MAR GREGORIOS COLLEGE OF ARTS & SCIENCE

Block No.8, College Road, Mogappair West, Chennai – 37

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PG DEPARTMENT OF COMMERCE

SUBJECT NAME: MERCHANT BANKING & FINANCIAL SERVICES

SUBJECT CODE: KDA4C

SEMESTER: IV

PREPARED BY: PROF. M.VENKATESAN

Merchant Banking and Financial Services

Objective: To provide conceptual understanding and in depth knowledge of merchant banking services concerning financial markets in India and to provide knowledge of financial services

UNIT I Merchant Banking – merchant bankers – corporate counseling – project counseling – pre-investment studies – capital restructuring services – credit syndication – issue management – portfolio management – working capital finance – mergers and acquisition – foreign currency financing – brokering fixed deposits – project appraisal – merchant banking – regulatory framework – SEBI guidelines

UNIT II Public issue management – functions – categories of securities issue – issue manager – role of issue manager – activities involved I issue management – marketing of new issue – pure prospectus method – offer for sale method – private placement method – IPO method – rights issue method – bonus issue method – book-building – ESOP – OTCEI – Credit Syndication Services

UNIT III Post-issue activities – major activities – steps – factors in public issue proposal – pricing of issues – law relating to issue management – SEBI regulations – Prospectus – information – abridged prospectus – misstatement in prospectus – golden rule – types of prospectus – red-herring prospectus – shelf prospectus – M & A services – Portfolio Management Services

UNIT IV Underwriting – meaning – types – mechanism – benefits and functions – Indian Scenario – underwriting agencies – underwriter – underwriting agreement – SEBI guidelines – Bought-out deals – grey market – capital market instruments – types – preference shares – equity shares – CCPS – company deposits – warrants – debentures and bonds – SEBI guidelines – global debt instruments – indexed bonds – floating rate Bonds – ECBs

UNIT V Depository receipts – meaning and mechanism – benefits – steps in issue of GDR – IDR – Stock exchange – history – functions – Indian stock exchanges – SEBI regulations – mechanics of settlement – margin trading – stock trading system -0 dealer trading system – NSMS – ISE – INDONEXT – NSE – Financial Services – leasing – hire-purchase finance – bill financing – factoring – consumer finance – real estate financing – credit cards – credit rating venture capital

UNIT - I

An overview of Indian Financial System

The word system implies a set of complex and interrelated factors organized in a particular form. These factors are mostly interdependent but not always mutually exclusive. The financial system of any country consists of several ingredients. It includes financial institutions, markets, financial instruments, services, transactions, agents, claims and liabilities in the economy.

Financial system‘s a system to canalize the funds from the surplus units to the deficit Units. _Deficit units‘is a case where current expenditure exceeds their current income. There are other entities whose current income exceeds current expenditure which is called as _Surplus Units‗. An efficient financial system not only encourages savings and investments, it also efficiently allocates resources in different investment avenues and thus accelerates the rate of economic development. The financial system of a country plays a crucial role of allocating scarce capital resources to productive uses. Its efficient functioning is of critical importance to the economy.

FINANCIAL SYSTEM:

• It is a system for the efficient management and creation of finance. According to **Robinson**, financial system provides a link between savings and investment for the creation of new wealth and to permit portfolio adjustment in the composition of the existing wealth. According to **Van Horne**, financial system is defined as the purpose of financial markets to allocate savings efficiently in an economy to ultimate users – either for investment in real assets or for consumption. Thus the financial system mainly stands on three factors

□ Money
□ Credit
□ Finance

1. Money‘s the unit of exchange or medium of payment. It represents the value of financial transactions in qualitative terms.

2. Credit‗, on the other hand, is a debt or loan which is to be returned normally with interest.

3. Finance‘is monetary wealth of the state, an institution or a person. Comprising these factors in a systematic order forms a financial system.

Objectives

The objectives of the financial system are

1. Accelerating the growth of economic development.
2. Encouraging rapid industrialization
3. Acting as an agent to various economic factors such as industry, agricultural sector, Government etc.

4. Accelerating rural development
5. Providing necessary financial support to industry
6. financing housing and small scale industries
7. Development of backward areas, infrastructure and livelihood
8. Imposing price control in need
9. Protecting environment. Functions of financial system are distributed from creation of money to efficient Management. It is the sum total of the functions of the various intermediaries.

The functions of financial system can be classified into two broad categories:
1. Controlling functions
2. Promotional functions.

Components of Financial System:

Financial system Institutions Markets Financial Institutions Instruments Services

Structure of Financial Institutions:

COMMERCIAL BANKS:

Commercial Banks Classification of Commercial Banks

□ Financial Institutions
□ Banking
□ Non- Banking
□ Companies
□ Non - Banking
□ Financial companies
□ Central Bank
□ Commercial
□ Banks
□ Co-Operative
□ Banks
□ Non Banking
□ Financial
□ Intermediaries
□ Joint Stock companies

Classification of Co-operative Banks NON BANKING FINANCIL INTERMEDIARIES

Components of Financial Market Co-operative Banks

□ State Co-operative
□ Apex Banks
□ State Co-operative Urban
□ Banks
□ Co-operative Land
□ Development

□ Banks
□ Central Co-operative
□ Banks Primary Co-operative
□ Land Development
□ Banks
□ Primary Co-operative
□ Banks

Limitations of the financial system in India

The following are the limitations of the Indian financial system. • The Indian Financial system has failed to meet the financial needs of small scale Industries. It has rather patron the big industrial houses who are already well off. • The mushrooming of financial institutions has deteriorated the quality and effectiveness of the sector to some extent. • In many cases, it could not impose adequate control towards financial irregularities and frauds, often influenced by politically and economically organized pressure groups. • The Indian financial system fails to create a well-defined and organized capital market. • It fails to motivate economically marginal or small entrepreneurs by providing micro credit to them. • The Indian financial system is not flexible at the desired level. It takes abnormal time to cope with the changing situation.

□ Factoring Asset Liability Management
□ Leasing Housing Finance
□ Forfeiting Portfolio Finance
□ Hire Purchase Finance Underwriting
□ Credit Card Credit rating
□ Merchant Banking Interest and Credit Swap
□ Book Building Mutual fund

Securities and Exchange Board of India (Merchant Bankers) Rules, 1992 — A merchant banker has been defined as any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory services in relation to such issue management.

Random House Dictionary —Merchant banker is an organization that underwrites securities for corporations, advices such clients on mergers and is involved in the ownership of commercial ventures. These organizations are sometime banks which are not merchants and sometimes merchants who are not banks and sometimes houses which are neither merchants nor banks.

Charles P. Kindleberger —Merchant banking is the development of banking from commerce which frequently encountered a prolonged intermediate stage known in England originally as merchant banking.

Functions of merchant Banking: Merchant banking functions in India is the same asmerchant banks in UK and other European countries. The following are the functions ofmerchant bankers in India.

- Corporate counseling
- Project Counseling
- Capita l Structuring
- Portfolio Management
- Issue Management
- Credit Syndication
- Working capital
- Venture Capital
- Lease Finance
- Fixed Deposits

(i) Corporate counseling: Corporate counseling covers counseling in the form of project counseling, capital restructuring, project management, public issue management, loan syndication, working capital fixed deposit, lease financing, acceptance credit etc., The scope of corporate counseling is limited to giving suggestions and opinions to the client and help taking actions to solve their problems. It is provided to a corporate unit with a view to ensure better performance, maintain steady growth and create better image among investors.

(ii) Project counseling Project counseling is a part of corporate counseling and relates to project finance. It broadly covers the study of the project, offering advisory assistance on the viability and procedural steps for its implementation.

a. Identification of potential investment avenues.

b. A general view of the project ideas or project profiles.

c. Advising on procedural aspects of project implementation

d. Reviewing the technical feasibility of the project

e. Assisting in the selection of TCO_s (Technical Consultancy Organizations) for preparing project reports

f. Assisting in the preparation of project report

g. Assisting in obtaining approvals, licenses, grants, foreign collaboration etc., from government

h. Capital structuring

i. Arranging and negotiating foreign collaborations, amalgamations, mergers and takeovers.

j. Assisting clients in preparing applications for financial assistance to various national and state level institutions banks etc.,

k. Providing assistance to entrepreneurs coming to India in seeking approvals from the Government of India.

(iii) Capital Structure Here the Capital Structure is worked out i.e., the capital required, raising of the capital, debt-equity ratio, issue of shares and debentures, working capital, fixed capital requirements, etc.,

(iv) Portfolio Management It refers to the effective management of Securities i.e., the merchant banker helps the investor in matters pertaining to investment decisions. Taxation and inflation are taken into account while advising on investment in different securities. The merchant banker also undertakes the function of buying and selling of securities on behalf of their client companies. Investments are done in such a way that it ensures maximum returns and minimum risks.

(v) Issue Management: Management of issues refers to effective marketing of corporate securities viz., equity shares, preference shares and debentures or bonds by offering them to public. Merchant banks act as intermediary whose main job is to transfer capital from those who own it to those who need it. The issue function may be broadly divided in to pre issue and post issue management.

a. Issue through prospectus, offer for sale and private placement.

b. Marketing and underwriting

c. pricing of issues

(vi) Credit Syndication: Credit Syndication refers to obtaining of loans from single development finance institution or a syndicate or consortium. Merchant Banks help corporate clients to raise syndicated loans from commercials banks. Merchant banks helps in identifying which financial institution should be approached for term loans. The merchant bankers follow certain steps before assisting the clients approach the appropriate financial institutions. a. Merchant banker first makes an appraisal of the project to satisfy that it is viable b. He ensures that the project adheres to the guidelines for financing industrial projects. c. It helps in designing capital structure, determining the promoter_s contribution and arriving at a figure of approximate amount of term loan to be raised. d. After verifications of the project, the Merchant Banker arranges for a preliminary meeting with financial institution. e. If the financial institution agrees to consider the proposal, the application is filled and submitted along with other documents.

(vii) Working Capital: The Companies are given Working Capital finance, depending upon their earning capacities in relation to the interest rate prevailing in the market.

(viii)Venture Capital: Venture Capital is a kind of capital requirement which carries more risks and hence only few institutions come forward to finance. The merchant banker looks in to the technical competency of the entrepreneur for venture capital finance.

(ix). Fixed Deposit: Merchant bankers assist the companies to raise finance by way of fixed deposits from the public. However such companies should fulfill credit rating requirements.

(x)Other Functions

• **Treasury Management-** Management of short term fund requirements by client companies.

• **Stock broking-** helping the investors through a network of service units

• **Servicing of issues-** servicing the shareholders and debenture holders in distributing dividends, debenture interest.

• **Small Scale industry counseling-** counseling SSI units on marketing and finance

• **Equity research and investment counseling** – merchant banker plays an important role in providing equity research and investment counseling because the investor is not in a position to take appropriate investment decision.

• **Assistance to NRI investors -** the NRI investors are brought to the notice of the various investment opportunities in the country.

• **Foreign Collaboration**: Foreign collaboration arrangements are made by the Merchant bankers.

Merchant Banking in India

The first merchant bank was set up in 1969 by Grind lays Bank. Initially they were issue mangers looking after the issue of shares and raising capital for the company. But subsequently they expanded their activities such as working capital management; syndication of project finance, global loans, mergers, capital restructuring, etc., initially the merchant banker in India was in the form of management of public issue and providing financial consultancy for foreign banks. In 1973, SBI started the merchant banking and it was followed by ICICI. SBI capital market was set up in August 1986 as a fully-fledged merchant banker. Between 1974 and 1985, the merchant banker has promoted lot of companies. However they were brought under the control of SEBI in 1992.

Recent Developments in Merchant Banking and Challenges Ahead:

The recent developments in Merchant banking are due to certain contributory factors in India. They are

 The Merchant Banking was at its best during 1985-1992 being when there were Many new issues. It is expected that 2010 that it is going to be party time for

 Merchant banks, as many new issues are coming up.

 The foreign investors – both in the form of portfolio investment and through foreign Direct investments are venturing in Indian Economy. It is increasing the scope of Merchant bankers in many ways.

 Disinvestment in the government sector in the country gives a big scope to the

 Merchant banks to function as consultants.

- New financial instruments are introduced in the market time and again. This basically Provides more and more opportunity to the merchant banks.
- The mergers and corporate restructuring along with MOU and MOA are giving Immense opportunity to the merchant bankers for consultancy jobs.

However the challenges faced by merchant bankers in India are

1. SEBI guideline has restricted their operations to Issue Management and Portfolio Management to some extent. So, the scope of work is limited.
2. In efficiency of the clients are often blamed on to the merchant banks, so they are into trouble without any fault of their own.
3. The net worth requirement is very high in categories I and II specially, so many professionally experienced person/ organizations cannot come into the picture.
4. Poor New issues market in India is drying up the business of the merchant bankers. Thus the merchant bankers are those financial intermediary involved with the activity of transferring capital funds to those borrowers who are interested in borrowing.

The activities of the merchant banking in India is very vast in the nature of

- The management of the customers securities
- The management of the portfolio
- The management of projects and counseling as well as appraisal
- The management of underwriting of shares and debentures
- The circumvention of the syndication of loans
- Management of the interest and dividend etc.

MERCHANT BANKING AND LEGAL REGULATORY FRAME WORK

Companies Act

(i). Company means a company formed and registered under this Act or an existing company as defined in clause (ii);

(ii). Existing company means a company formed and registered under any of the previous companies laws specified below: a. any Act or Acts relating to companies in force before the Indian Companies Act, 1866 (10 of
1866) and repealed by the Act; b. The Indian Companies Act, 1866
c. The Indian Companies Act, 1882 d. the Indian Companies Act, 1913 e. the Registration of Transferred Companies Ordinance 1942.

iii. Private company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed, and by its articles,

a. Restricts the right to transfer its shares, if any;

b. Limits the number of its members to fifty not including i. persons who are in the employment of the company, and ii. persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased; and

c. Prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company;

d. Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member;

iv. Public company means a company which a. is not a private company; b. has a minimum paid up capital of five lakh rupees or such higher paid-up capital, s may be prescribed c. is a private company which is a subsidiary of a company which is not a private company.

In this Act, unless the context otherwise requires,

1. Abridged prospectus means a memorandum containing such salient features of a prospectus as may be prescribed

2. Banking company has the same meaning as in the Banking Companies Act, 1949

3. Company Law Board means the Board of Company Law Administration constituted under section 10E

4. Debenture includes debenture stock bonds and any other securities of a company, whether constituting a charge on the assets of the company or not;

5. Derivative has the same meaning as in clause (aa) of section 2 of the Securities Contracts (Regulation) Act, 1956

6. Hybrid means any security which has the character of more than one type of security, including their derivatives;

7. Issued generally means, in relation to a prospectus, issued to persons irrespective of their being existing members or debenture-holders of the body corporate to which the prospectus relates;

8. Prospectus means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares in, or debentures of, a body corporate;

9. Recognized stock exchange means, in relation to any provision of this Act in which it occurs a stock exchange whether in or outside India, which is notified by the Central Government in the

Official Gazette as a recognized stock exchange for the purposes of that provision;

10. Registrar means a Registrar, or an Additional, a Joint, a Deputy or an Assistant Registrar, having the duty of registering companies under this Act;

11. Securities means securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956

12. Securities and Exchange Board of India means the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992

13. Share means share in the share capital of a company, and includes stock except where a distinction between stock and shares is expressed or implied;

Provisions under Companies Act

The various regulations which govern the merchant bankers on the capital issue are prescribed by the companies act, and the other enactments mentioned below.

1. Provisions of the Companies Act, 1956

a. Prospectus (Sec. 55 to 68A)

b. Allotment (Sec. 55 to 75)

c. Commissions and discounts (Sec. 76 & 77)

d. Issue of shares at premium and at discount (Sec. 78 & 79)

e. Issue and redemption of preference shares (Sec. 80 & 80A)

f. Further issues of capital (Sec. 81)

g. Nature, numbering and certificate of shares (Sec. 82 to 84)

h. Kinds of share capital and prohibition on issue of any other kind of shares (Sec. 85 & 86)

Matters to be specified in prospectus and reports to be set out therein (Schedule 11)

The Securities Contracts (Regulations) Act, 1957 regarding transactions in securities

1. The Securities Contracts (Regulation) Rules, 1957.

2. Their capital adequacy

3. Their track record, experience and general reputation

4. Adequacy and quality of personnel employed by them and also the available infrastructure.

RECOGNIZED STOCK EXCHANGES

Application for Recognition of Stock Exchanges

Any stock exchange, which is desirous of being recognized for the purposes of this Act, may make an application in the prescribed manner to the Central Government.

(2) Every application under sub-section 1. shall contain such particulars as may be prescribed, and shall be accompanied by a copy of the bye-laws of the stock exchange for the regulation and control of contracts and also a copy of the rules relating in general to the constitution of the stock exchange and in particular, to—

a. the governing body of such stock exchange, its constitution and powers of management and the manner in which its business is to be transacted; b. the powers and duties of the office bearers of the stock exchange; c. the admission into the stock exchange of various classes of members, the qualifications for membership, and the exclusion, suspension, expulsion and readmission of members there from or there into; d. the procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorized representatives and clerks.

Security Exchange Board of India (SEBI)

SEBI is a body corporate with head office at Bombay. The Chairman and the board members are appointed by the Central government. SEBI has two following major functions:

1. Regulatory and
2. Development

1. Regulatory

a). Registering the brokers and sub-brokers **b).** Registration of mutual funds **c).** Regulation of stock exchanges **d).** Prohibition of fraudulent and unfair trade practice **e).** Controlling insider trading, take-over bids and imposing penalties.

2. Development a. Educating investors b. Training intermediaries in stock market transactions c. Promoting fair transactions d. Undertaking research and publishing useful information to all.

Objectives:

- To deal with development and regulation of stock market in India.
- To promote fair dealings by the issue of securities and ensure a market place where they can raise funds.
- To provide protection to the investors.
- Regulate and develop a code of conduct for brokers, merchant bankers, etc.
- To have check on preferential allotment to promoters at a very low price.
- To prevent deviations and violations of rules prescribed by stock exchange.
- To verify listing requirements, listing procedures, and ensure compliance of the same by the companies, so that only financially sound companies are listed.
- To prescribe required standards for merchant bankers.
- To promote healthy growth of security market for the development of capital market in the country.

Powers of SEBI as per the Act, SEBI has powers

- To file complaints in a court
- To regulate companies in the issue and transfer of shares including bonus and rights shares.
- It can levy penalties on companies and on brokers for violating transactions.
- Power to summon any broker or intermediaries and call for documents.
- It can issue directions to all brokers for protecting the interests of investors.

In addition to the above powers:

- It can call for periodical returns from stock exchange.
- Seek any information from stock exchange.
- It can enquire into the functioning of stock exchange.

- It can grant permission for the change of bye-laws of any stock exchange.
- It can compel listing of securities of public company.
- It can control and regulate stock exchanges.
- Granting registration to market intermediaries, prohibit insider-trading and prohibit Fraudulent and unfair trade practices
- Promoting investor-education, and trading of intermediaries in capital market.

SEBI Regulations on merchant bankers:

SEBI has brought about a effective regulative measures for the purpose of disciplining the functioning of the merchant bankers in India. The objective is to ensure an era of regulated financial markets and thus streamline the development of the capital market in India. The measures were introduced by the SEBI in the year 1992. The measures were revised by SEBI in
1997. The salient features of the regulative framework of merchant banking in India are discussed below.

Registration of Merchant Bankers Application for Grant of Certificate

An application by a person for grant of a certificate shall be made to the Board in Form
A. The application shall be made for any one of the following categories of the merchant banker
namely:

1. **Category I-** To carry on any activity of the issue management, which will inter alliance consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie-up of financiers and final allotment and refund of the subscription; and to act as adviser, consultant, manager, underwriter, portfolio manager.
2. **Category II-** To act as adviser, consultant, co-manager, underwriter, portfolio manager.
3. **Category III-** To act as underwriter, adviser, consultant to an issue.
4. **Category IV-** To act only as adviser or consultant to an issue. **5.** With effect from 9th December, 1997, an application can be made only for carrying on the activities mentioned in
category I. An applicant can carry on the activity as underwriter only if he contains separate certificate of registration under the provisions of Securities and Exchange Board of India
(Underwriters) Regulations, 1993, and as portfolio manager only if he obtains separate certificate of registration under the provisions of Securities and Exchange Board of India (Portfolio Manager) Regulations, 1993.

5. **Conformance to Requirements** Subject to the provisions of the regulations, any application, which not complete in all respects and does not conform to the

instructions specified in the form, shall be rejected. However, before rejecting any such application, the applicant will be given an opportunity to remove within the time specified such objections and may be indicated by the board.

6. **Furnishing of Information** The Board may require the applicant to furnish further information or clarification regarding matter relevant to the activity of a merchant banker for the purpose of disposal of the application. The applicant or its principal officer shall, if so required, appear before the Board for personal representation.

7. **Consideration of Application**: The Board shall take into account for considering the grant of a certificate, all matters, which are relevant to the activities relating to merchant banker and in particular whether the applicant complies with the following requirements;

1. That the applicant shall be a body corporate other than a non-banking financial company as defined by the Reserve Bank of India Act, 1934.
2. That the merchant banker who has been granted registration by the Reserve Bank of India to act as Primary or Satellite Dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit.
3. That the applicant has the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge his activities.
4. That the applicant has in his employment minimum of two persons who have the experience to conduct the business of the merchant banker.
5. That a person (any person being an associate, subsidiary, inter-connected or group Company of the applicant in case of the applicant being a body corporate) directly or indirectly connected with the applicant has not been granted registration by the Board.
6. That the applicant fulfils the capital adequacy as specified.
7. That the applicant, his partner, director or principal officer is not involved in any litigation connected with the securities market which has an adverse bearing on the business of the applicant.
8. That the applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence.
9. That the applicant has the professional qualification from an institution recognized by the Government in finance, law or business management.
10. That the applicant is a fit and proper person. 11. That the grant of certificate to the applicant is in the interest of investors.

8. Capital Adequacy Requirement According to the regulations, the capital adequacy requirement shall not be less than the net worth of the person making the application for grant of registration. For this purpose, the net worth shall be as follows:

Category	**Minimum Amount**
Category I	Rs.5, 00, 00,000
Category II	Rs.50, 00,000
Category III	Rs.20, 00,000
Category IV	Nil

UNIT - II

ISSUE MANAGEMENT INTRODUCTION

INTRODUCTION

Merchant Banking, as a commercial activity, took shape in India through the management of Public Issues of capital and Loan Syndication. It was originated in 1969 with the setting up of the Merchant Banking Division by ANZ Grind lays Bank. The main service offered at that time to the corporate enterprises by the merchant banks included the management of public issues and some aspects of financial consultancy. The early and mid-seventies witnessed a boom in the growth of merchant banking organizations in the country with various commercial banks, financial institutions, and broker_s firms entering into the field of merchant banking.

Reform measures were initiated in the capital market from 1992, starting with the conferring of statutory powers on the Securities and Exchange Board of India (SEBI) and the repeal of Capital Issues Control Act and the abolition of the office of the Controller of Capital Issues. These have brought about significant improvement in the functional and regulatory efficiency of the market, enabling the Merchant Bankers shoulder greater legal and moral responsibility towards the investing public.

2.2 MERCHANT BANKERS AND CAPITAL ISSUES MANAGEMENT

Merchant Banker has been defined under the Securities & Exchange Board of India (Merchant Bankers) Rules, 1992 as ―any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory service in relation to such issue management‖. The capital issue management comprises of the effective management of market related factors. They are • Transition to rolling settlement on the equity market •

Impact on different classes of market users • Obtaining a liquid bond market • Impact of reforms of 1990s • Law and taxation • Taxation of capital • Legal reforms • Political economy of

inancial sector reforms • Market design, market inefficiencies, trading profits

Issue Management: The management of issues for raising funds The management of issues for raising funds through various types of instruments by companies is known as ― issue management. The function of capital issues management in

India is carried out by merchant bankers. The Merchant Bankers have the requisite skill and competence to carry out capital issues management. The funds are raised by companies to finance new projects, expansion / modernization/ diversification of existing units etc., The definition of ‗merchant banker‗, as contained in SEBI (Merchant Banker) Rules and Regulations, 1992 clearly brings out the significance of Issue Management as follows: ―any person who is engaged in the business of issue management either by making arrangement regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory services in relation to such issue management.

MERCHANTS OF PUBLIC ISSUE MANAGEMENT

Classification of Securities Issue

1. Public Issue
2. Right Issue
3. Private Placement

Decision to Raise Capital Funds Preparation and Finalization of Prospectus Obtaining SEBI Approval Arranging underwriting Selection of Registrars, Brokers, Bankers, etc. Printing and Publicity of Public Issue Documents Arranging Press for investor Conference Issue Launch

SEBI Compliance

1. Public Issue of Securities When capital funds are raised through the issue of a prospectus, it is called ‗‗public issue of securities‗. It is the most common method of raising funds in the capital market. A security issue may take place either at part, or at a premium or at a discount.

The Prospectus has to disclose all the essential facts about the company to the prospective purchasers of the shares. Further, the prospectus must conform to the formal set out in Schedule II of the Companies Act, 1956, besides taking into the account SEBI guidelines. SEBI insists on the adequacy of disclosure of information that should serve as the basis for investors to make a decision about the investment of their money.

2. Rights Issue When shares are issued to the existing shareholders of a company on a privileged basis, it is called as ‗Rights Issue‗. The existing shareholders have a pre-emptive right to subscribe to the new issue of shares. Rights shares are offered as additional issues by corporate to mop up further capital funds. Such shares are offered in proportion to the capital paid up on the shares held by them at the time of the offer. It is to be noted that the shareholders, although privileged to be offered on the issue, are under no legal obligation to accept the offer. Right shares are usually offered on terms advantageous to the shareholders.

3. Private Placement When the issuing company sells securities directly to the investors, especially institutional investors; it takes the form of private placement. In this case, no prospectus is issued, since it is presumed that the investors have sufficient knowledge and experience and are capable of evaluating the risks of the investment. Private placement covers shares, preference shares and debentures. The role of the financial intermediary, such as the merchant bankers and lead managers, assures great significance in private placement. They involve themselves in the task of preparing an offer memorandum and negotiating with investors.

MERCHANT BANKERS FUNCTIONS

The different functions of merchant bankers towards the capital issues management are 1. Designing Capital Structures. 2. Capital Market Instruments. 3. Preparation of prospectus. 4. Selection of bankers. 5. Advertising Consultants. 6. Choice regarding registrar to the issue. 7. Arranging for underwriting the proposed issue. 8. Choice for the bankers to the issue. 9. Choice for the brokers.

Merchant Banking And Marketing of New Issues Following are the steps involved in the marketing of the issue of securities to be undertaken by the lead manager:

1. Target market: The first step towards the successful marketing of securities is the identification of a target market segment where the securities can be offered for sale. This ensures smooth marketing of the issue. Further, it is possible to identify whether the market comprises of retail investors, wholesale investors or institutional investors.

2. Target concentration: After having chosen the target market for selling the securities, steps are to be taken to assess the maximum number of subscriptions that can be expected from the market. It would work to the advantage of the company if it concentrates on the regions where it is popular among prospective investors.

3. Pricing: After assessing market expectations, the kind and level of price to be charged for the security must be decided. Pricing of the issue also influences the design of capital structure. The offer has to be made more attractive by including some unique features such as safety net, multiple options for conversion, attaching warrants, etc.

4. Mobilizing intermediaries: For successful marketing of public issues, it is important that efforts are made to enter into contracts with financial intermediaries such as an underwriter, broker/sub-broker, fund arranger, etc.

5. Information contents: Every effort should be mad3e to ensure that the offer document for issue is educative and contains maximum relevant information. Institutional investors and high net worth investors should also be provided with detailed research on the project, specifying its uniqueness and its advantage over other existing or upcoming projects in a similar field.

6. Launching advertisement campaign: In order to push the public issue, the lead manager should undertake a high voltage advertisement campaign. The advertising agency must be carefully selected for this purpose. The task of advertising the issue shall be entrusted to those agencies that specialize in launching capital offerings. The theme of the advertisement should be finalized keeping in view SEBI guidelines. An ideal mix of different advertisement vehicles such as the press, the radio and the television, the hoarding, etc. should be used. Press meets, brokers and investor‗s conference, etc. shall be arranged by the lead manager at targeted in carrying out opinion polls. These services would useful in collecting data on investors‗ opinion and reactions relating to the public issue of the company, such a task would help develop an appropriate marketing strategy. This is because; there are vast numbers of potential investors in semi-urban and rural areas. This calls for sustained efforts on the part of the company to educate them about the various avenues available for investment.

7. Brokers and investors conferences: As part of the issue campaign, the lead manager should arrange for brokers‘ and investors‘ conferences in the metropolitan cities and other important centre which have sufficient investor population. In order to make such endeavors more successful, advance planning is required. It is important that conference materials such as banners, brochures, application forms, posters, etc. reach the conference venue in time. In addition, invitation to all the important people, underwriters, bankers at the respective places, investors‘ associations should also be sent.

UNIT- III

OTHER FEE BASED MANAGEMENT INTRODUCTION:

Mergers and Acquisitions (M&A) as forms of business combination are increasingly being used for undertaking restructuring of corporate enterprises the world over. In fact, the corporate world is in the grip of merger-mania (mega mergers and hostile takeovers). The merger wave which began in the U.S. first occurred during the period between 1890 and 1904. Of late, mergers happen in all the sectors of the economy, the prime driving force being the accomplishment of synergetic effect for both the acquiring and the acquirer companies.

MERGERS

A type of business combination where two or more firms amalgamate into one single firm is known as a merger. In a merger, one or more companies may merge with an existing company or they may combine to form a new company. In India mergers and amalgamations are used interchangeably. In the wider sense, merger includes consolidation, amalgamation, absorption and takeover. It signifies the transfer of all assets and liabilities of one or more existing companies to another existing or new company.

Objectives The main purpose of merges is to achieve the advantage of fusion and synergy through expansion and diversification.

STEPS IN M & A Following are the steps involved in M&A:

1. Review of Objectives: The first and foremost step in M&A is that the merging companies must undertake the review of the purpose for which the proposal to merge is to be considered. Major objectives of merger include attaining faster growth, improving profitability, improving managerial effectiveness, gaining market power and leadership, achieving cost reduction, etc.

The review of objectives is done to assess the strengths and weaknesses, and corporate goals of the merging enterprise. In addition, the need for elimination of inefficient operations, cost reduction and productivity improvement, etc. should also be considered. Such a move would help the acquiring company to decide as to the kind of business units that must be acquired.

2. Data for analysis: After reviewing the relevant objective of acquisition the acquiring firm needs to collect detailed information pertaining to financial and other aspects of the firm and the industry. Industry-centric information will be needed to make an assessment of market growth, nature of competition, case of entry, capital and labor intensity, degree of regulation, etc.

Similarly, firm-centric information will be needed to assess quality of management, market share, size, capital structure, profitability, production and marketing capabilities, etc. The data to be collected serves as the criteria for evaluation

3. Analysis of information: After collecting both industry-specific and firm-specific information, the acquiring firm undertakes analysis of data and the pros and cons are weighed. Data is to be analyzed with a view to determine the earnings and cash flows, areas of risk, the maximum price payable to the target company and the best way to finance the merger.

4. Fixing price: Price to be paid for the company being acquired shall be fixed taking into consideration the current market value of share of the company being acquired. The price shall usually be above the current market price of the share. A merger may take place at a premium. In such a case, the firm would pay an offer price which is higher than the target firm_s premerger market value. This would happen where the acquiring firm is of the firm opinion that such an option would augment operational results of the target firm owing to synergic effect.

5. Finding merger value: Value created by merger is to be found so that it is possible for the merging firms to determine their respective share. Merger value is equal to the excess of combined present value of the merged firms over and above the sum of their individual present values as separate entities. Any cost incurred towards the merging process is subtracted to arrive at the figure of net economic advantage of merger. This advantage is shared between the shareholders of the merging firms.

CREDIT SYNDICATION

INTRODUCTION

Credit syndication services are services rendered by the merchant bankers in the form of organizing and procuring the financial facilities form financial institutions, banks, or other lending agencies. Financing arranged on behalf of the client for meeting both fixed capital as well as working capital requirements is known as loan syndication service.

CREDIT SYNDICATION SERVICES

Merchant bankers provide various services towards syndication of loans. The services may be either loan sought for long term fixed capital or of working capital funds.

Objectives arranging medium and long term funds for long term fixed capital and working capital fund needs.

Scope The scope of syndicated loan services as provided by merchant bankers include identifying the sources of finance, approaching these sources, applying for the credit, and sanction and disbursal of loans to the clients. While carrying out the activities connected with credit syndication, the merchant banker ensure due compliance with the formalities of the financial institution, banks and regulatory authority. They are:

1. General Information: The purpose of furnishing general information is to enable the financing company to obtain a general idea about the applicant company and its proposed project.

2. Promoter Information: Information about promoters is furnished by the merchant banker with the objective of helping the lending agency to gain an understanding of the promoter, his activities economic background, credibility and integrity.

3. Company Information: The merchant banker has to furnish the following information as regard the company for loan syndication arrangements to be made:

- Brief history of the concern
- Schemes already executed in the case of existing company
- Expansion/diversification plans in the case of an existing company
- Nature, size and status of the project to assess the funds requirement in the case of a new company
- Changes in names, business, management, etc. and mergers, reorganizations, etc. that have taken place in the past.

4. Project profile Information: Full information relating to the project for which financial assistance is sought is furnished by the merchant banker. The type of information may pertain to plant capacity, nature of production process to be employed, and nature of technical arrangements available for the project.

5. Project cost Information: Details of the estimated cost of the project should be provided to the lending institution. This includes information as regards rupee cost/rupee equivalent of foreign exchange cost/total cost for land or site development/buildings/plant and machinery, imported/indigenous, technical know-how, etc. to be furnished. Besides, details of expenses likely to be incurred on foreign technicians/training of Indian technicians abroad, miscellaneous fixed assets, preliminary pre-operative expenses, provision for contingencies, margin money for working capital etc. should be stated in the loan application.

6. Project financing Information: Details regarding the mode of financing used for the project should be stated. This includes information on the extent of debt and equity capital funding source. Besides, details of rupee loans, foreign currency loans, debentures, internal cash accruals,

and promoter‘s contribution. The security offered for the loan/bank guarantee, etc. should also be specified. Data should also be provided on the extent of loan arrangements already applied for and the limit of financial arrangements thereto.

7. Project marketing Information: As part of the credit syndication exercise, it is incumbent on the part of the merchant banker to furnish adequate information about the marketing arrangements made for the products of the borrowing unit.

8. Cash flow information: The merchant banker has to furnish details as to profitability and expected stream of cash flows and cost of the proposed project for this purpose, it is essential that working results of operations, cash flow statements and projected balance sheet are given in prescribed form along with the basis of the calculations.

9. Other Information: The merchant banker has to indicate as to how the purpose of the economic and national importance of the proposed project will be realized. Besides, following are the other details to be furnished by the merchant banker to the lending agency.

1. CIF/FOB international price of inputs to be imported/exported.
2. Economic benefits in general and the region in particular available to the nation from the project.
3. Economic benefits in general and the region in particular available to the nation from the project.
4. Expected contribution to the growth, if any of ancillary industries in the region.
5. Government consent by way issue of letter of intent, industrial license, foreign exchange permission, approval of technical financial collaboration etc.

a. Making Application

The merchant banker files the duly filled-in application in a manner as desired by the termlending institution. While presenting the application, it is incumbent on the part of the merchant banker to ensure that all the required formalities have been complied with. For instance, it is important that necessary sanction is obtained from the Government for the proposed project.

Loans are syndicated by development financial institutions though the lead institution especially in the case of consortium financing or joint lending_. Where loans are sought in huge amounts consortium approach to lending is followed. The lead institution adopts single window scheme while appraising, sanctioning and disbursing loans. A part of credit syndication services, the merchant banker arranges for appraisal of the project by sufficiently interacting with the officials of the development financial institutions. The merchant banker holds formal discussions with the appraisal team of financial institutions. He helps the promoters/chief executive of the company by providing information to the appraisal team. He takes part in the site inspection with the appraisal team and provides information to them about the technical aspect of the project implementation. He also assists the appraisal team on matters connected with the choice of technique to be adopted for appraisal of the project. Merchant banker provides advice in the preparation of project/feasibility report and the market survey report, and the financial projections relating to the project.

1. Technical Appraisal: Technical appraisal involves the assessment of technical and engineering soundness of the project. While carrying out the technical appraisal of a project, aspects such as competence of the experts preparing design of facilities and specifications; purchase arrangements of equipments; supervision of construction and installation; ability of consultants and their costs for services, are looked into. Attention is also paid to the aspects concerning the scale of operation, cost of production and prospective demand. Similarly, attention is paid to understand the appropriateness of the methods and processes to be used for the project. Consideration is also given to the level of availability of latest technology, degree of obsolescence in technological process, etc.

2. Ecological Appraisal: Regarding the ecological aspects of the project, the merchant banker ensures that the borrowing company has taken all possible steps for preventing air, water and soil pollution arising out of the industrial project proposed to be undertaken. A certificate from the

State Pollution Control Board has to be produced to the effect that the company has installed equipment adequate and appropriate to the requirement of meeting the environment protection.

Ecological appraisal is mandatory with respect to highly polluting industries such as zinc, lead, copper, aluminum, steel, paper, pesticides/insecticides, refineries, fertilizers, paints, dyes, leathering tanning, rayon, sodium/potassium cyanide, basic drugs, foundry, batteries, acids/alkalis, plastics, rubber, cement, asbestos, fermentation, electro placing,etc.

3. Financial Appraisal: Financial appraisal involves analyzing the financial viability of the project under consideration. Analysis of the need for fixed capital and working capital is also carried out. Consideration is also given to the cost of the project as relating to acquisition of capital assets, interest cost on loans obtained for promotional, organizational, training and other purposes.

4. Promoters contribution: Promoter‗s contribution for establishment and running of a project is vital. The important sources of promoters‗ contribution in the case of newly established companies include own equity, managed equity from special funds such as Risk Capital/venture

Capital Funds or Seed Capital from IDBI through SFCs, etc. and foreign equity, deposits contributed by promoters, etc. In the case of existing companies the sources of promoter contribution include internal accruals, right issues, divestment of shares, additional equity, unsecured loans, etc. The extent of promoter‗s contribution and debt-equity norms must be scrutinized by the merchant banker.

5. Economic Appraisals: The project involves making an analysis of the expected contribution of the project to the particular sector, besides its contribution to the development of the national economy. Particular attention is paid to the project‗s usefulness in terms of best possible utilization of scarce resources. It is essential to consider the priority nature of the project.

MUTUAL FUND

INTRODUCTION

A mutual fund is a professionally managed firm of collective investments that collects money from many investors and puts it in stocks, bonds, short-term money market instruments, and/or other securities. The fund manager, also known as portfolio manager, invests and trades the fund underlying securities, realizing capital gains or losses and passing any proceeds to the individual investors.

• ***Mutual funds***

a. A mutual fund is a fund exchanged between the public and the capital market through a corporate body.

b. ***The Securities and Exchange Board of India Regulations***, 1993 defines a mutual fund as a fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations‗. c. Kamm, J.O. defines an open end investment company or Mutual fund company in U.S.A as an organization formed for the investment of funds obtained from individuals and institutional investors who in exchange for the funds receive shares which can be redeemed at any time at their underlying asset values‗. d According to Weston j. Fred and Brigham, Eugene, F. Unit Trusts in U.K. are Corporations

Thus mutual fund is nothing but a form of collective investment. It is formed by the coming together of a number of investors who transfer their surplus funds to a professionally qualified organization to manage it. To get the surplus funds from investors, the fund adopts a simple technique. Each fund is divided in to a small fraction called units_ of equal value. Each investor is allocated units in proportion to the size of his investment. Thus, every investor, whether big or small, will have a stake in the fund and can enjoy the wide portfolio of the investment held by the fund. Hence, mutual funds enable millions of small and large investors to participate in and derive the benefit of the capital market growth. It has emerged as a popular vehicle of creation of wealth due to high return, lower cost and diversified risk.

Objectives

Mutual funds came into existence in order to attract the savings of lower and middle income group people and give them the benefit of corporate profits by distributing attractive dividends at the end of the year. Mutual funds cater the different types of customers who are interested in

(a) Fixed income or

(b) A higher return for investment or

(c) Who is growth oriented.

Mutual Funds Set Up In India

The structure of mutual fund operations in India envisages a three tier establishment namely: **(II)**

A ***Sponsor*** institution to promote the fund **(III)**A team of ***Trustees to*** oversee the operations and to provide checks for the efficient, profitable and transparent operations of the fund and **(IV)**An ***Asset Management Company*** to actually deal with the funds. ***Sponsoring Institution*** The Company which sets up the Mutual Fund is called the sponsor_. The SEBI has laid down certain criteria to be met by the sponsor. These criteria mainly deal with adequate experience, good past tract record, net worth etc.

Trustees: Trustees are people with long experience and good integrity in their respective fields.

They carry the crucial responsibility of safeguarding the interest of investors. For this purpose, they monitor the operations of the different schemes. They have wide ranging powers and they can even dismiss Asset Management Companies with the approval of the SEBI.

Asset Management Company (AMC) The AMC actually manages the funds of the various schemes. The AMC employs a large number of professionals to make investments, carry out research and to do agent and investor servicing. Infact, the success of any Mutual Fund depends upon the efficiency of this AMC. The AMC submits a quarterly report on the functioning of the mutual fund to the trustees who will guide and control the AMC.

Types of Mutual Funds

Close Ended Funds Close ended funds are funds which have definite period or target amount.

Once the period is over and or the target is reached, the door is closed for the investors. They cannot purchase any more units. These units are publicly traded through stock exchange and generally, there is no repurchase facility by the fund. The main objective of this fund is capital appreciation. Thus after the expiry of the fixed period, the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their holding. Thus the fund ceases to be a fund, after the final distribution. E.g. UTI Master Share, 1986.

2 Open Ended Funds Open ended funds are those which have no fixed maturity periods. Open ended scheme consists of mutual funds which sell the units to the public. These mutual funds can also repurchase the units. Initial Public Offer (IPO) is open for a period of 30 days and then reopens as an open-ended scheme after a period not exceeding 30 days from the date of closure of the IPO. Investors can buy or repurchase units at net asset value or net value related prices, as decided by the mutual fund. Example: Unit Trust of India Growth sector funds.

Classification of Mutual Funds

1. Income Fund Income funds are those which generate regular income to the members on a periodical basis. It concentrates more on the distribution of regular income and it also sees that the average return is higher than that of the income from bank deposits. a. The investor is assured of regular income at periodical intervals b. The main objective is to declare regular dividends and not capital appreciation. c. The investment pattern is towards high and fixed income yielding securities d. It is concerned with short run gains only.

2. Growth Fund Growth are those which concentrate mainly on long term gains i.e., capital appreciation. Hence they are termed as ***"Nest Eggs"*** investments. a. It aims at meeting the investors need for capital appreciation. b. The investor‗s strategy conforms to investing the funds on equities with high growth potential. c. The Investment tries to get capital appreciation by taking much risks and investing on risk bearing equities and high growth equity shares. d. The fund declares dividends. e. It is best suited to salaried and business people.

3. Balanced Fund It is a balance between income and growth fund. This is called as Income cum growth. It aims at distributing regular income as well as capital appreciation. Thus the investments are made in high growth equity shares and also the fixed income earning securities.

4. Specialized Funds These are special funds to meet specific needs of specific categories of people like pensioners, widows etc.

5. Money Market Mutual Funds The funds are invested in money market instruments. These funds basically have all the features of open ended funds but they invest in highly liquid and safe

securities like commercial paper, banker‘s acceptances, and certificates of deposits treasury bills.

These funds are called money funds in the U.S.A. The RBI has fixed the minimum amount of investment as Rs.1 Lakh; it is out of the reach of many small investors. However, the private sector funds have been permitted to deal in money market mutual funds. It is best suited to institutional investors like banks and other financial institutions.

6. Taxation Funds It is a fund which offers tax rebated to the investors either in the domestic or foreign capital market. It is suitable to salaried people who want to enjoy tax rebates particularly during the month of February and March. An investor is entitled to get 20% rebated in Income

Tax for investments made under this fund subject to a maximum investment of Rs.10,000 per annum. E.g. Tax Saving Magnum of SBI Capital Market Limited.

7. Other Classification

i. Leveraged Funds: Also called as borrowed funds as they are used primarily to increase the size of the value of portfolio of a mutual fund. When the value increases, the earning capacity of the fund also increases.

ii. Dual Funds: It is a fund which gives a single investment opportunity for two different types of investors. It sells income shares and capital. Those investors who seek current investment income can purchase incomes shares. The capital shares receive all the capital gains earned on those shares and they are not entitled to receive any dividend of any type.

iii. Index Fund: It is a fund based the some broad market index. This is done by holding securities in the same proportion as the index itself. The value of these index linked funds will automatically go up whenever the market index goes up and vice versa.

iv. Bond Funds: The funds have portfolios consisting mainly of fixed income securities like bonds. The main thrust is income rather than capital gains.

History of Mutual Funds In India

The Mutual fund concept in India was launched by Unit Trust of India (UTI) in the year 1964 by special Act of Parliament. The first scheme offered was the ―US-64. A host of other fund schemes were subsequently introduced by the UTI. The basic objective behind the setting up of the Trust was to mobilize small savings and to allow channeling of those savings into productive sectors of the economy, so as to accelerate the industrial and economic development of the country. In 1987, the Government of India permitted commercial banks in the public sector to set up subsidiaries operating as trusts to perform the functions of mutual funds by amending the Banking Regulation Act. SBI set its first mutual fund, followed by Canara Bank. Later many large financial institutions under government control also came out with mutual funds subsidiaries. Recently, with the beginning of the economic reforms and liberalization of the economy, based on the recommendations of the Abid Hussain committee, foreign companies were also permitted to start mutual funds in India. The government introduced a number of regulatory measures, through various agencies such as the SEBI, to the benefit the investors, esp. the small investors.

UNIT- IV

FINANCIAL SERVICES

INTRODUCTION

Leasing is not a concept which emerged in the modern days. Even in the olden days we had leasing in the form of Charter Party agreement, when in an entire ship is taken on lease either for a particular period or for a particular voyage. Similarly we had agricultural lands are given on lease for a specified period.

FUND BASED FINANCIAL SERVICES

Some of the fund based financial services are leasing, hire purchase agreements. These are discussed below in detail in the pages to come.

4.1 LEASING: It is a contract by which one party conveys land, property, services etc., to another for a specified time.

Definitions:

The Transfer of Property Act, 1882 (as amended in 1952) describes Lease as follows —A Lease of the movable property is a transfer of a right to enjoy such property, made for a certain time, express of implied, or in perpetuity, inconsideration of a price paid or promised or of money, a share of crops, service or any other things of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.

• The transferor is called the Lessor‗

• The transferee is called the Lessee‗

• The price is called the Premium‗

• The money, share, service or other thing to be rendered is called the **Rent**.

Definition:

Section 105 of the above Act defines a lease as follows: —A Lease is a transfer of a right to enjoy the property. The consideration may be a price or a rent. The rent may be either money, or share of crops, service of anything of value, to be rendered periodically by the transferee to the transferor.

Basic Concepts: In Leasing Broker an agent who brings two parties together, enabling them to enter into a contract to which he is not a principal. His remuneration consists of a brokerage, which is usually calculated as a percentage of the sum involved in the contract.

Deposit

1. A sum of money paid by a buyer as part of the sale price of something in order to reserve it.

Depending on the terms agreed, the deposit may or may not be returned if the sale is not completed.

2. A sum of money left with an organization, such as a bank, for safekeeping or to earn interest or with a broker, dealer, etc., as a security to cover any trading losses incurred.

3. A sum of money paid as the first installment on a hire-purchase agreement. It is usually paid when the buyer takes possession of the goods.

Depreciation

1. Depreciation is principally a means of allocating the cost of an asset over its useful life. It is an amount charged to the profit and loss account of an organization to represent the wearing out or diminution in value of an asset. The amount charged is normally based on a percentage of the value of the asset as shown in the books.

Finance Broker A broker who arranges finance.

Lease Broker Any broker who arranges a lease between a lender and a lessee.

Lease Purchases It is a type of leasing where, at the end of the lease period the goods become the lessee_s property.

Lender The person or institution, that grants a loan.

Operating Lease Essentially long term rent, not a capital expense transaction.

Refinancing The process of repaying some or all of the loan capital of a firm by obtaining fresh loans, usually at a lower rate of interest.

Residual Value The expected selling price of an asset at the end of its useful life.

Evolution of Leasing

The concept and practice of leasing is not an innovation of the late 20th century. There are historical evidences to show that the practice of leasing was found even five centuries earlier.

Such leases were for leasing land, agricultural tools, animals and ships, as documented in the **Sumerian and Greek civilizations.** These operators found leasing a viable alternative for enhanced operations as they were desperately short of their own funds. They could not also rely upon conventional sources of funds. The unparalleled success of Rail Road companies highlighted the importance of equipment leasing as a tool for promoting capital formation. In the post-Second World War era, European rail companies also took to equipment leasing on a large scale. In the early sixties, this practice of equipment leasing has gained popularity and it is believed that approximately 25% of all business equipment in terms of value are leased. The later half of 19th century bore witness to this practice as the Rail Road operators in the USA leased Rail Cars and Locomotives. The practice of Equipment Leasing is of recent origin in India. Equipment leasing took roots only in the eighties. Equipment leasing includes, leasing of plant and machinery, office equipment, automobiles, ships and aircrafts.

Legal aspects of Leasing

As there is no separate statue for equipment leasing in India, the provisions relating to bailment in the Indian Contract Act govern equipment leasing agreements as well section 148 of the Indian Contract Act defines bailment as:

―The delivery of goods by one person to another, for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the _bailor‘and the person to whom they are delivered is called the _bailee‘.

Since an equipment lease transaction is regarded as a contract of bailment, the obligations of the lessor and the lessee are similar to those of the bailor and the bailee (other than those expressly specified in the least contract) as defined by the provisions of sections 150 and 168 of the Indian Contract Act. Essentially these provisions have the following implications for the lessor and the lessee.

- The lessor has the duty to deliver the asset to the lessee, to legally authorize the lessee to use the asset, and to leave the asset in peaceful possession of the lessee during the currency of the agreement.
- The lessor has the obligation to pay the lease rentals as specified in the lease agreement, to protect the lessor‘s title, to take reasonable care of the asset, and to return the leased asset on the expiry of the lease period.

Contents of a Lease Agreement:

The lease agreement specifies the legal rights and obligations of the lessor and the lessee.

It typically contains terms relating to the following:

- Description of the lessor, the lessee, and the equipment.
- Amount, time and place of lease rentals payments.
- Time and place of equipment delivery.
- Lessee‘s responsibility for taking delivery and possession of the leased equipment.
- Lessee‘s responsibility for maintenance, repairs, registration, etc. and the lessor‘s right in case of default by the lessee.
- Lessee‘s right to enjoy the benefits of the warranties provided by the equipment manufacturer/supplier.
- Insurance to be taken by the lessee on behalf of the lessor.

 Variation in lease rentals if there is a change in certain external factors like bank interest rates, depreciation rates, and fiscal incentives.
 Options of lease renewal for the lessee.
 Return of equipment on expiry of the lease period.
 Arbitration procedure in the event of dispute.

Types of Leasing

Classification of Lease

Lease may be classified as

1. Finance Lease and Operating Lease.
2. Sale and Lease Back and Direct Lease.
3. Single Investor Lease and Leveraged Lease.
4. Domestic Lease and International Lease.

Finance Lease:

A lease is defined as a finance lease if it transfers a substantial part of the **risks** and **rewards** associated with ownership from the **lessor** to the **lessee**. Thus the finance lease is characterized by whether:

a) The lease transfers ownership of the asset to the lessee by the end of the lease term; or

b) The lessee has the option to purchase the asset at a price within is expected to be sufficiently lower than the Fair Market Value (FMV) at the date, the option becomes exercisable that, at the inception of the lease it is reasonably certain that the option will be exercised; or

c) The lease term is for a major part of the useful life of the asset. The title may or may not be transferred eventually; or

d) The Present Value of the minimum lease payments is greater than or substantially equal to the Fair Market Value (FMV) of the asset at the inception of the lease. The title may or may not be transferred eventually.

These are largely based on the criteria laid down by the Financial Accounting Standards Board (FASB) of the USA. If the lease term exceeds 75% of the useful life of the asset or if the present value of the minimum lease payments exceeds 90% of the FMV of the asset, at the inception of the lease, the lease will be classified as „Financial Lease.

To determine the present value, the discount rate to be used by the lessor will be the rate of interest implicit in the lease and the discount rate to be used by the lessee will be its incremental borrowing rate. In the Indian context, criteria (a) and (b) above are inapplicable, because, inclusion of any one of these conditions in the lease agreement will make the agreement being treated as a Hire Purchase Agreement. Hence a lease can be classified as a finance lease only if any one of criteria (c) and (d) are satisfied.

The lessee is responsible for repair, maintenance and insurance of the asset. • The lessee also undertakes an extreme obligation to pay rental regardless of the condition or the suitability of the asset.

A finance lease, which prevails over the entire useful life of the equipment, is called a_full payout lease.

Operating Lease

The International Accounting Standard Committee defines operating lease as **"any lease other than a finance lease".** An operating lease has the following characteristics:

1. The lease term is significantly less than the economic life of the equipment.

2. The lessee enjoys the right to terminate the lease at short notice without any significant penalty.

3. The lessor usually provides the operating know-how, supplies the related services and undertakes the responsibility of insuring and maintaining the equipment, in which case the operating lease is called a **Wet Lease_**.

4. An operating lease where the lessee bears the cost of insuring and maintaining the leased equipment is called a **Dry Lease**.

5. An operating lease does not shift the equipment-related, business and technological risks from the lessor to lessee. The lessor structuring an operating lease transaction has to depend upon multiple lease or on the realization of substantial resale value (on the expiry of first lease), to recover the instrument cost plus reasonable rate of return thereon. To deal in operating leasing one requires an in-depth knowledge of the equipments and the resale market. In our country, as the resale market for most of the used capital equipments is not active, operating leases are not very popular.

Sale and Lease Back

In the case of sale and lease back, the owner of equipment sells it to a leasing company, which, in turn, lease it back to the seller of the equipment, who then becomes the lessee. The _Lease Back_ arrangement in this transaction can be in the form of either a finance lease or an operating lease e.g., the sale and lease back of safe deposit vaults practiced by commercial banks. The banks sell the safe deposit vaults in its custody to a leasing company at a market price, which is substantially higher than the book value. The leasing company then offers these lockers on a long-term lease to the bank. This sale and lease back_ arrangement is an easily available source of funds for the expansion and diversification programmes of a firm where highcost short-term debt has been used for capital investments in the past, the sale and lease back gives an opportunity to substitute the short-term debt by medium-term finance (provided the lease back arrangement is a finance lease). For the leasing company offering sale and lease back arrangement, it is difficult to establish a fair market value of the asset being acquired as the resale markets are virtually absent.

Direct Lease:

It is defined as any lease, which is not a sale and lease back transaction_. A direct lease can be of two types: (i) Bipartite lease, and (ii) Tripartite Lease.

Bipartite Lease:

There are two parties to the transaction, 1. Equipment supplier cum lessor 2. The lessee.

It functions like an operating lease with built-in facilities like up gradation of the equipments called as Upgrade Lease. The lessor undertakes to maintain the equipment and even replaces the equipment that is in need of major repair with the similar functioning equipment called as Swap Lease.

Tripartite Lease

It involves three different parties

1. The equipment supplier
2. The lessor
3. The lessee. Most of the equipment lease transactions fall under this category.

In this form of lease

1. The equipment supplier may provide a reference about the customer to the leasing company.
2. The equipment supplier can negotiate the terms of the lease with the customer and complete the necessary paper work on behalf of the leasing company.
3. The supplier can take the lease on his own account and discount the lease receivables with the designated leasing company. So the leasing company owns the equipment and obtains an assignment of the lease rentals. This form of lease has recourse to the supplier in case of default by the lessee, either to buy back the equipment from the lessor on default or providing a guarantee on behalf of lessee.

Single Investor Lease

The entire investment is funded by the lessor by arriving at a judicious mix of debt and equity. The debt funds raised by the leasing company are without recourse to the lessee, i.e., in the event of the default by the leasing company on its debt-servicing obligation, the lender cannot demand payment from the lessee.

Leveraged Lease

It is a lease which is leveraged through a trustee. The leasing company invests in equipments by borrowing large investments with full recourse to the lessee without any recourse to it. The lender (loan participant) gets an assignment of the lease and enjoys benefit of the rentals to be paid by the lessee and a first mortgage on the leased assets. This transaction is routed through the trustee to take care of the lender and the lessee.

Commercial Banks State Bank of India, India_s largest commercial bank, entered the market in 1997. This has altered market dynamics considerably because State Bank of India has a very large deposit base from savings accounts and deposit accounts, leading to the lowest cost of capital amongst all players.

Foreign banks The roles of foreign banks are very limited in the leasing market. Few foreign banks such as ABN-AMRO and ANZ Grind lays, have organized aircraft leasing for private airlines. Citicorp Securities & investment, the financial services arm of Citibank has leased assets worth US $ 6.7 million in 1996-97.

Non-banking Finance Companies (NBFCs) All those Indian finance companies that do not fall into any of the above categories are called as NBFCs. NBFCs has a market share of over 50 per cent of the leasing market. On the other hand, 70 per cent of NBFCs_ business originates with leasing and hire-purchase activities. In 1998, Anagram Finance and ITC Classic merged with the Industrial Credit and Investment Corporation of India (ICICI), a leading all-India FI. In addition,
Twenty-First Century Finance merged with Centurion Bank. Although all of the companies recorded profits in 1996-97, fears of a harder recovery and squeezed margins led them to the decision to exit the NBFC segment of the market.

Foreign Institutional Investors (FIIs): There are no legislative barriers that prevent FIIs from entering the leasing market, the only FIIs with measurable involvement in the market are the
U.S. Company GE Capital and the Japanese company Orix Corporation.

Advantages of Lease Financing:

□ It offers fixed rate financing; you pay at the same rate monthly.

□ Leasing is inflation friendly. As the costs go up over five years, you still pay the same rate as when you began the lease, therefore making your dollar stretch farther. (In addition, the lease is not connected to the success of the business. Therefore, no matter how well the business does, the lease rate never changes.)

□ There is less upfront cash outlay; you do not need to make large cash payments for the purchase of needed equipment.

□ Leasing better utilizes equipment; you lease and pay for equipment only for the time you need it.

□ There is typically an option to buy equipment at end of lease term.

□ You can keep upgrading; as new equipment becomes available you can upgrade to the latest models each time your lease ends.

□ Typically, it is easier to obtain lease financing than loans from commercial lenders.

□ It offers potential tax benefits depending on how the lease is structured.

There are several extolled advantages of acquiring capital assets on lease:

(1) **Saving Of Capital**: Leasing covers the full cost of the equipment used in the business by providing 100% finance. The lessee is not to provide or pay any margin to Manufacturer, Lessor and Lessee.

(2) **Flexibility and Convenience**: The lease agreement can be tailor- made in respect of lease period and lease rentals according to the convenience and requirements of all lessees.

(3) **Planning Cash Flows**: Leasing enables the lessee to plan its cash flows properly. The rentals can be paid out of the cash coming into the business from the use of the same assets.

(4) **Improvement in Liquidity**: Leasing enables the lessee to improve their liquidity position by adopting the sale and lease back technique.

Disadvantages of lease financing:

□ Leasing is a preferred means of financing for certain businesses. However it is not for everyone. The type of industry and type of equipment required also need to be considered. Tax implications also need to be compared between leasing and purchasing equipment.

□ You have an obligation to continue making payments. Typically, leases may not be terminated before the original term is completed. Therefore, the renter is responsible for paying off the lease. This can pose a major financial problem for the owners of a business experiences a downturn.

□ You have no equity until you decide to purchase the equipment at the end of the lease term, at which point the equipment has depreciated significantly.

□ Although you are not the owner, you are still responsible for maintaining the equipment as specified by the terms of the lease. Failure to do so can prove costly.

HIRE PURCHASE

According to the Hire Purchase Act of 1972, the term hire purchase is defined as, an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement, and includes an agreement under which a.

Possession of goods is delivered by the owner thereof to a person on the condition that such person pays the agreed amount in periodic payments b. The property of the goods is to pass to such a person on the payment of the last of such installment c. Such a person has a right to terminate the agreement any time before the property so passes‖. All Hire purchase finance companies are controlled by the Hire Purchase Act, 1972. A Hire purchase transaction has two elements, Bailment which is governed by the Indian Contract Act, 1872 and Sale under the Sale of Goods Act, 1930.

Hire Purchase Agreement

A Hire Purchase Agreement is an agreement between the seller and the buyer, where the ownership of goods does not pass to the buyer until he pays the last installment. There are two parties to the hire purchase agreement. The hire vendor, who is the seller and other, is the hire purchaser, the buyer. The purchaser has to make a down payment of 20 to 25% of the cost and the remaining amount has to be paid in equal monthly installments. In the case of a Deposit linked plan, the hire purchaser has to invest a fixed amount as fixed deposits in the finance company which is returned together with interest after the payment of the last installment.

Parties to the Hire Purchase Contract:

There are **two parties** in a hire purchase contract 1. The intending seller 2. The intending purchaser or the hirer.

Tripartite agreement 1. Seller 2. Financier 3. Hirer/Purchaser

4.3.2 **Difference between Hire Purchase and Leasing:**

Characteristics Leasing Hire purchasing ownership with the finance company,
the lessor it is transferred to the hirer on the payment of the last installment
Depreciation Lessor, and not the lessee is entitled to claim depreciation tax shield
The hirer is entitled to claim depreciation tax shield
Capitalization done in the books of lessor
Done in the books of hirer Payments
The entire lease payments are eligible for tax computation in the books of lessee
Only the hire interest is eligible for tax computation in the books of hirer
Magnitude Used as a source of finance, usually for acquiring high cost assets such as machinery, ships etc
Used as a source of finance, usually for acquiring low cost assets such as automobiles, office equipments etc
Maintenance of asset
Lessee in case of financial,
Upkeep is the responsibility of the lessor in the case of operating lease
It is the hirer‘s responsibility to ensure the maintenance of the asset bought
Nature of asset Asset- as a fixed asset of the lessor
Shows the asset either as a stock in trade or as receivables
Down payment No down payment required It is required

Financial Evaluation:

It is an evaluation by the hirer of the desirability for lease and hire purchase. The hirer makes decision based on the Present Value of Net Cash Outflow. The decision is considered favorable when the PV of Net Cash Outflow under Hire Purchase is less than the PV of Net cash Outflow under leasing. Following are the steps involved.

Step 1 Calculate annual interest amount

Step 2 Find the principal amount outstanding at the beginning of the each year = Total outstanding principal – principal paid in the previous year.

Step 3 Find principal paid in the previous year = Annual installment amount – Annual Interest
Step 4 Find Annual ITS = Annual Interest x Tax rate
Step 5 Find Annual Depreciation
Step 6 Find Annual DTS = Annual depreciation x Tax rate
Step 7 Find Total TS = Step 4 + Step 6
Step 8 Find Annual installment amount = Total HP amount + (HP amount x flat rate of interest) / No. of HP years
Step 9 Find PV of salvage value of assets = SV x PVF
Step 10 Find Net Cash Outflow of HP = Step 8 – Step 7

HIRE PURCHASE LEASING

1. It is a tripartite agreement, involving the seller, finance company and the purchaser/hirer
2. Depreciation is claimed by the purchaser/hirer
3. The agreement is entered for the transfer of ownership after a fixed period. 1. It is a bipartite agreement involving lessor and lessee. 2. Depreciation is claimed by the lessor in the lease agreement.
3. In finance lease the ownership will get transferred. While in operating lease, the ownership is not transferred.

Step 11 Find PV of net cash outflow of HP at the appropriate discount rate.
Step 12 Find Total PV net cash outflow of HP = Step 11 – Step 9.
Step 13 Find Tax shield on annual ease rentals = Annual Lease rental x Tax rate.
Step 14 Find Net cash outflow of Leasing = Annual lease rental – Step 13.
Step 15 Find Total PV of net cash outflow of Leasing at the approp. Discount rate = Net cash outflow of Leasing x PVAF.
Step 16 Make a decision: HP is desirable if total PV of net cash flow of HP is Less than that of leasing.

UNIT- V

OTHER FUND BASED FINANCIAL SERVICES

CONSUMER CREDIT

It is a finance to consumers For the purchase of semi durables and durables by paying a part of the total price Reavis Cox**,** an authority on economics of consumer finance defines consumer finance as ―Business procedure through which the consumers purchase semi-durables and durables other than real estate, in order to obtain from them a series of payments extending over a period of three months to five years, and obtain possession of them when only a fraction of the total price has been paid.

According to **E.R.A. Seligman,** an authority on consumer finance, ―the term consumer finance refers to a transfer of wealth, the payment of which is deferred in whole or in part, to future, and is liquidated piecemeal or in successive fractions under a plan agreed upon at the time of the transfer.

Characteristics of Consumer Credit

The nature of consumer credit may be the transfer of wealth to consumers for purchase of semi durables or durables except real estate where the payment is deferred in whole or in part upon agreed terms the agreed terms for repayment may be in the form of EMI.

Consumer Finance Transactions

The nature of consumer finance transactions may be

(a) Parties and Structure of the Transaction: The parties and the structure of the transaction may be either (i) Bipartite (ii) Tripartite.

A bipartite transaction involves two parties i.e.

1. Dealer-Cum-Financer and
2. Borrower or Customer.

A tripartite transaction involves three parties

1. The dealer
2. The financier
3. Borrower or customer

Transactions can either be structured in the form of hire purchase, conditional sale or credit sale, but a majority of the tripartite consumer finance transactions are of the hire purchase type.

(b) Payment for the transaction: The payment for specific transactions is divided into two categories: (i) Down Payment Schemes (ii) Deposit Linked Schemes.

The down payment varies from initial payments ranging from 20%-25% of the value of goods and financing is available for 75%-80% or as the case may be.

In a deposit-linked scheme, the down payment in the form initial deposit varying from 15% and 25% of the total value of the asset. The financier pays the full amount to the seller. Deposits carry a prescribed interest rate. Zero Deposit schemes are also available, under which the

Equated Monthly Installment (EMI) is higher than the EMI under normal deposit schemes.

(c) Repayment Period The repayment period ranges from 12-60 months. Finance companies notify the customer indicating the amount of equated monthly installments to be paid through postdated Cheques.

(d) Security: The asset is secured through first charge on it for the credit provided. The borrower is prohibited from disposing, pledging or hypothecating the asset during above said credit period.

(e) Eligibility Criteria for Borrowers There is no specific criteria for borrowers, all the borrowers in the form of individuals, partnership firms, private and public limited companies are eligible to borrow.

Nature of Consumer Classes In India

The middle income class refers to that class of people between the lower income groups and higher income groups**.** The need to study the middle income class in India was felt because the consumer finance was absolutely designed to meet their financial requirements and in turn upgrade their standard of living. Moreover the total population of middle class in India exceeds more than 2/3 rd of the total population.

- India has registered a very impressive growth of its middle class – a class which was virtually nonexistent in 1947 when India became a politically sovereign nation.
- At the start of 1999, the size of the middle class was unofficially estimated at 300 million people.
- The middle class comprises of three sub-classes: the upper-middle, middle-middle and lower middle classes.
- The upper-middle class has an estimated 40 million people.
- The middle-middle class has an estimated 150 million people,
- The lower middle class comprises an estimated 110 million people.

CREDIT CARDS

INTRODUCTION

The commercial banks extend different functions to customers. The most important in the modern days are credit card facilities to customers. These facilities are not extended to not only customers in the urban areas or cities but also to customers residing in rural areas. Agriculturist are enjoying the facility of credit card and the card extended to them are called as green card.

A credit card is given by the banker to the customer in which the name of the customer is embossed in block letters. The name of the bank and the date of issue and expiry are also mentioned on the face of the card. The reverse side of the card will bear the specimen signature of the customer. A list of vendors or sellers will be gibe by the banker to the customers. A credit card is a thin plastic card, usually 3 1/8 inches x 2 1/8 inches in size that contains identification information such as signature or picture or both and authorizes the person named on it to charge for purchases or services to his account. In addition to this, the card can be used in automated teller machines for withdrawing cash and the machine stores the information and also transactions through electronic date processing system.

5.2.2 Origin of Credit Cards In India:

The usage of Credit Cards in India is less when compared to the usage of credit cards in China, Taiwan and Malaysia. It picked up only in the last 10 years until then the Indian looked it as a luxury. The idea of owning a credit card has had its roots in the minds of millions of Indians.

They started viewing the card as a convenient substitute to carrying cash. The change in mindset is clear from the growth, both in terms of absolute numbers and growth rates. The industry has grown at the rate of 30% and strongly counts for steady years to come.

Credit Cards in India:

According to Visa International an average Indian cardholder uses his card 9.3 times, spending about Rs.23, 000 per year. A number of card owners do not use their cards and almost 20-23% cards are inactive. In India, two players dominate the credit cards industry. Visa and Master Cards and 15 out of 17 banks provide credit card services through Visa or Master Cards.

The importance of having a pie in the credit cards segment was not lost on any bank, and most banks started their credit card operations. Currently, there are more than 20 banks offering credit cards, but the market share of the top five exceeds 75%. Credit card is a low margin, high volume business. The initial investments required by a bank are very high. The income per card is low, thereby requiring large volumes in terms of cards issued and the transactions finance to make the operations profitable. Another reason for the inability of players to upstage the well-entrenched ones is lower patronage by the merchant and business outfits.

The bigger businesses and merchants are already acquired by the existing players, so far new banks, braking into this business and convincing a merchant is increasing because the banks are shifting towards lower end merchants. Secondly, because of competition in acquiring business, new categories of merchants are coming up. The foreign banks have a dominant share due to various reasons like having been in the field for decades, sound operational and financial strength, strong brand recognition etc. They were catering to the upper segments and charged high annual fees. Later, with aggressive entry of SBI, ICICI Bank and HDFC Bank, the rules of the game changed. The cards were positioned in manners which gave an impression that the cards can be acquired by people from not only the upper class, but also the middle income categories. This was the strategy followed by SBI-GE as a result of which it is the third largest issuer of credit cards today. It positioned itself in a segment as to be of mass appeal and at the same time reinforced a clean and dependable image of the bank.

The new private banks like ICICI and HDFC are also aggressively increasing their share.

They adopted a strategy of reaching lower down the income strata by lowering down their eligibility norms. Of course, the credit limits are set at lower levels as compared to the foreign banks. As a result of this strategy, the credit cards base is widening day by day with the increase of base in B-grade cities.

Types of Credit Cards or Types of Cards:

1. Charge Card 2. Debit Card 3. Deferred Debit card 4. Affinity card 5. Standard card 6. Classic card 7. Gold card 8. Platinum card 9. Best Platinum credit card 10. Fleet Platinum credit card 11. Next card Platinum credit card 12. Titanium card 13. Secured card 14. Smart card

1. Charge card in this card, the cardholder has to make full payment of the charge by the due date. Unlike other credit cards, here dues are not allowed to carry forward. It is meant for people who spend responsibly.

2. Debit Card: A debit card is different from credit card. Debit card is issued by a bank. The following are the differences between credit and debit cards:

3. Deferred debit card: When a debit card carries the benefit of the credit card, allowing the payment after certain period, it is called deferred debit card.

Credit Card Debit Card

1 It is issued by an agency such as Master or Visa

1. A debit card is issued by a bank in which the customer has an account.

2. A credit card allows certain period for making payment for the purchases made which may vary from 30 to 45 days.

2. The bank account in a debit card is debited immediately the moment the card is used. They have no credit period.

3. The credit worthiness of the customer is based on income eligibility criteria on the basis of which the credit card is issued.

3. There are no such income criteria but the credit balance, maintained in the account is the criterion. 4. A credit card holder has a ceiling limit for his purchases and also for his cash withdrawals through ATM.

5. A debit card holder has his purchases restricted to his credit Balance.

6. Credit card can be used for withdrawing money only from ATMs.

7. A debit card can be used even for withdrawing money from the bank and hence it is account holders_ mobile

8. When the purchase are made by using The Credit Card, the retail seller swipes the card over an electronic terminal at his outlet, and enters the personal identification number (PIN) and the transactions are recorded by the card issuing authority.

9. Any use of debit card by a similar method will be immediately recorded by the bank and the account of the customer is debited. Thus, it is an online transaction.

10. Loss of credit card should be reported to the issuing agency.

11. Loss of debit card should be reported to The issuing bank.

4. Affinity card A card offered by two organizations of which one is a lending institution and the other a non-financial group. Here, schools, non-profit groups, airlines, petroleum companies issue affinity cards. These cards carry special discounts.

5. Standard Card It is a normal credit card which carries limit on transactions, according to the credit worthiness of the card holder.

6. Classic card A credit card issues by Visa, carrying the logo of Visa.

7. Gold card A higher line of credit is given than a standard card. The income eligibility for getting this card is higher. Gold card is given to very rich customers or persons with high social status.

8. Platinum card In order to distinguish credit cards belonging to certain companies, platinum credit cards are issued. Some companies use these to denote their best premium credit card.

9. Best Platinum credit card Companies which set highest standard in customer service issue these cards. There is lowest interest rate for the outstanding, and the cards will have no annual fee or application fee and can be applied online in seconds.

10. Fleet Platinum credit card

It is a zero liability guarantee for purchases. It protects the credit card holder from any unauthorized use.

11. Next card platinum credit card This is given to those with a good credit and it offers a low introductory rate.

12. Titanium card: A card which has a higher credit limit than a platinum card.

13. Secured card: A credit card is given to a card holder who has Savings deposit which will take care of his outstanding balance, in case of his default on payment.

14. Smart card: The revolution in Information Technology is responsible for the invention of Smart card. The development in semiconductors has advanced so much that computing power that was available in a computer matching a room size in the early days, is now available on a visiting card-sized plastic. Kit is an embedded micro-chip card and it can store 1280 times more data than the magnetic strip card. The can store data for more than 10 years and can be read or written for more than 1 lakh times. For example: Visa is converting 22 million Brazilian debt and credit cards to Smart cards. Sim card in the mobile phone is an example for the use of Smart cards in the telecom sector. There are 3 types of Smart cards. 1. Storage/memory cards 2. Intelligent cards and 3. Hybrid cards. • Storage card has an inherent monetary value associated with it.

• Intelligent card acts as a store-house of information. • Hybrid card contains a microprocessor chip and a magnetic strip and bar coding.

Benefits of Credit Cards Benefits derived from credit card

The following persons derives benefits from the credit card system: (1) Customer (2) Seller (3) Wholesaler (4) Manufacturer (5) Commercial banks (6) Central bank (7) Government

(8) Economy

REAL ESTATE FINANCING

INTRODUCTION

The Real Estate financing has become so popular, that the procedure for obtaining a loan has become so simplified that housing loans are easily available. This may be attributed to the change in the housing policy of both the Central and Sate Governments. A redeeming feature of

Indian real estate finance is the recent entry of real estate commercial banks in a big way.

REAL ESTATE FINANCING:

It is financing for the purchase of real property, where real property refers to land or buildings. It_s a set of all financial arrangements that are made available by housing finance institutions to meet the requirements of housing. Housing finance institutions include banks, housing finance companies, special lousing finance institutions, etc.

Factors Determining the Real Estate Finance Assistance:

Real estate finance companies consider the following factors before making any financial assistance for housing: 1. Loan Amount 2. Tenure 3. Administrative and processing costs, etc. 4. Pre-payment charges 5. Services 6. Value Addition 7. Sources of finance like HFC_s and Banks

8. EMI calculation methods:

VENTURE CAPITAL

INTRODUCTION

An entrepreneur, with a good technical knowledge, raising of capital in the conventional method will be very difficult. So, by a new technique of financing, long term capital is provided to small and medium sector through an institutional mechanism. So capital assistance against high growth oriented along with managerial assistance was felt necessary. This gave to the birth of Venture Capital Assistance.

VENTURE A business enterprise involving considerable risk

Meaning of Venture Capital:

It is a long term capital invested in companies which involves high risk. The financing involves high risk but is compensated by high return.

FEATURES OF VENTURE CAPITAL The following are the features of venture capital

1. It is the financing of capital for new companies.
2. This finance can also be loan-based or in convertible debentures
3. Providers of venture capital aim at capital gain due to the success achieved by the borrowing concern.
4. Venture capital is always a long-term investment and made in companies which have high growth potential.

5. The venture capital provider take part in the business of borrowing concern simultaneously provides managerial skill.

6. Venture capital financing contains risks. But the risk is compensated with a higher return.

7. It involves financing mainly small and medium size firms, which are in their early stages.

When the assistance of venture capital, these firms will stabilize and later can go in for traditional finance.

Objectives of Venture Capital

- To finance new companies who find it difficult to go to capital market
- To provide long term finance to small and medium scale industries
- To provide managerial assistance
- To bring in rapid growth in the business

Financing By Venture Capital Institutions:

Before going in for venture capital finance, the venture capital institution will have to assess the potentiality of the borrowing concern by a proper appraisal. This appraisal will be similar to the project appraisal undertaken by commercial banks. There are three stages involved in the venture capital finance.

Stages/Process

1. Seed capital It is the capital provided for testing the product and examining the commercial viability of the product. It enables the venture capital institution to find out the technical skill of the borrowing concern and its market potentially. So, we can say seed capital is more of a product development and all the finance required at this stage is provided by the venture capital institution.

2. Start up Start up of the product refers to the tested in the market and after being satisfied with its acceptability by the market, financing will be provided for further development of the product and marketing of the product. The startup may be classified into four categories: 1. A new high technology, introduced by the entrepreneur. 2. A new business started by an entrepreneur who has a thorough working knowledge and experience – normally started by persons who were working in an established firm and having gained sufficient experience. 3. New projects started by existing companies. Example: Retail business started by Hindustan Lever Limited. 4. A new company promoted by existing company. Here, the venture capital institution is keen to have a first-rated management which may have a second rated product. But not vice versa i.e., venture capital will not be provided for a concern having a second-rated management but a first-quality product.

3. Second round finance It is the second round of finance after the initial stage after being commercially successful for want of some more finance.

4. Later stage financing It is the financing after second round finance. The business concern which has borrowed venture capital has now become a well-established business. But still, it is not able to go in for public issue of shares. At this stage, the venture capital institution will provide finance.

5. Messanine capital This is a stage where the borrowing company is not only well established but has overcome the risks and has started earning profits. But they have to go for some more year before reaching the stage of self-sustenance. This finance is used by the borrowing company for purchase of plant and machinery, repayment of past debts, and entering new areas.

6. Bridge capital A capital of medium term finance ranging from one to three years and used for extending a business Example: bridge loan for acquiring other firms.

7. Management Buy-outs (MBO) It is the capital used for acquiring all the shares and the voting rights to remove external control. Example : An Indian company‗s shares may be purchased by NRIs at the initial stage and after sometime these shares are bought back by the company with the help of profits and finance by venture capital institutions.

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