



FINANCIAL ANALYSIS

How share prices are set

Orders, the queue, the opening and closing auctions, and how a new share gets its first price

Rules as on 12 October 2026

For training and education only. Not investment advice.

A share price is the price of the latest trade. Nobody announces it. A buyer and a seller agree on it.

The exchange only runs the queue. It lines up buy orders and sell orders and matches them by fixed rules. Each match is a trade, and the latest trade is the price on the screen.

Four terms behind every price



Bid

The price a buyer is willing to pay. The highest bid in the market is the best buy order.



Offer

The price a seller is willing to accept, also called the ask. The lowest offer is the best sell order.



Limit order

An order with a price attached. It trades only at that price or a better one.



Market order

An order with no price attached. It trades at the best price obtainable when it is entered.

Best price first. At the same price, the earlier order first. This is called price-time priority.

Source: NSE, 'Trading System' page for the equities segment (order types, order matching rules), opened 12 Oct 2026.

One order moves the price

THE ORDER BOOK

Last trade: ₹200.

Waiting sell orders: 100 shares at ₹201 and 200 shares at ₹202.

A new order arrives: buy 250 shares, limit ₹202.

- 1 The best sell order goes first: 100 shares trade at ₹201. Cost: $100 \times ₹201 = ₹20,100$.
- 2 The buyer still needs 150 shares. They trade at ₹202. Cost: $150 \times ₹202 = ₹30,300$.
- 3 Total paid: $₹20,100 + ₹30,300 = ₹50,400$ for 250 shares. Average: $₹50,400 \div 250 = ₹201.60$ a share.
- 4 The latest trade was at ₹202, so the screen now shows ₹202. Fifty shares are still on offer at ₹202.

The price moved from ₹200 to ₹202 because of one order. No one announced it; trades made it.

Illustration with an invented share and assumed orders. Brokerage and other charges are left out.

9:00 to 9:15 am: the pre-open session

A 15-minute auction that finds one opening price for each share it covers. In force from 7 Sep 2026.

1

9:00 to 9:05 am

Orders are collected, not matched. Limit and market orders can be placed, changed or cancelled.

2

9:05 to 9:10 am

Only limit orders can be placed. Entry stops at a random moment between 9:08 and 9:10 am.

3

9:10 to 9:12 am

The exchange finds one price, the equilibrium price, and matches all the orders it can at that price.

4

9:12 to 9:15 am

Orders still unmatched move to continuous trading, keeping their place in the queue.

Source: SEBI circular of 16 January 2026 (closing auction session and changes to the pre-open session), para 5 and 6.2; NSE 'Pre-Open Session' page, updated 4 Sep 2026.

Finding the opening price

ORDERS AT THREE PRICES

At ₹99: buyers want 900 shares, sellers offer 400.

At ₹100: buyers want 700, sellers offer 600.

At ₹101: buyers want 300, sellers offer 800.

- 1 At ₹99, only 400 shares can trade, because sellers offer no more than that.
- 2 At ₹100, 600 shares can trade. At ₹101, only 300 can, because buyers want no more.
- 3 The most shares can trade at ₹100. That is the equilibrium price, and it becomes the opening price.
- 4 All 600 shares trade at ₹100. Buy orders for the other 100 shares stay in the queue.

The opening price is the single price at which the largest number of shares can change hands.

Illustration with assumed orders. If two prices tie, the exchange applies further tie-break rules.

3:15 pm onwards: the closing price



Closing auction

Since 3 August 2026, shares that have derivatives get their closing price from an auction held from 3:15 to 3:35 pm. It also finds one equilibrium price.



Other shares

For the remaining shares, the closing price is the volume-weighted average price of trades in the last 30 minutes of continuous trading.



Why the close matters

The closing price is the reference for index values, for settling derivatives and for the net asset value (NAV) of mutual fund schemes.

Source: SEBI circular HO/47/11/11(3)2025-MRD-POD2/I/2765/2026 dated 16 January 2026, paras 1, 2.2, 4.1, 4.2 and 6.1.

Limits on how far a price can move



Daily price bands

Many shares have a daily price band of 2%, 5%, 10% or 20% either way. The exchange assigns the band share by share.



Shares with derivatives

No daily price band applies to them. The exchange instead sets an operating range of 10% to keep out orders at non-genuine prices.



Market-wide breakers

If the Nifty 50 or the Sensex moves 10%, 15% or 20% either way, trading in equity and equity derivative markets nationwide is usually halted.

Source: NSE, 'Price Bands' page (updated 12 Jan 2023) and 'Circuit Breakers' page (updated 4 Feb 2020), both opened 12 Oct 2026.

Before listing: book building

An initial public offer (IPO) is a company's first sale of shares to the public. Bids find its price.

1

A price band is set

The company and its lead managers announce a floor and a cap. The cap can be at most 20% above the floor.

2

Investors bid

While the issue is open, investors bid for shares at prices within the band.

3

The price is fixed

The final price, the cut-off price, is decided from the demand in the bids. Retail investors may bid 'at cut-off'.

4

Trading begins

On listing day a special pre-open session from 9:00 to 10:00 am finds the first market price.

Source: SEBI investor education website, 'Book-building Process'; NSE FAQ on the Special Pre-Open Session, version 6.1, April 2026.

If you learnt this from older material

The matching rule has not changed. The opening, the close and settlement have.

What a 2013-15 deck says

- Every share's close is the volume-weighted average of its last half hour's trades.
- A trade is settled two working days later (T+2).
- Price discovery is explained through profits and mood, not orders.

What holds in October 2026

- Shares with derivatives close by auction, 3:15 to 3:35 pm, since 3 Aug 2026.
- Trades settle the next working day (T+1). A same-day (T+0) cycle also exists.
- Pre-open changed on 7 Sep 2026: market orders accepted only until 9:05 am.

Source: SEBI circular of 16 Jan 2026; NSE 'Settlement Cycle' page, opened 12 Oct 2026. T+2 as the earlier cycle: SEBI circular of 7 Sep 2021, read in a secondary summary.

Four things people get wrong



'The company sets its share price.'

After listing, the company has no say. The price is whatever the latest buyer and seller agreed on the exchange.



'More buyers than sellers.'

Every trade has a buyer and a seller for the same shares. A price rises when buyers agree to pay more.



'The price on screen is my price.'

The screen shows the latest trade. A market order trades at the best prices then on offer, which may differ.



'The IPO price is the market price.'

The issue price comes from bids before listing. The market price starts with the listing-day auction.

Check yourself

Q1

Waiting sell orders: 50 shares at ₹301 and 100 at ₹303. You place a market order to buy 120 shares. What do you pay in all, and what price does the screen then show?

Q2

In a pre-open auction, 500 shares can trade at ₹150, 800 at ₹151 and 650 at ₹152. What is the opening price, and why?

Q3

A client asks: 'Who decided today's closing price of this share?' What would you say?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Closing auction (3 Aug 2026), pre-open timings (7 Sep 2026), uses of the closing price: SEBI circular dated 16 January 2026, HO/47/11/11(3)2025-MRD-POD2/I/2765/2026.
- Order types, price-time priority, equilibrium price and unmatched orders: NSE 'Trading System' and 'Pre-Open Session' pages (pre-open page updated 4 September 2026).
- Price bands and market-wide circuit breakers: NSE 'Price Bands' page (updated 12 January 2023) and 'Circuit Breakers' page (updated 4 February 2020).
- Book building: SEBI investor education website, 'Book-building Process'. Listing-day session: NSE FAQ on the Special Pre-Open Session, April 2026.
- T+1 and T+0 settlement: NSE 'Settlement Cycle' page, opened 12 October 2026.
- All shares, orders and prices in the worked examples and quiz are invented for illustration.

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