price
(b) Cut-off price
(c) Face value
(d) Market price

A6. A receipt for shares of an Indian company, listed and traded only in the USA, is a(n): [1]

(a) GDR **(b)** ADR **(c)** FCCB **(d)** IDR

A7. Which issue raises NO new money for the company? [1]

(a) IPO **(b)** Rights issue **(c)** Bonus issue **(d)** FPO

A8. An already listed company issues more shares to the public. This is a(n): [1]

(a) IPO **(b)** FPO **(c)** Rights issue **(d)** ADR

A9. Who works out the basis of allotment and credits shares to investors' demat accounts? [1]

(a) Registrar to the issue
(b) Underwriter
(c) Credit rating agency
(d) Stock exchange alone

A10. Under ASBA, the application money is: [1]

(a) paid in cash
(b) blocked in the investor's bank account
(c) paid to the broker
(d) kept by SEBI

A11. ASSERTION–REASON [1]

Assertion (A): In a book-building issue the investor can see the demand for shares during the bidding period.

Reason (R): Bids are collected electronically and the demand is displayed online.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A12. ASSERTION–REASON [1]

Assertion (A): Under the Companies Act, 2013, a company can freely issue equity shares at a discount.

Reason (R): Face value is the value printed on a share.

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

A13. FILL IN THE BLANK [1]

A draft offer document is filed with _____ before a public issue.

A14. FILL IN THE BLANK [1]

In a 1:5 rights issue, a holder of 500 shares can apply for _____ new shares.

A15. TRUE OR FALSE [1]

A GDR can be traded in more than one country.

A16. TRUE OR FALSE [1]

In a fixed-price issue the price is discovered through bids.

B — Short Answer Questions

PART B · 2 MARKS EACH

Answer in 20–30 words: two clear points. Model answers in Part E.

B1. Differentiate between an IPO and a rights issue. MUST DO [2]

B2. What is a price band? State the limit on it. [2]

B3. Differentiate between a fixed-price issue and a book-building issue. MUST DO [2]

B4. What are ADR and GDR? [2]

B5. State any two functions of the registrar to an issue. [2]

B6. A company with shares of face value ₹5 issues them at ₹95. Find the premium per share and the total premium on 2,00,000 shares. [2]

C — Long Answer Questions

PART C · 4 MARKS EACH

Answer in 50–80 words: four points, or two points with an example each. Model answers in Part E.

C1. What information must a company give in its prospectus under SEBI's disclosure rules? Write four points. MUST DO [4]

C2. Explain four kinds of issues by which a company raises capital. MUST DO [4]

C3. Explain the book-building process. [4]

C4. Distinguish between public issue and private placement on four points. [4]

C5. Write four facilities provided by NSE in the primary market. [4]

PART D · CASE AND COMPETENCY BASED

D Case-Based Questions

Read the situation, then answer from it and from the unit. These are the 4-mark board questions that test application.

D1. Case-Based · GreenBike Ltd goes public [4]

GreenBike Ltd, an unlisted electric-bicycle maker, wants ₹300 crore to build a new factory. It files its draft offer document and later announces a price band of ₹150–₹180 for shares of face value ₹10. Bidding stays open for three days, after which the final price is fixed at ₹178.

(i) What kind of issue is this, and which method is used to fix the price? [1]

(ii) Is the price band within SEBI's limit? Show why. [1]

(iii) What is ₹178 called? What premium does it carry per share? [2]

D2. Competency-Based · Rights or bonus? [4]

Sunita holds 400 shares of a listed company. In March she receives 100 free shares out of the company's reserves. In August the company offers her 1 new share for every 4 held, at a price lower than the market price.

(i) What were the March shares? Did the company raise money? [1]

(ii) What is the August offer called? [1]

(iii) How many shares can she apply for in August, and why is this offer attractive? [2]

E

PART E · ANSWERS IN CBSE MARKING-SCHEME STYLE

Answers

Objective key with a reason, then model answers: numbered value points, key word first, the mark for each point in orange, and the word count under each answer. Any other correct, relevant point also earns the mark.

Objective questions – answer key

Part A

Write the option letter **and** the answer, as the marking scheme does.

Q	Answer	Why (one line)
A1	**(b) Primary market**	New issue market.
A2	**(b) Rights issue**	As on the record date.
A3	**(c) ₹240**	Cap ≤ 120% of floor = ₹240.
A4	**(c) ₹170**	180 − 10 = 170.
A5	**(b) Cut-off price**	Fixed after bidding closes.
A6	**(b) ADR**	American Depository Receipt.
A7	**(c) Bonus issue**	Bonus shares are free, from reserves.
A8	**(b) FPO**	Follow-on Public Offer.
A9	**(a) Registrar to the issue**	RTA.
A10	**(b) blocked in the investor's bank account**	Debited only on allotment.
A11	**(a) Both true; R explains A**	R explains A.
A12	**(d) A false, R true**	A is false (not allowed except sweat equity); R is true.
A13	**SEBI**	DRHP is filed with SEBI.
A14	**100**	500 ÷ 5 = 100.
A15	**True**	Usually on European exchanges.
A16	**False**	Correct: the price is fixed in advance; bids discover the price only in book building.

Short answers

Part B · 2 marks

B1. Differentiate between an IPO and a rights issue. [2]

1. **IPO:** an unlisted company offers securities to the public for the first time. 1
2. **Rights issue:** a listed company offers new securities to existing shareholders as on a record date. 1

29 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1 | MUST DO

B2. What is a price band? State the limit on it. [2]

1. **Meaning:** the range between floor price and cap within which investors bid. 1
2. **Limit:** the cap can be at most 120% of the floor. 1

23 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1

B3. Differentiate between a fixed-price issue and a book-building issue. [2]

1. **Fixed price:** price is fixed in advance; demand known after closing. 1
2. **Book building:** price is found from bids in a band; demand seen daily. 1

24 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1 | MUST DO

B4. What are ADR and GDR? [2]

1. **ADR:** depository receipt for an Indian company's shares, traded in the USA. 1
2. **GDR:** depository receipt traded in more than one country, mostly Europe. 1

23 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1

B5. State any two functions of the registrar to an issue. [2]

1. **Applications:** collects and checks applications and decides allotment with the exchange. 1
2. **Credit and refunds:** credits shares to demat accounts; unblocks money of unsuccessful applicants. 1

24 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | Any two, 1 mark each

B6. A company with shares of face value ₹5 issues them at ₹95. Find the premium per share and the total premium on 2,00,000 shares. [2]

1. **Per share:** 95 − 5 = ₹90. 1
2. **Total:** 90 × 2,00,000 = ₹1,80,00,000. 1

13 words · CBSE asks 20–30 words | Marking: 1 + 1 = 2 | 1 + 1

Long answers

Part C · 4 marks

C1. What information must a company give in its prospectus under SEBI's disclosure rules? Write four points. [4]

1. **Objects:** why money is raised and how it will be used. 1
2. **Issue details:** size, price or price band, dates. 1
3. **Company:** history, promoters, management and past financial results. 1
4. **Risks:** risk factors, legal cases, project cost and finance. 1

36 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | Any four, 1 mark each | MUST DO

C2. Explain four kinds of issues by which a company raises capital. [4]

1. **IPO:** unlisted company's first offer to the public. 1
2. **FPO:** listed company offers more shares to the public. 1
3. **Rights issue:** new shares to existing shareholders in proportion. 1
4. **Private placement:** shares to a small chosen group. 1

34 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each | MUST DO

C3. Explain the book-building process. [4]

1. **Price band:** the company announces a band with floor and cap. 1
2. **Bidding:** investors bid for at least three working days. 1
3. **Demand:** bids are shown online, so demand is known. 1
4. **Cut-off:** final price is fixed and shares allotted at it. 1

39 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each

C4. Distinguish between public issue and private placement on four points. [4]

1. **Offered to:** public vs a few chosen investors. 1
2. **Document:** full prospectus vs short offer letter. 1
3. **Cost and time:** high and slow vs low and quick. 1
4. **Listing:** always listed vs not necessarily. 1

31 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | 1 mark each

C5. Write four facilities provided by NSE in the primary market. [4]

1. **Nationwide platform:** electronic bidding from any town. 1
2. **Transparency:** demand shown online during bidding. 1
3. **Online applications:** UPI and internet bidding through brokers and banks. 1
4. **Speed:** quicker allotment and listing at lower cost. 1

31 words · CBSE asks 50–80 words | Marking: 1 + 1 + 1 + 1 = 4 | Any four, 1 mark each

Case-based answers

Part D

D1. Case-Based · GreenBike Ltd goes public (passage printed in Part D) [4]

(i) What kind of issue is this, and which method is used to fix the price? [1]

An **IPO** by the **book-building** method.

(ii) Is the price band within SEBI's limit? Show why. [1]

Yes: 120% of ₹150 = ₹180, so the cap of ₹180 is **within** the limit.

(iii) What is ₹178 called? What premium does it carry per share? [2]

(1) ₹178 is the **cut-off price** (final issue price). (2) Premium = 178 − 10 = **₹168** per share.

Marking: 1 + 1 + 2 = 4 | 1 + 1 + (1 + 1)

D2. Competency-Based · Rights or bonus? (passage printed in Part D) [4]

(i) What were the March shares? Did the company raise money? [1]

Bonus shares; **no** money was raised.

(ii) What is the August offer called? [1]

A **rights issue**.

(iii) How many shares can she apply for in August, and why is this offer attractive? [2]

(1) She holds 400 + 100 = 500 shares, so 500 ÷ 4 = **125** shares. (2) The price is **below the market price**, and buying them keeps her ownership share unchanged.

Marking: 1 + 1 + 2 = 4 | 1 + 1 + (1 + 1)