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DEPARTMENT OF
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SYLLABUS

UNIT I

Meaning and importance of financial services – Types of financial services – Financial services and economic environment – Players in Financial Services Sector.

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UNIT I : FINANCIAL SERVICE

Introduction

The development of a sophisticated and matured financial system in India, especially in the era of Liberalization, Privatization and Globalization (LPG), led to the emergence of a new sector known as Financial Services Sector. Financial services sector plays a significant role in any modern economy. Its objective is to act as intermediary and facilitate financial transactions of individuals and institutional investors. The bundle of institutions that make up an economy's financial system can be seen as "the brain of the economy", providing the bulk ofthe economy's need for many functions.

Meaning of Financial Services

The term financial service in its broader sense refers to "mobilizing and allocation of savings''. It is identified as all those activities involved in the process of converting savings into investments. Financial services also include Financial Intermediaries such as, Merchant Bankers, Venture capitalists, Commercial banks, Insurance Companies etc.

Definition of Financial Services Industry

It may be defined as "the collection of organizations which intermediate and facilitate financial transaction of individual and institutional investors resulting from their resources allocation activities through time."

The financial services include all activities connected with the transformation of savings into investment.

Classification of Financial Services Industry

The financial services industry can be traditionally classified into two categories:

i) Capital market intermediaries, consisting of term lending institutions and investing institutions providing long-term funds.

ii) ii) Money market intermediaries, including commercial banks, cooperative banks and other agencies, which supply funds for shorttermrequirements.

Therefore, the term financial services include all kinds of organizations,which act as intermediary and facilitate financial transactions of both individuals and corporate customers.
The entities that provide these services are classified into the followingcategories:

- ➢➢ Non-Banking Finance companies (NBFCS)
- ➢➢ Commercial banks and
- ➢➢ Investment bank

Emergence and Development of Financial Services in India

Financial services sector is blooming in India and it has passed through various phases as mentioned below:

i) Initial phase (1960-80) – Merchant Banking Era
ii) Second phase (1980-90) – Investment Companies Era
iii) Third phase (1990-2002) – Modern Services Era

i) Initial Phase

Innovative services like Merchant banking, Insurance and Lease Finance are introduced at the initial phase. The functions of Merchant bankers start from project appraisal and end at mobilization of funds. It includes underwriting of shares for public issues and listing of shares in the stock exchange. These functions are initiated by LIC, GIC, and UTI. In addition to this, leasing service is also initiated in the year 1970. Leasing service was started with equipment lease financing. Slowly, the leasing companies engaged in other types of lease such as, financial lease and operating lease.

ii) Second Phase

Value added services like, over the counter share transfers, pledging of shares, mutual funds, factoring, discounting, venture capital and credit rating are introduced in the second phase. The major contribution to the industry is from mutual fund in the developed countries. Capital market malpractices have comedown due to the introduction of credit rating services. Initially the rating was applied only to debt instruments and now-a-days, it is mandatory for the instruments, commercial papers and fixed deposits.

iii) Third Phase

In the era of post liberalization, financial services sector introduced new financial instruments and set up new institutions. During this phase, the contemporary issues like depositories, online trading, paperless trading, dematerialization, stock lending schemes and book building method of stock issues are initiated. Book building method of stock issues has become popularized because it helps both investors and issuing companies. Foreign Institutional investors (FIIs) are allowed to enter into the Indian capital market.

Present Scenario

i) Conservatism to Dynamism The liberalization of financial sector has built the revolutionary changes in the Indian financial system. This reform is made to bring an efficient, competitive and diversified financial system in the country. Present trend of Indian financial services sector is moving towards dynamism.
ii) Emergence of Primary Equity Market Raising finance through capital market is the major phenomena. Indian primary markets have become very active since the entrance of the private sectors in the financial services industry.
iii) Concept of Credit Rating The debt instruments are rated by Credit rating agencies. It helps the investors in finding a profitable and safe debt investment. The rating symbols indicate safety and risk of the instruments. Now-a-days, rating service is extended to equity securities also, which helps the investors to cautiously invest their savings.

iv) Process of Globalization The entry of innovative and sophisticated financial products is possible in our country due to globalization. The obstacles in Indian financial sector are slowly eliminated by the Government of India. It paves the way for introducing innovative financialproducts.

v) Process of liberalization The financial services reform is initiated by Government of India. Reformation is made in the mode of liberalization activities like deregulation of interest rate, privatization of banking and mutual fund sectors and amendment of companies act, MRTP act, Incometax act etc

Nature and Characteristics of Financial Services

➢➢ Service provider and user (individual or firm) are involved in the process of financial services.

➢➢ Financial institutions are acting as intermediaries in the flow of funds.

➢➢ Corporate sector procure public funds smoothly and within the required time with the help of financial services sector.

➢➢ Services are based on customers’ needs.

➢➢ They are consistently dynamic and convincing services.

Functions of Financial Services Institutions

➢➢ They help the firm or corporate not only to raise fund but also for efficientdeployment of funds.

➢➢ They help to construct the capital structure of the company.

➢➢ They also do the factoring and forfaiting services.

➢➢ They do both traditional services like financing, bills discounting and contemporary services like e-commerce, securitization of debts etc.,

➢➢ The specialized services like credit rating, venture capital, lease financing, factoring, mutual funds, merchant banking, stock lending, depository, credit cards, housing finance etc., are also provided by them.

Constituents of Financial Services

The major components in the financial system are:

a) Financial instruments

b) Market players

c) Specialized Institutions

d) Regulatory bodies

a) Financial Instruments

Financial instruments in the Indian financial system may be categorized into Money Market instruments and capital Market instruments.

Money Market Instruments

The instruments which deal in the money market are of short-term nature. Their maturity period usually varies between 14 and 364 days. Money market instruments are:

➢➢ Treasury Bills

➢➢ Bills of Exchange or Trade bills

➢➢ Finance bills or usance promissory notes

➢➢ Commercial Paper

➢➢ Certificates of Deposits

Capital Market instruments

The instruments which deal in Capital market are of long-term nature. There arevarious types of securities such as:

➢➢ Equity shares

➢➢ Preference shares

➢➢ Debentures

➢➢ Gilt-edged securities

➢➢ Zero coupon bonds

➢➢ Deep discount bonds

➢➢ Option bonds

➢➢ Derivative securities - options, futures etc.,

b) Market players The players in the market include:

i. Commercial banks

ii. Finance companies

iii. Stock brokers

iv. Consultants

v. Underwriters

vi. Market makers

i. Commercial Banks

In the developed countries, commercial banks are not only providing loans but also participating in the debt and equity finance of the corporate sector. Now- a-days all commercial banks in developing countries are also engaged in merchant banking services, hire purchasing finance, leasing, factoring, mutualfunds, insurance and other services.

ii. Finance companies

The role of Finance companies is vital in the economic growth. It is also called as Non-banking finance company whose business is receiving deposits besides engaging in any of the following activities:

➢➢ Financing by way of loans, advances etc.,

➢➢ Acquisition of shares/stocks/bonds/debentures/securities

➢➢ Hire-Purchase

➢➢ Any class of insurance, stock broking etc.

➢➢ Chit funds and

➢➢ Collection of money by way of subscription/sale of units or other instruments/any other manner and their disbursement.

iii. Stock Brokers

The role of stock brokers is very important in stock market. They act as an agent and bridge between buyer and seller of securities in a recognized stock exchange. They should have obtained certificate of registration from SEBI after satisfying all the terms and conditions. The certificate from SEBI is mandatory to act as stock brokers. They may get an individual membership orcorporate (firm) membership.

vi. Consultants

Corporate sector may get expert advice or opinion for their decision making. Those experts are specialized in the field of finance and they are called as Finance experts or professionals. They give only consultancy service in all areas of functional management such as production, finance, marketing and human resources management.

V.Underwriters

Underwrites are important intermediaries in the new issue/primary market to issues of capital who agree to take up securities which are not fully subscribed. They make a commitment to get the issue subscribed either by themselves orothers. They are appointed by the issuing companies in consultation with the lead managers/merchant bankers to the issues. They get commission from issuing company for the assurance of subscribing to the stocks of issuing company.

vi. Market makers

The system of market making is popular in stock exchanges like London, New York and Chicago. A market maker is a bank or brokerage company that stands ready every second of the trading day with a firm 'ask and bid price'. They actually purchase the stock from the seller even without any offer from the buyers' side. The market maker maintains a spread on each stock to prevent the risk of fall in price of stock. The temporary disparity between thesupply and demand for scrip is eliminated by them.

c) Specialized Institutions

Specialized institutions are providing financial services in various forms such as Acceptance Houses, Discount houses, Factors, Depositories, Credit rating agencies, Venture capital etc. Financial market is dynamic and solves the contemporary issues of corporate sectors through these specialized service providers.

d) Regulatory Bodies

Regulatory body is controlling authority of financial system. Reserve Bank ofIndia (RBI) and Securities Exchange Board of India (SEBI) are the regulatorybody of Indian monetary system. They are statutory bodies who have power of monitoring and regulating the entire financial system of India. Financial market must be closely monitored and regulated because it is highly volatile.

RBI is central bank of India and it is the prime authority to monitor and controlthe affairs of entire banking system of our country. SEBI is the sole authorityof monitoring, directing, regulating and controlling Financial Market (stock market). There are other regulatory bodies to regulate the corporate affairs such as company law board, Industrial board etc.

Factors Affecting Access to Financial Services

A number of factors affecting the access to financial services have been identified. These are 1. Gender Issues 2. Age Factor 3. Legal Identity 4. Limited literacy 5. Place of Living 6. Psychological Barriers 7. Cultural Barriers 8. Social Barriers 9. Social Security Payments 10. Level of Income

Scope of Financial Services

Financial services cover a wide range of activities. They can be broadly categorized into two parts, namely:

(a) Traditional activities

(b) Modern activities

(a) Traditional Activities

Conventionally the financial services are identified under two heads:

1. Fund based activities and

2. Non-fund based activities

The traditional services which come under Fund Based Activities are the following:

➢➢ Underwriting of shares, debentures etc

➢➢ Dealing in foreign exchange market activities

➢➢ Lease Financing, hire purchase, venture capital, Factoring and Forfaiting,

➢➢ Housing Finance, Insurance Services, Venture Capital financing etc.

➢➢ Dealing in secondary market activities

➢➢ Participating in money market instruments like treasury bills, discounting bills, commercial papers etc.

Non-Fund Based Activities Include

➢➢ The management of capital issues (pre and post issue management)

➢➢ Arrangement for the placement of capital and debt instruments withinvestment institutions

➢➢ Arrangement of funds from financial institutions

➢➢ Arrangement of working capital for clients

➢➢ Assisting in the process of obtaining government Clearance.

(b) Modern Activities It

includes

➢➢ Rendering project advisory services, right from the preparation of the project report till the raising of funds for starting the project

➢➢ Planning for mergers and acquisitions and assisting for their smoothcarry out.

➢➢ Directing corporate customers in capital restructuring

➢➢ Acting as trustees to the debenture holders

➢➢ Recommending suitable changes in the management structure and management style envisaging achieving better results.

➢➢ Portfolio management of large public sector undertakings

➢➢ Capital market services such as, Clearing services, Registration and transfers, collection of income on securities etc.

Financial Instruments

These new financial instruments are classified according to the following traditional categories:

1. Debt instruments,

2. Equity, and

3. Hedging instruments.

1. Debt Instruments

Commercial Paper

Unsecured short-term (up to 270 days) obligations issued through brokers or directly. The interest is usually discounted. Universal commercial paper is foreign currency denominated commercial paper that trades and settles in theUnited States.

Convertible Bonds

Debt securities those are convertible into stock of the issuer at a specified priceat the option of the holder

Debt with Equity Warrants

It means bonds issued with warrants for the purchase of shares. The warrants are separately tradable.

Dual-Currency Bonds

Bonds denominated in one currency, for which interest is paid in the same currency but are redeemable in another currency is known as dual-currency bonds. It allows interest rate arbitrage between two markets.

2. Equity Instruments

MMP – 'Money Market Preferred Stock' or 'Dutch Auction PreferredStock'

'Dutch Auction Preferred stock' is an action in which the securities are sold at the lowest yield necessary to sell the entire issue. Several investment banks have issued these instruments under such registered names as CAMPS- Cumulative Auction Market Preferred Stock.

CMPS - Capital Market Preferred Stock

It is a convertible Money Market Preferred stock that can be converted into common stock. Examples:

DARTS - Dutch-Auction Rate Transferable Securities

FRAPS - Fixed Rate Auction Preferred Stock

MAPS - Market Auction Preferred Stock

STARS - Short-Term Auction Rate Cumulative Preferred Stock

STRAPS - Stated Rate Auction Preferred Stock

PIK (pay in kind) preferred stock - Dividends are paid in additional shares of preferred stock

Exchangeable PIK preferred stock - The issuer can convert the PIK stock into debt.

3. Hedging Instruments

A strategy employed in the futures, options and warrants markets to reduce risk by making a transaction in one market to protect against a loss in another. Traditionally a commodity producer (say, a cocoa grower) would agree to sellhis goods at a stated price at a stated time in the future, and the user of the commodity (say, a chocolate manufacturer) would agree to buy them. By agreeing on a price, quantity and delivery date, they introduce certainty intotheir operations and reduce risk. For the producer, the risk would be that prices drop, and for the processor that they would rise. In the financial markets, options and warrants can be used to hedge a portfolio position. In the case where shares have been sold, for example, the purchase of equivalent call options (the option to buy shares) means that if the shares rise in price, a corresponding rise in the value of the option will offset the notional loss expected on the underlying shares.

Securities and Exchange Board of India (SEBI)

During early 90's, there were vulnerable scams in the Indian stock market. The controlling system was emerged to control the stock market scams. Hence, the SEBI (stock exchange Board of India) was established in the year1992 as the regulatory body of the Indian capital market. SEBI has statutory status and governing body of Indian stock exchanges. It has entrusted powers of provisions under the Companies Act, 1956 and Securities Contract Regulation Act, 1956. The financial intermediaries who want to deal as stockbrokers, share transfer agents, banker to an issue, trustees of trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers in the securities market must register with SEBI.

National Securities Depository Limited (NSDL)

NSDL is the first Depository in India, which was established under Depositories Act in the year 1996. The purpose of setting up of NSDL is to remove the hindrances of physical transfer of securities and convert the physical transfers of securities into the electronic form (demat).

NSDL performs their functions through depository participants. They are:

Dematerialisation: Dematerialisation is the conversion of physical certificates into 'demat' holdings at the request of investors.

Rematerialisation: the conversion of dematerialized holdings back into physical certificates is called rematerialisation. It receives the securities of depository participants.

It maintains investor holdings in the electronic form Effects settlement of securities traded on the exchanges Transfer of securities

Pledging of dematerialized securities

Electronic credit in the public offerings of companies

Bonus and rights issues shares accepted in the form of electronic Stock lending and borrowing.

Challenges of Financial Services Sector

There are many challenges to the financial sector reforms such as:

Lack of Qualified Personnel

The expert knowledge is essential to provide innovative financial services successfully. The trained and qualified personnel are lacking in this sector. Lack of professional personnel is impeding the growth of financial services. It is a very big challenge for the financial intermediaries. It can be overcome by way of providing proper training to the qualified personnel.

Lack of Investor Awareness

The knowledge about the new financial products and instruments is essential to investors for the success of innovative financial ideas. Lack of investor awareness can be overcome by educating prospective investors through seminars, workshops, advertisements and even through audio-visual aids.

Lack of Transparency

The traditional financial system maintains secrecy of books of accounts. The disclosure of books of accounts is mandatory as per the international accounting standards. Financial sector should adopt the transparency system.

Lack of Specialization

All financial intermediaries are providing all types of financial services and dealing in different varieties of instruments in India. Indian financial intermediaries are losing the excellence of specialization.

Lack of Recent Data

Indian intermediaries are lacking in the field of research and development. Proper data base is essential to take sound financial decisions. It paves the way for growth of financial sector. Hence, the intermediaries should concentrate on it.

Lack of Efficient Risk Management System

The international transaction involves lot of risk such as exchange rate risk, interest risk and economic and political risk. In India, the efficient risk management system is lacking. Therefore, efficient risk management system is essential to develop the growth of financial services sector.

The financial service sector is facing many challenges in its attempt to fulfill the ever growing financial demands of the economy. Some of the important challenges are:

1. Volatility of the market
2. Increasing customer expectations
3. Lack of technical Knowledge
4. Lack of Professionalism
5. Deficiencies in Performance appraisals
6. Concentration of wealth, on account of malpractices
7. Lack of safety
8. Deficiency in marketing process

9. Prevailing high handedness and arrogance

UNIT 2: MERCHANT BANKERS

Introduction

The origin of Merchant Banking is Italy. The Italian grain merchants provided funds for commodity traders and cargo owners. Their other activities were buying, selling and shipping of goods. The merchant Bankers were either individuals or Banking houses. Later on, the center of merchant banking operations was shifted from Italy to Amsterdam and thereafter to London.

Merchant Banking is one of the major Fee Based/Advisory Services. In 1969, the Greenlays Bank commenced merchant Banking division in India. Formal Merchant Banking service was originated. The bank started the activities relating to public issue of securities. They also undertook financial consultancy services. In the year 1973 the State Bank of India started Merchant Banking services. In 1974, the ICICI started research service. After 1975 many Merchant Banking organizations came into existence. The sponsors for these organizations were by Banks, Financial Institutions, Non-Banking Financial Institutions (NBFCs), Brokers and so on. Consequently, the scope of merchant banking activities was widened.

Initially, the new issue market was regulated under the provisions of the Capital issues (Control) Act 1947 and rules made under it. In 1992, the act was repealed.The protection of the interest of the investors was transferred to the Securities and Exchange Board of India (SEBI). Various regulatory measures covering both the intermediaries as well as the activities were introduced by SEBI for strengtheningthe operations of the new issues in the country.

Many intermediaries who play an important role in the process of selling new issues emerged. The major new issue Market intermediaries are:- 1. Merchant Bankers 2. Lead Managers3. Underwriters 4. Bankers to issue 5. Brokers to an issue 6. Registrars to issue and Share transfer agent 7. Debenture trustees 8. Portfolio Managers

Merchant Bankers

Definition

"A Merchant Banker means any person who is engaged in the business of issuemanagement either by making arrangements regarding selling, buying or subscribing to securities or acting as manager/consultant/ advisors or rendering corporate advisory service in relation to such issue".

The word 'issues' in the definition refers to an offer for sale/ purchase of securities by any Body-Corporate/other person or group of persons on its / his / their behalf to, or from the public or, from the holders of the securities through aMerchant Banker.

Categories of Merchant Bankers

Merchant Bankers fall under four categories.

1. Category 1 – Merchant Bankers of this category can carry on any activity relating to issue management. The activities are as follows:
   - ➢➢ Preparation of Prospectus and other information relating to issue,
   - ➢➢ Determining the financial structure,
   - ➢➢ Tie-up of financiers,
   - ➢➢ Final allotment of securities
   - ➢➢ Refund of subscribes etc.,

   They could also act as Advisors, Consultants, Co-Managers, Underwriters or Portfolio Managers.
2. Category II – Merchant Bankers of this category can act as Advisors, Consultants, Co-Managers, Underwriters and Portfolio Manager.
3. Category III - Merchant Bankers of this category can act as Underwriters, Advisors and Consultants to an issue.
4. Category IV - Merchant Bankers of this category can act only as Advisors or consultant to an issue.

   All the categories below Category – 1 were abolished by SEBI on 5th September 1997. Those operating below category-1 have to apply for Category-1 status

Registration of Merchant Bankers

Registration of Merchant Bankers with the SEBI is compulsory to carry out their activities. With effect from 9/12/1997 SEBI registers only category I merchant Bankers. A separate certificate of Registration from SEBI is required to carry onactivities as portfolio managers.

Matters considered by SEBI for grant of certificate of Registration

1. Merchant Bankers should also be a body corporate other than nonbanking financial company.

2. Merchant Bankers must have necessary infrastructure such as place, equipment and manpower to effectively discharge their activities.

3. Merchant Bankers must have employed at least 2 persons with experience to conduct merchant banking business.

4. Merchant Bankers should fulfill the capital adequacy requirement of minimum net worth (net worth means paid up capital and free Reserves) of ` 5 crore.

5. Any person either directly or indirectly connected with the applicant that is an associate/subsidiary/interconnected/group company cannot have a Certificate of Registration from SEBI.

6. The merchant Bankers/their partners/their directors/principal officers should not be involved in any litigation connected with the securities market, which hasan adverse effect on their business.

7. The merchant Bankers should have recognized professional qualification in Finance, Law or Business Management. Their Registration should be in the interest of the investors. The applicant must be a fit and proper person as per the criteria specified in the SEBI intermediaries Regulation 2008.

Functions of Merchant Bankers

1. Corporate Counseling
2. Project Counseling
3. Pre investment studies
4. Capital Restructuring
5. Credit Syndication and Project Finance
6. Issue Management and underwriting
7. Portfolio Management
8. Working Capital Finance
9. Acceptance of credit and bill discounting
10. Merger, Amalgamation and Takeover
11. Venture capital
12. Lease Financing
13. Foreign Currency Financing
14. Fixed Deposits Broking
15. Mutual Funds

Corporate Counseling

A set of activities undertaken to ensure the efficient running of a corporate enterprise is known as corporate counseling. The merchant banker is guiding in the following activities: ➢➢ Diversification based on the Government's economic and licensing policies. ➢➢ Appraisal of product lines, analyzing their growth and profitability and forecasting future trends. ➢➢ Diagnosing sick units, assessing revival prospects for rehabilitation by way of modernizationand diversification, suggesting suitable strategy for improving their production technology and financial structure. ➢➢ Arranging funds for rehabilitation through banks/financial institutions. ➢➢ Monitoring of rehabilitation schemes. ➢➢ Assisting takeover of sick units

Project Counseling

Project counseling is the feasibility study of the project with reference to variousaspects such as financial, economical, commercial technical etc... It includes thefollowing activities: ➢➢ Review of project idea, conducting feasibility study and providing advice for implementation. ➢➢ Providing assistance in the preparation of project reports, conducting market surveys and obtaining government consents (approvals/licenses/permissions/grants) for implementation of the project. ➢➢ Providing guidance in making investment in Indian projects in India and abroad. ➢➢ Arranging and negotiating foreign collaborations, amalgamations, mergers, and takeovers.

Pre-Investment Studies

It is a detailed feasibility study to evaluate alternative avenues of capital investment in terms of growth and profit prospects. Activities related to pre- investment studies are: ➢➢ Analyzing environment and regulatory factors

➢➢ Identification of raw material sources ➢➢ Estimation of demand ➢➢ Estimation of financial requirements

Capital Restructuring Services

Capital restructuring aims to reduce the cost of capital and maximize the shareholders wealth. Merchant bankers provide the following services related to capital restructuring: ➢➢ Determination of optimum capital structure conforming to legal requirements. ➢➢ Getting consent of controller of Capital issues for capitalization of reserves by way of issuing bonus shares.

Credit Syndication

Credit syndication refers to activities connected with credit procurement and project financing, aimed at raising Indian and foreign currency loans from banks and financial institutions, are collectively known as ‘credit syndication’. The activities are: ➢➢ Estimating the total cost of the project and drawing up a financing plan for the total project cost. ➢➢ Preparing loan application for financial assistance from term lenders/financial institutions/banks, and monitoring their progress, including pre-sanction negotiations. ➢➢ Selecting institutions and banks for participation for financing.

Issue Management and Underwriting

Issue management and underwriting is concerned with the activities of management of the public issues of corporate securities, viz. equity shares, preference shares, and debentures of bonds to procure money from the capital market. The activities and SEBI guidelines in this regard are discussed later elaborately in this unit.

Portfolio Management

Portfolio management is making investment decisions in marketable securities for maximizing returns with minimum risk. The services are ➢➢ Providing advice on selection of investments. ➢➢ Carrying out a critical evaluation of investment portfolio. ➢➢ Collecting and remitting interest and dividend on investment. ➢➢ Undertaking investment in securities. ➢➢ Safe custody of securities in India and overseas. ➢➢ Undertaking review of Provident fund investment, Trust investment, etc.

Working Capital Finance

Working Capital finance is the fund required to meet the day-today expenses of an enterprise. The related activities are: ➢➢ Assessment of working capital requirements. ➢➢ Facilitating sanction of credit facilities speedy disbursements.

Acceptance Credit and Bills Discounting

'Acceptance credit and bill discounting' means activities relating to acceptance and discounting of bills of exchange and advancement of loans on the strength ofsuch instruments.

Merger and Acquisition

The merchant banker arranges for negotiating acquisitions and mergers by offering expert valuation regarding the quantum and the nature of considerations, and other related matters. The activities relating to merger and acquisition are:

➢➢ Conducting SWOT analysis in order to help formulate guidelines and directions for future growth. ➢➢ Conducting studies for locating overseas markets, foreign collaborations and prospective joint venture associates. ➢➢ Obtaining approvals from shareholders and other stakeholders

Lease Financing

Leasing is one of the fund based financial services of merchant banker.

Leasing means 'letting out assets on lease' for use by the lessee for a particular period of time. Merchant banker provides the following services: ➢➢ Providing advice on the viability of leasing ➢➢ Providing advice on the choiceof a favorable rental structure

Foreign Currency Financing

Foreign currency finance is the fund provided for foreign trade transactions in the form of export-import trade finance, euro currency loans. The role of merchant bankers in this regard is: ➢➢ Assisting the study of turnkey project and construction of contract projects. ➢➢ Liaison with RBI, EXIM, ECGC and other institutions. ➢➢ Providing assistance in opening and operating banks accounts abroad. ➢➢ Assisting in obtaining export credit facilities and letter or credit. ➢➢ Providing guidance on forward cover for exchange risk. ➢➢ Arranging foreign currency guarantees. ➢➢ Arranging various types of foreign currency loans such as Eurocurrency Loans, Syndication of Euro loans, Bank guarantees etc.

Brokering Fixed Deposits

The merchant bankers render the following services ➢➢ Working out the quantum of procurement of fund in the form of deposits from the public ➢➢ Drafting of advertisement for inviting deposits and filing a copy of it with the registrar of Companies for registration. ➢➢ Arranging payment of interest amounts. ➢➢ Advising on the terms and conditions of fixed deposits the company.

Conditions of Registration/Renewal Certificate of a Merchant Banker

The Registration/Renewal certificate of a Merchant Banker is subject to the following conditions:

1. Prior approval of SEBI is necessary to continue to act as a Merchant Banker after change of its status/constitution – such as amalgamation, merger, and consolidation and any other kindof corporate restructuring/ change in its managing/whole time directors, change in control etc.

2. A Merchant Banker should enter into a legally binding contract with the issuer specifying their mutual duties and responsibilities.

3. A Merchant Banker should pay the Registration/Renewal in the prescribed manner.

4. He should take adequate steps for redressal of grievances of investors within one month of the complaint. He should inform the SEBI the details of complains and the manner of redressal.

5. He should abide by the relevant regulations under the SEBI act.

Responsibilities of Lead Managers

➢➢ Every Lead Manager must sign an agreement with the issuing companies.The agreement must contain the matters regarding mutual rights, liabilities and obligations relating to issues which must necessarily include disclosures, allotment and refund.

➢➢ Merchant banker should furnish a statement specifying the details in the agreement to SEBI. Such statement should be sent at least one month before the opening of the issue for subscription. The statements should also contain the details about all lead managers and their respective responsibilities if there weremore than one Lead Manager/Merchant Banker.

➢➢ There should be no association between the lead manager and the issuingcompany.

➢➢ There should be no association with other merchant bankers who do not hold a certificate of registration with SEBI.

➢➢ The minimum undertaking obligation to be accepted by a lead manager is5% of the total underwriting commitment or ` 25 lakhs whichever is less.

➢➢ Due diligence certificate: The lead manager should furnish a certificate toSEBI 2 weeks before the opening of the issue for subscription stating thefollowing:

➢➢ The prospectus/letter of offer is in conformity with the documents/materials and papers relevant to the issue.

➢➢ All legal requirements in connection with the issue have been complied with.

➢➢ The disclosures are true fair and adequate to enable the investors to make a decision regarding investment.

➢➢ The merchant banker must submit to the SEBI two weeks before the date of filing with the registrar of companies/regional stock exchanges or both, the following particulars of the issue:

➢➢ Draft prospectus/letter of offer,

➢➢ Other literature to be circulated to the investors/shareholders.Underwriters

Underwriters to issue of capital are one of the important intermediaries in the newissue/primary market. They agree to take up securities which are not fully subscribed. They make a commitment to get the issue subscribed either by others or themselves. After 1995, underwriting is not mandatory.

Appointment of Underwriters

The issuing companies, in consultation with the lead managers/ merchant bankers to the issues appoint underwriters. The underwriters' assets must be adequate to meet their obligations. A statement to this effect should be incorporated in the prospectus.

Registration

To act as underwriters, a certificate of registration should be obtained from the SEBI. No separate registration to act as underwriter is required in the case of merchant banker registered with SEBI.

Matters considered by SEBI in granting certificate of Registration:

➢➢ Infrastructure adequacy (office space, equipment and manpower) to discharge the activities relating to underwriting.

➢➢ The applicant must have experience in underwriting or he must appoint at least two persons with experience in it.

➢➢ The applicant or any person directly or indirectly connected with the applicant has not been granted registration with the SEBI as underwriter (Previous application for registration should not have been rejected).

➢➢ The applicant for underwriting should not have any disciplinary action taken against him under the SEBI Act/Rules/Regulations.

➢➢ The applicant for underwriting should have net worth (capital plus free reserve) of not less than ` 20 lakh.

➢➢ The applicant for underwriting should not have been found guilty of any economic offence and should not have been convicted of offence involving moralturpitude.

➢➢ The application fee for underwriter is ` 25,000/- the fee payable for registration at the time of grant of certificate is ` 10 lakh.

➢➢ A renewal fee of ` 5 lakh every two years from the fourth year from the date of initial registration is payable.

Failure to pay the fee would result in suspension of certificate of registration.

Conditions for Registration

Conditions for registration applicable to merchant bankers are also applicable tounderwriters.

Obligations and Responsibilities

The underwriters have

➢➢ To protect the interests of its clients.

➢➢ To maintain high standards of integrity, dignity and fairness in the conductof business.

➢➢ To render high standards of service and maintain professional ethics.

➢➢ To exercise due diligence.

➢➢ To ensure proper care and professional judgment.

➢➢ To avoid conflict of interest

➢➢ To make adequate disclosure of his interest.

➢➢ To treat equally all its clients without discrimination.

➢➢ To maintain appropriate level of knowledge and competence.

➢➢ To abide by the provisions of the SEBI Act, regulations, circulars and guidelines issued by the SEBI.

➢➢ To furnish true and complete statement, material fact in any documents reports papers without suppressing any fact or making untrue statement.

➢➢ Should not have insider trading activity.

➢➢ Should not engage in unfair competition harmful to the interest of other underwriters.

Role of Merchant Bankers in the Capital Market

The Role of merchant banker in the process of issue management is vital and hisservices are broadly categorized as pre-issue management and post issue management.

I. Pre-issue management involves the following:

➢➢ Obtaining approval for the issue from SEBI

➢➢ Drafting of prospectus and getting it approved by various authorities concerned.

➢➢ Underwriting

➢➢ Drafting the documents like application forms, newspaper advertisementsetc.,

➢➢ Process of advertisement

➢➢ Selection of registrar to issue, printing press, advertising agencies, brokersand bankers to issue ➢➢ Arranging press conferences for brokers and investors

➢➢ Selection and fixation of collection centre for receiving application money

➢➢ Listing of securities in stock exchange

II. Post issue management includes the following:

➢➢ Collection of application forms

➢➢ Screening the applications

➢➢ Deciding allotment procedure

➢➢ Mailing of letter of allotment

➢➢ Issue of share certificates

➢➢ Refund of application money to non-allottees.

III. Advisory services relating to mergers and takeovers

➢➢ A merchant banker acts as a 'liasoning officer' for mergers and acquisitions.

➢➢ He helps the company in managing its portfolio.

IV. Off shore financing

Merchant bankers help their clients in off shore financing such as long term foreign currency loans, joint ventures abroad, licensing and franchising, financing exports and imports, foreign collaboration arrangements etc. In addition to this, it provides advisory services like identification of investment opportunities, selection of securities, and investment management to non-resident Indians and also they help in operational activities like purchase and sale of securities, securing necessary clearance from RBI.

FINANCIAL MARKETS

The money market and the capital market are not single institutions but two broad components of the global financial system.

- The money market is the trade in short-term debt. It is a constant flow of cash between governments, corporations, banks, and financial institutions, borrowing and lending for a term as short as overnight and no longer than a year.
- The capital market encompasses the trade in both stocks and bonds. These are long-term assets bought by financial institutions, professional brokers, and individual investors.

The money market is a good place for individuals, banks, other companies, and governments to park cash for a short period of time, usually one year or less. It exists so that businesses and governments that need cash to operate can get it quickly at a reasonable cost, and so that businesses that have more cash than they need can put it to use.

KEY TAKEAWAYS

- The money market is a short-term lending system. Borrowers tap it for the cash they need to operate from day to day. Lenders use it to put spare cash to work.
- The capital market is geared toward long-term investing. Companies issue stocks and bonds to raise money to grow their businesses. Investors buy them to share in that growth.
- The money market is less risky than the capital market while the capital market is potentially more rewarding.

The returns are modest but the risks are low. The instruments used in the money markets include collateral loans, acceptances, and bills of exchange. Institutions operating in the money markets include the Federal Reserve, commercial banks, and acceptance houses.

When a company or government issues short-term debt, it's usually to cover routine operating expenses or supply working capital, not for large-scale projects.

About Liquidity
The money market plays a key role in ensuring that banks, other companies, and governments maintain the appropriate level of liquidity on a daily basis, without falling short and needing a more expensive loan and without hoarding excess cash that isn't earning interest.

Individual investors may use the money markets to invest their savings in a safe and accessible place. Many choices are available, including mutual funds that focus on state money market funds, municipal funds, and U.S. Treasury funds. Many of the government funds are tax-free. A money-market fund also can be opened at most banks.

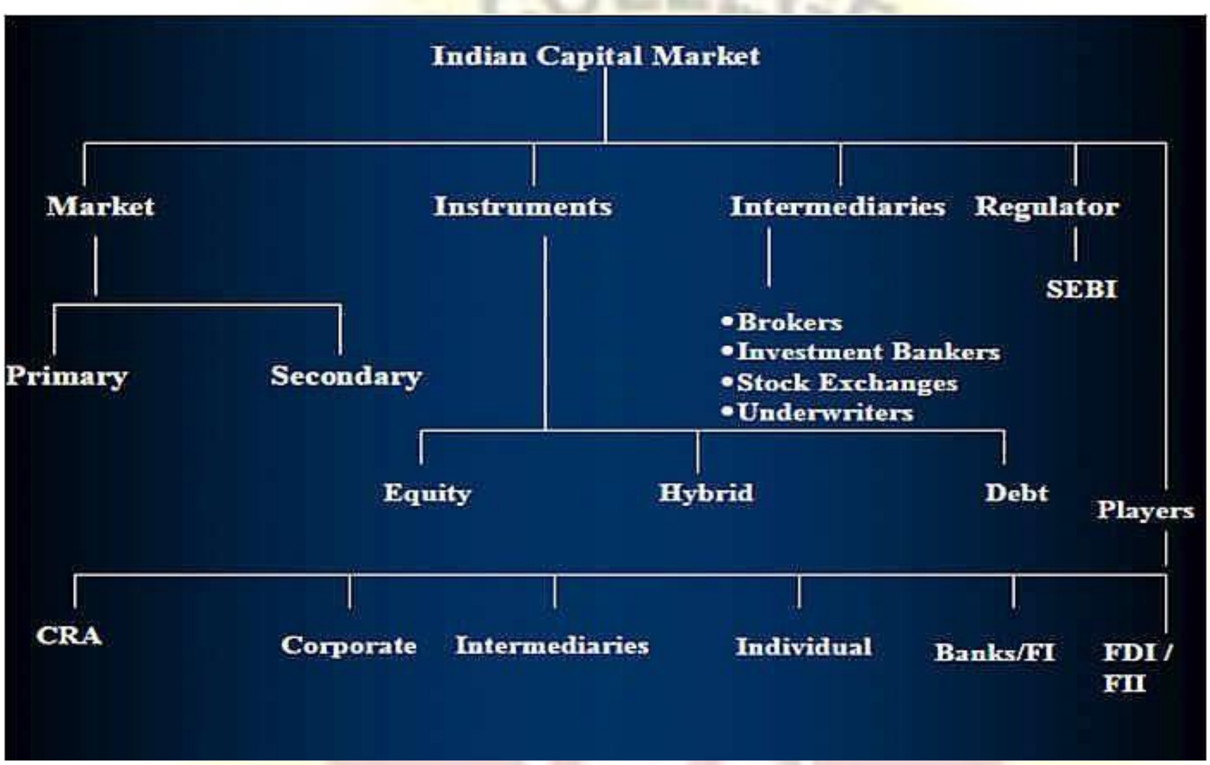
The Capital Market
The capital market is where stocks and bonds are traded. Its movements from hour to hour are constantly monitored and analyzed for clues as to the health of the economy at large, the status of every industry in it, and the consensus for the short-term future.

The overriding goal of the companies institutions that enter into the capital markets is to raise money for their long-term purposes, which usually come down to expanding their businesses and increasing their revenues. They do this by issuing stock shares and by selling corporate bonds.

Types of Capital Market:

The capital market is mainly categorized into:

- Primary Market: The primary market mainly deals with new securities that are issued in the stock market for the first time. Thus it is also known as the new issuemarket. The main function of the primary market is to facilitate the transfer of thenewly issued shared from the companies to the public. The main investors in thistype of market are financial institutions, banks, HNIs, etc.
- Secondary Market: It is the market where the trading of the securities actually takes place, thus it is also referred to as the stock market. Here the buying and selling of securities take place, The existing investors sell the securities and newinvestors by the securities.



Capital Market Instruments

There are mainly two types of instruments which are traded in the capital market,which are:

1. Stocks: Stocks are sold and bought over a stock exchange, They represnt ownership in the company and the buyer of the share is referred as the shareholder.
2. Bonds: The debt securities which are traded in the capital market are known as the bonds. Companies issue bonds for in order to raise capital foe the expansion of the business and growth.

Features of Capital Market:

Here are the featured of Capital Market:

1. Serves as a link between Savers and Investment Opportunities:

Capital market serves as a crucial link between saving and investment process asit transfers money from savers to entrepreneurial borrowers.

2. Long term Investment:

It helps the investors to invest their hard earned money in long term investments.

3. *Helps in Capital formation:*

Capital market offers opportunities for those investors who have surplus amountof money and want to park their money in some type of investment and also takethe benefit of the power of compunding.

4. *Helps Intermediaries:*

While transferring of shares and money from one investor to another, it takes helps of intermediatries like brokers, banks etc. thus helping them in conductingtheir business.

5. *Rules and Regulations:*

The capital markets operates under the regulation and rules of the Government thus making it a safe place to trade.

Example of Capital Market:

Suppose a company say ABC requires capital for expanding its business, so it plans to raises the required fund from the public by issuing new secutities in the primarily market.

After issuing the new securities, the people who are interesting in buying those shares after doing research of the company, buy those share through the Initial Public Offering (IPO) process.

After the initial buying, it sharts trading in the secondarily market, where the existing buyers and sellers starts trading that securities.

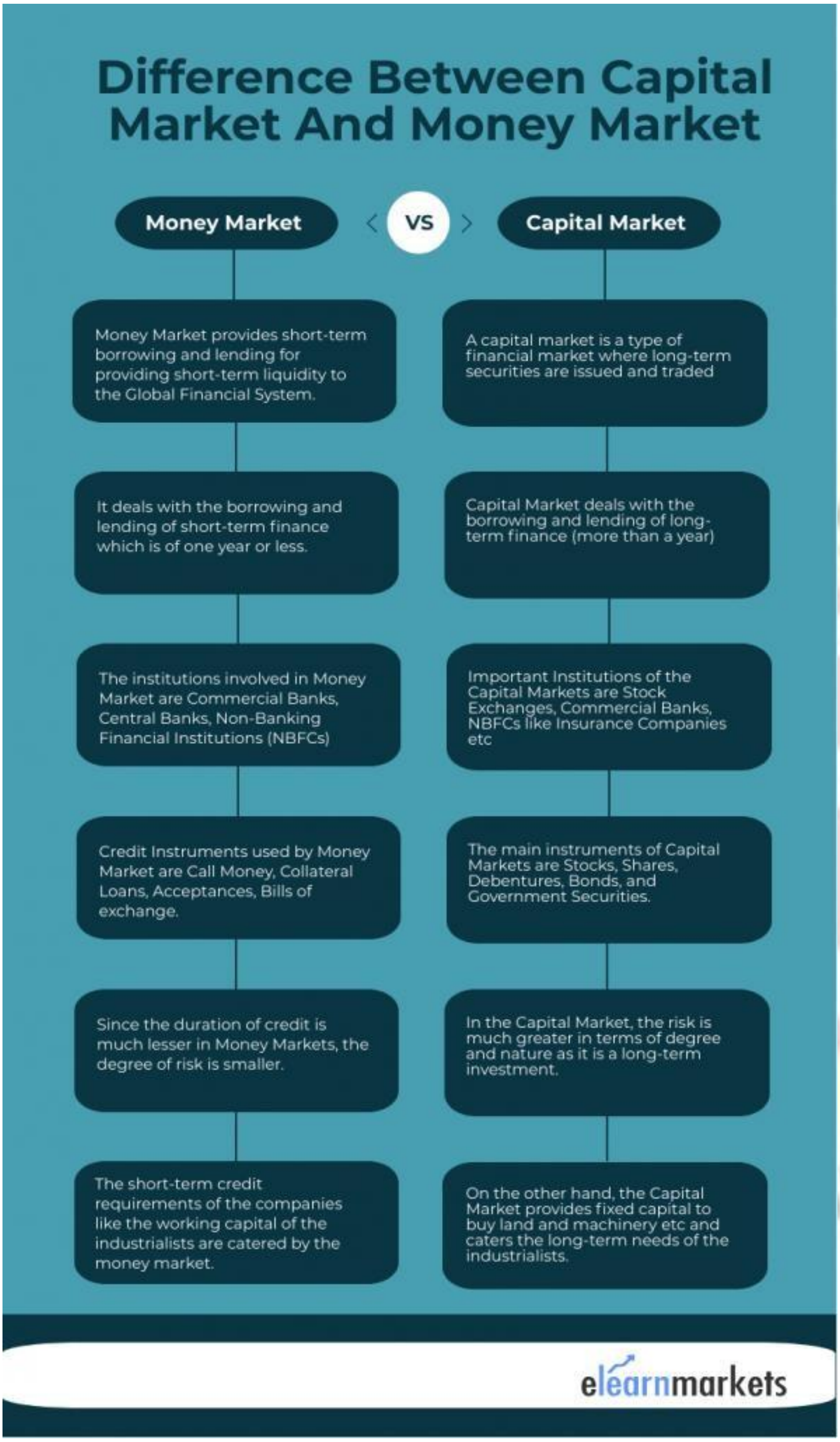
Capital Market Intermediaries

Financial Intermediaries are the organizations which help in the transfer or channeling of funds from those who have surplus funds to those who are in need of it. They act as a middleman in connecting the surplus parties to the deficit ones.A classic example can be a bank which accumulates bank deposits and uses themto provide bank loans.

The main Financial Intermediaries of India include:

- Stock Exchanges: These include the NSE (National Stock Exchange), BSE (Bombay Stock Exchange), MCX (Multi Commodity Exchange), etc

- Banks
- Insurance Companies
- Pension Funds
- Mutual Funds


Difference Between Capital Market And Money Market
Money Market
VS
Capital Market
Money Market provides short-term borrowing and lending for providing short-term liquidity to the Global Financial System.
A capital market is a type of financial market where long-term securities are issued and traded
It deals with the borrowing and lending of short-term finance which is of one year or less.
Capital Market deals with the borrowing and lending of long-term finance (more than a year)
The institutions involved in Money Market are Commercial Banks, Central Banks, Non-Banking Financial Institutions (NBFCs)
Important Institutions of the Capital Markets are Stock Exchanges, Commercial Banks, NBFCs like Insurance Companies etc
Credit Instruments used by Money Market are Call Money, Collateral Loans, Acceptances, Bills of exchange.
The main instruments of Capital Markets are Stocks, Shares, Debentures, Bonds, and Government Securities.
Since the duration of credit is much lesser in Money Markets, the degree of risk is smaller.
In the Capital Market, the risk is much greater in terms of degree and nature as it is a long-term investment.
The short-term credit requirements of the companies like the working capital of the industrialists are catered by the money market.
On the other hand, the Capital Market provides fixed capital to buy land and machinery etc and caters the long-term needs of the industrialists.
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Role of SEBI in Capital Market

The Securities Exchange Board of India (SEBI) regulates the functions of the Securities Market in India. It was set up in 1988 but didn't have any legal status until May 1992, when it was granted powers to legally enforce its control over the financial market intermediaries. With the bloom of the scale of actions in the financial markets, there were a lot of malpractices taking place. Practices like a false issue, delay in delivery, violation of rules and regulations of stock exchanges are on a rise. In order to curb these malpractices, the Govt. of India decided to set up a regulatory body known as the Securities Exchange Board of India (SEBI). The roles and objectives of SEBI are elaborate and have been described as below:

- Regulation of the activities of the stock market
- Protecting the rights of investors
- Ensuring the safety of the investments.
- To prevent malpractices and fraudulent activities.
- To develop a code of conduct for the intermediaries such as brokers, mutual fund sellers etc.

Recent Developments in the Indian Capital Market

The Indian Capital Markets have been going through various developments over the years and the most significant of them have been listed below: –

1. New Measures of Risk Management: Investments in Capital Markets are exposed to various risks. Though some are systematic risks, others happen as result of unsystematic market activities.

- Measures to reduce Price Volatility: Volatility is the fluctuation of price movements. It is the rate of up or down movement of the stock price. Volatility is regarded as a negative factor for the markets as it represents uncertainty and risk. After the introduction of Index futures trading in 2000, there was a relative reduction in the volatility of the prices.
- Circuit Breakers: Circuit breakers were introduced to reduce large sell-offs and panic selling. Sometimes it is also called a "collar". If an Index or a particular stock rises or falls a certain percentage of 10%, 15% or 20%, trading is halted by the exchange in that stock or index for a certain period of time to curb the panic and check for market manipulations.

2. Investor Awareness Campaign: To make the markets more secure for the investors, SEBI introduced the Investor Awareness Campaign by making an official site for this.

3. Investigations: In case of any violation of the rules and regulations of the SEBI Act 1992, the investigation is carried out by SEBI.

4. T + 2 Settlement Cycle: Currently in the Indian Capital market, the settlement cycle is in the "T+2" cycle. Here, 'T' means the trading day and the 'T+2' settlement means the settlement and delivery of the shares takes place in the 2nd trading day after the trade takes place

5. Ban on Insider Trading: Individuals possessing confidential information of a particular company can use the information to unethically profit from the stock markets. SEBI has made it clear and mandatory to restrict all kinds of insider trading in the Indian Capital Markets.

LISTING

Listing means the admission of securities of a company to trading on a stock exchange. Listing is not compulsory under the Companies Act. It becomes necessary when a public limited company desires to issue shares or debentures to the public. When securities are listed in a stock exchange, the company has to comply with the requirements of the exchange.

Objectives of Listing

The major objectives of listing are

1. To provide ready marketability and liquidity of a company's securities.

2. To provide free negotiability to stocks.

3. To protect shareholders and investors interests.

4. To provide a mechanism for effective control and supervision of trading.

Listing requirements

A company which desires to list its shares in a stock exchange has to comply withthe following requirements:

1. Permission for listing should have been provided for in the Memorandum of Association and Articles of Association.
2. The company should have issued for public subscription at least theminimum prescribed percentage of its share capital (49 percent).

3. The prospectus should contain necessary information with regard to theopening of subscription list, receipt of share application etc.

4. Allotment of shares should be done in a fair and reasonable manner. Incase of over subscription, the basis of allotment should be decided by the

   company in consultation with the recognized stock exchange where the shares are proposed to be listed.
5. The company must enter into a listing agreement with the stock exchange.The listing agreement contains the terms and conditions of listing. It alsocontains the disclosures that have to be made by the company on a continuous basis.

Minimum Public Offer

A company which desires to list its securities in a stock exchange, should offer atleast sixty percent of its issued capital for public subscription. Out of this sixty percent, a maximum of eleven percent in the aggregate may be reserved for the Central government, State government, their investment agencies and public financial institutions.

The public offer should be made through a prospectus and through newspaper advertisements. The promoters might choose to take up the remaining forty percent for themselves, or allot a part of it to their associates.

Fair allotment

Allotment of shares should be made in a fair and transparent manner. In case of over subscription, allotment should be made in an equitable manner in consultation with the stock exchange where the shares are proposed to be listed.

In case, the company proposes to list its shares in more than one exchange, the basis of allotment should be decided in consultation with the stock exchange which is located in the place in which the company's registered office is located.

Listing Procedure

The following are the steps to be followed in listing of a company's securities in a stock exchange:

1. The promoters should first decide on the stock exchange or exchanges where they want the shares to be listed.

2. They should contact the authorities to the respective stock exchange/exchanges where they propose to list.

3. They should discuss with the stock exchange authorities the requirements and eligibility for listing.

4. The proposed Memorandum of Association, Articles of Association and Prospectus should be submitted for necessary examination to the stock exchange authorities

5. The company then finalizes the Memorandum, Articles and Prospectus

6. Securities are issued and allotted.

7. The company enters into a listing agreement by paying the prescribed fees and submitting the necessary documents and particulars.

8. Shares are then and are available for trading.

Public Issue by Listed Companies

➢➢ All listed companies can issue shares/convertible securities provided the issue size in a financial year does not exceed 5 times their pre issue net worth as per the audited balance sheet of the last financial year.

➢➢ If the name of the issuer company is changed within the last one year, the revenue from the activity suggested by the new name should not be less than 50% of the total revenue in the preceding one full year.

➢➢ If the above two conditions are not satisfied, a listed company can make a public issue through the book building process with the same conditions as applicable to unlisted companies.

➢➢ Listed companies can also raise funds through Qualified Institutional placement.

Promoter

The person who conceived the idea of starting a business and organizes the setting up of a new company is called promoter of company.

The promoters' contribution in any issue shall be as per the provisions existing on

➢➢ Date of filing of prospectus with the Registrar of Company or date of filing of letter of offer with the designated stock exchange.

➢➢ Date of filing of draft offer document with the SEBI in other case

Promoters' Contribution Before Public Issue

➢➢ The promoters should bring in their contribution (including premium) in full at least one day before the public issue opens.

➢➢ The contribution would be kept in an escrow account with a bank.

➢➢ The contribution will be released to the company along with the public issue process.

➢➢ Where the contribution has been brought prior to the public issue and has already been used, the issuer company in their offer document should disclose the use of such funds in the cash flow statement submitted along with offer document.

➢➢ The shares should be allotted to the promoters against the money receivedafter passing a resolution by the board of directors.

➢➢ The resolution and a certificate of the charted accountant for having brought in promoters contribution should be filed with SEBI before the issue opens.

Listing of Debt Securities

The listing of debt securities is mandatory. The issuer should comply with the conditions specified in the listing agreement. Under private placement basis the issue should comply with provisions of company act/rules, credit rating should have been obtained from the SEBI Registered agency, the securities are listed demat from the required disclosures are made.

Conditions for Continuous Listing or Trading

➢➢ Under the private placement basis the conditions of listing specified in the listing agreement should be complied with

➢➢ Rating should be periodically reviewed by the rating agency.

➢➢ Any revision in the rating should be promptly disclosed the concerned stock exchange.

➢➢ Rating changes should be communicated the investors.

➢➢ The trading of debt securities issued to public are on private placement basis should be cleared/settled in recognized stock exchanges. This is subject to condition specified by SEBI.

As regards securities made over the counter, the trade should be reported on a recognized stock exchange. This stock exchange should have a nationwide trading terminal/ other platform specified by the SEBI.

Book Building Meaning

Book Building is essentially a process used by companies raising capital through Public Offerings-both Initial Public Offers (IPOs) and Follow-on Public Offers (FPOs) to aid price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the issuer.The process is directed towards both the institutional as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

There are two alternatives in Book Building

a. 75% Book Building process

b. Offer to public through Book Building process

a. 75% Book Building Process

The option for 75% Book Building is available subject to the following conditions:

➢➢ The prospectus should indicate separately “placement portion category” i.e. issue of securities through the Book Building process.

➢➢ Securities available to the public i.e. ‘net offer to the public’ should be separately identified. ➢➢ A minimum of 25% of the securities is required to be offered to the public is also applicable. ➢➢ The net offer to the public mustbe mandatorily underwritten.

➢➢ The draft prospectus containing all the information should be filed with the SEBI. However price at which the securities are offered need not be furnished.

➢➢ The issuer company should nominate a book runner from among the lead merchant bankers to the issue. His name should be mentioned in the prospectus.

➢➢ The book runner should circulate the copy of the draft prospectus filed with the SEBI to

a. Institutional buyers who are eligible for firm allotment

b. Intermediaries eligible to act as underwriters, inviting offers for subscription to the securities.

Under Subscription

In the case of net offer to the public category and under the placement portion thespill over to the extent of under subscription should be permitted from the placement portion. However, preference would be given to individual investors. In the case of placement portion, spillover would be permitted from the net offerto public.

Payment of Interest on Application Money

Interest on application money till the date of allotment or deemed date of allotment uniformly to all the applicants should be paid by the issuer company.

Records of Book Building Process

Records of the Book Building process should be maintained by the book runner and other intermediaries. The SEBI has the right to inspect those records.

Green Shoe Option (G.S.O)

Green shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post listing price stabilizing mechanism through a stabilizing agent.

For Instance if a company decides to publicly sell 10 lakh shares, the underwriters can implement their green shoe option and sell 10.15 lakh shares. When the shares are priced and can be publicly traded, the underwriters can buy back 15% of the shares.

This enables underwriters to alleviate fluctuating share prices by increasing or decreasing the supply of shares according to intial public demand. The green shoe option has the ability to diminish the risk for the company issuing the shares. It allows the underwriters to have good buying power in order to cover their deficitwhen a stock price falls without the risk of having to buy stock if the price rises.This in turn ensures the price stability of share prices which has greater positive impact on the investors and issuers.

Draft Prospectus/Final Prospectus Contents

The draft prospectus/final Prospectus should contain

➢➢ Name of Stabilizing Agent.

➢➢ Maximum number of shares and the percentage of the proposed issue size.

➢➢ Period for which the company proposed to avail of the stabilization mechanism.

➢➢ Details of the agreement with promoters and stabilizing agent such as name of promoters, their holdings, number and % of shares to be lent by them, rights & obligations of each party etc.

➢➢ Exact number and % of over allotment to total issue size should be disclosed in the final prospectus.

➢➢ Maximum amount of securities to be received by the company in case of further allotment should be disclosed in final document to be filed with R.O.C. The use of these additional funds should also be disclosed.

Initial Public Offer Through Stock Exchange Online System

An issuing company may issue securities to the public either through the existing banking channel or through the online system of the stock exchanges (E-IPO).

An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time topublic. This paves way for listing and trading of the issuer’s securities. The sale of securities can be either through book building or through normal public issue.

The e-IPO software smooth the progress of online bidding for Retail/HNI/QIB clients of the member in different IPO’s, this software works as a distinct interfaceto bid for different IPO’s in NSE and BSE at one go and also do activities such as viewing the details of upcoming IPO’s, transferring the funds etc..

Features of e-IPOs

➢➢ e-IPO Provides facility to create and sustain the client and assign rights tothem based on the member's business modulate.

➢➢ Multiple users with enhanced user access and rights and Detailed price wise demand analysis of IPOs based on the files as received by the exchange,

➢➢ e-IPO Provides Facility to bulk upload of orders for institutional clients

➢➢ e-IPO aids generation of bulk files online, through a single platform

➢➢ e-IPO facilitates export of bid

➢➢ Multiple reports are accessible to end clients with report formation and export to excel facility ➢➢ e-IPO make possible post IPO closure activities such as allocation etc.

➢➢ e-IPO Supports both Fixed Price and Book Building methods of IPO Bidding Notes

Requirements

➢➢ The company should enter into an agreement with the stock exchanges. The agreement should specify mutual right duties/ responsibilities and obligations and it should provide for dispute resolution mechanism between them.

➢➢ The stock exchanges would appoint the SEBI registered stock brokers of the exchange. These brokers are to accept applications and place orders with thecompany.

➢➢ The brokers should collect money from the clients for orders placed. If theclients fail to pay for the shares allocated, the brokers would have to pay the amount.

➢➢ It should be ensured by the lead manager/company that the brokers are financially capable of honoring their commitments if the clients fail to pay.

➢➢ The company should pay the brokers a commission for their services. Thebrokers should not levy a service fee on the clients. This should be ensured by thestock exchanges.

➢➢ The company should appoint a Registrar to the issue. He should have electronic connectivity with the stock exchanges through which securities are offered under the system.

➢➢ Listing the company may list its securities on an exchange other than the one through which it offer its securities to the public via online system.

Responsibility of Lead Manager

➢➢ Co-ordination of all activities among the various intermediaries connected on the issue system. ➢➢ Disclosure in the prospectus and the application form of names of the appointed brokers along with other intermediaries like lead manager, Registrar to issue.

Preferential Issues

Preferential issue means issue of shares/convertible debenture/ any other financialinstrument to any select group of persons on a private placement basis.

Preferential issues are governed by the guidelines given below:

a) Compliance with Conditions for Continuous Listing A listed company can make preferential issues only subject to compliance with the conditions for continuous listing.

b) Pricing of the Preferential Issues

A. Shares

The issue can be made at a price not less than the higher of the following:

➢➢ Average of weakly high and low of the closing prices of the related sharesquoted on the stock exchange during the 6 months preceding the relevant date.

➢➢ Average of weakly high and low of the closing prices of the related sharesquoted on the stock exchange during the 2 weeks preceding the relevant date. Therelevant date means 30 days prior to the date on which the meeting of the generalbody of shareholders is held to consider the proposed issue.

B. Pricing of the Shares Arising out of Warrants

In cases of issue of warrants on a preferential basis with an option to apply for shares, the price of the resultant share is determined in accordance with the provisions mentioned above (A). Here the relevant date is either the one referredto in (A) or a date 30 days prior to the date on which the holder of the warrant become entitled to apply for the said shares. It is at the option of the issuer company.

C. Pricing of Shares on Conversion

Where convertible instruments are issued on a preferential basis with a provisionto allot share at a future rate, the issuer should determine the price of the shares to be allotted in the same manner as specified for pricing of shares in lieu of warrants.

Qualified Institutional Placement

Qualified Institutional placement is the placing on a private placement basis specified securities with the QIBs (Qualified Institutional Buyers) only. Specifiedsecurities mentioned above are Equity Shares and other convertible /exchangeable securities excluding warrants.

Q.I.P is subject to the following conditions

➢➢ Mutual funds should be allotted a minimum of 10% of the specified securities and the portion allotted but not subscribed can be allotted to other QIBs.

➢➢ If a QIB is a promoter or related to promoter no allotment can be made to it either directly or indirectly.

➢➢ The private placement should comply with the requirements of sec.67 (3a) of the companies act.

➢➢ Persons related to QIB means QIB having a. Rights under a shareholders/voting agreement. b. Veto right c. Right to appoint any nominee director on the Board of the Issuer.

➢➢ The minimum number of allottees for each placement should not be less than

a. Two, where the issue size is up to ` 250 crore

b. Five, where the issue size is above ` 250 crore

➢➢ An allottee should not be allotted more than 50% of the issue size. (The same group/under common control QIBs would be deemed to be single allottee).

➢➢ The maximum total amount that can be raised through QIBs in a financial year is five times the net worth (as per the audited balance sheet of the previous year) of the issuer.

➢➢ The issue should be made on the basis of placement documents which should contain all material information specified in annexure 14J on the website.This is a private document to select the investors. This should be placed in the website of the concerned stock exchange. A copy should be filed with the SEBI for record within 30 days of allotment of the specified securities.

SEBI

The Securities and Exchange Board of India (SEBI) was officially appointed as the authority for regulating the financial markets in India on 12th April 1988. It was initially established as a non-statutory body, i.e. it had no control over anything but later in 1992, it was declared an autonomous body with statutory powers. SEBI plays an important role in regulating the securities market of India.Thereby it is important to know the purpose and objective of SEBI.

At the end of the 1970s and during 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self- styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares,price rigging, etc.

Due to these malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the workingand reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

Role of SEBI

SEBI acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate efficient and smooth working of the securities market.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investor, and financial intermediaries.

Issuers of securities

These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environmentfor their needs.

Investor

Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard earned money in the markets.

Financial Intermediaries

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

Functions of SEBI:

SEBI primarily has three functions-

1. Protective Function
2. Regulatory Function
3. Development Function

Protective Functions

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers

- Register and regulate credit rating agency

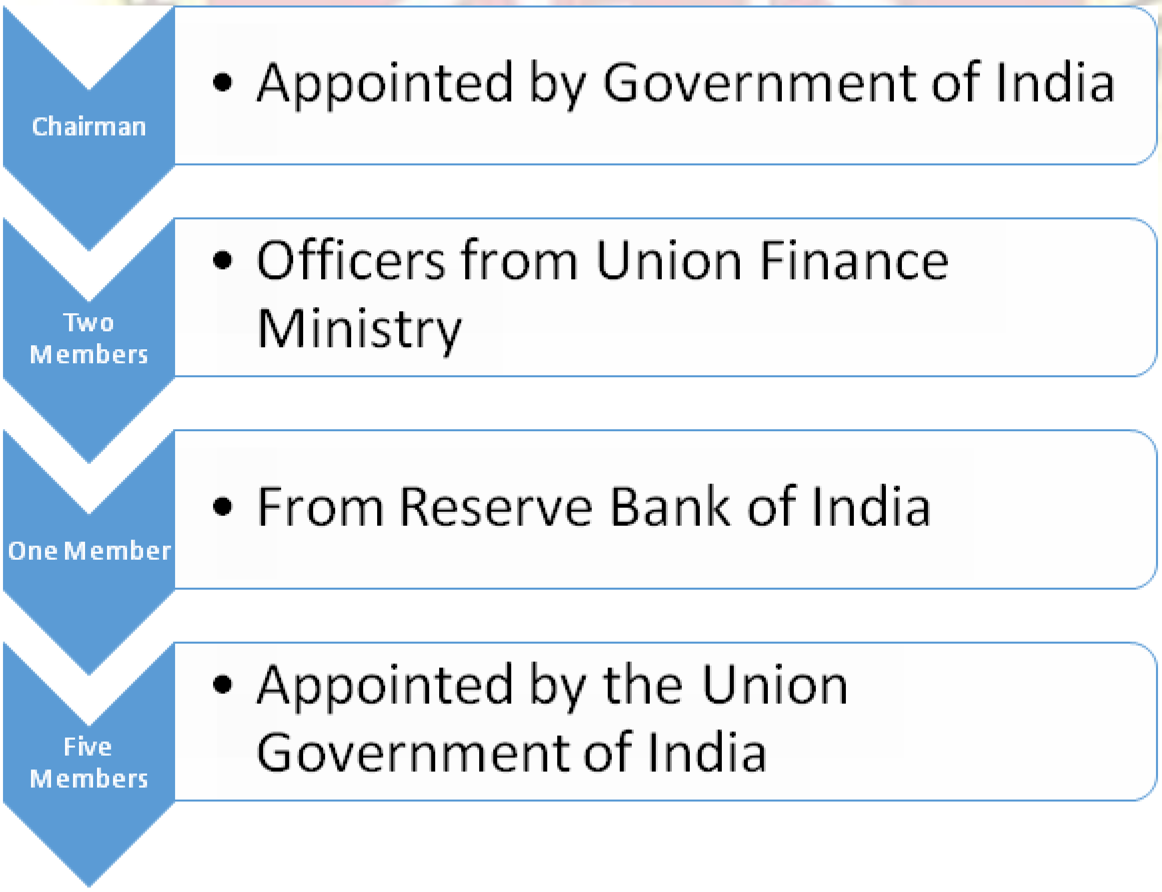
Development Functions
SEBI performs certain development functions also that include but they are notlimited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

Objectives of SEBI:
SEBI has following objectives-

1. Protection to the investors
The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.
2. Prevention of malpractices
This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.
3. Fair and proper functioning
SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

Organizational Structure of SEBI:



The SEBI Board consist of nine members-

1. One Chairman appointed by the Government of India
2. Two members who are officers from Union Finance Ministry
3. One member from Reserve Bank of India
4. Five members appointed by the Union Government of India

Powers of SEBI:

When it comes to stock exchanges, SEBI has the power to regulate and approve any laws related to functions in the stock exchanges.

It has the powers to access the books of records and accounts for all the stock exchanges and it can arrange for periodical checks and returns into the workingsof the stock exchanges.

It can also conduct hearings and pass judgments if there are any malpractices detected on the stock exchanges.

When it comes to the treatment of companies, it has the power to get companieslisted and de-listed from any stock exchange in the country.

It has the power to completely regulate all aspects of insider trading and announcepenalties and expulsions if a company is caught doing something unethical.

It can also make companies list their shares in more than one stock exchange if they see that it will be beneficial to investors.

Coming to investor protection, SEBI has the power to draft legal rules to ensure the protection of the general public.

It also has the power to regulate the registration of brokers and other middlemenwho will deal with investors in the market.

Mutual Fund Regulations by SEBI:

SEBI has also made few policies and laid down guidelines for the mutual fundsin order to safeguard the interests of the investors.

These guidelines have been laid to bring uniformity in the working of the similarmutual funds' scheme which will help the investors to make their investment decisions more clearly.

To bring uniformity in the functionality of the similar mutual fund scheme, SEBI has categorised mutual funds in the five broad categories:
They are:

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes

- Other Schemes

Other SEBI guidelines for Mutual Funds are as follow:

- SEBI has reclassified large, mid and small-cap companies as follows:

Market Capitalization	Description
Large-cap company	1st to 100th company in terms of full market capitalization.
Mid-cap company	101st to 250th company in terms of full market capitalization.
Small-cap company	251st company onwards in terms of full market capitalization

- There is a lock-in period specified for solution-oriented schemes
- Permission of only one scheme in each category, except for Index Funds/ Exchange Traded Funds (ETF), Sectoral/Thematic Funds and Funds of Funds.

UNIT:3 LEASING,HIRE PURCHASE AND FACTORING

LEASING

Leasing is the process by which a firm can obtain the use of certain fixed assets for which it must make a series of contractual, periodic, tax-deductible payments. A lease is a contract that enables a lessee to secure the use of the tangible property for a specified period by making payments to the owner.

Major Features of Lease

The major features or elements of the leasing are the following:

1. The Contract: There are essentially two parties to a contract of lease financing, namely the owner and the user.
2. Assets: The assets, property to be leased are the subject matter lease financingcontract.
3. Lease Period: The basic lease period during which the lease is non-cancelable.
4. Rental Payments: The lessee pays to the lessor for the lease transaction is thelease rental.
5. Maintain: Provision for the payment of the costs of maintenance and repair, taxes, insurance, and other expenses appertaining to the asset leased.

6. Term of Lease: The term of the lease is the period for which the agreement oflease remains in operation.
7. Ownership: During the lease period, ownership of the assets is being kept withthe lessor, and its use is allowed to the lessee.
8. Terminating: At the end of the period, the contract may be terminated.
9. Renew or Purchase: An option to renew the lease or to purchase the assets at the end of the basic period.
10. Default: The lessee may be liable for all future payments at once, receiving titleto the asset in exchange.

Advantages of Lease Financing

The advantages from the viewpoint of the lessee

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 money as there is no down payment. In this way, the saving in capital or financial resources can be used for other productive purposes, e.g., purchase of inventories.
2. Flexibility and Convenience: The lease agreement can be tailor-made in respectof 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 its liquidity position by adopting the sale and leaseback technique.
5. Shifting of Risk of Obsolescence: The lessee can shift the risk upon lessor by acquiring the use of assets rather than buying the asset.
6. Maintenance And Specialized Services: In case of special kind of lease arrangement, the lessee can avail specialized services of the lessor for maintenance of asset leased. Although lesser charges higher rentals for providingsuch services, leases see overall administrative, and service costs are reduced because of specialized services of the lessor.
7. Off-the-Balance-Sheet-Financing: Leasing provides “off-balance-sheet” financing for the lessee in that the lease is recorded neither as an asset nor as a liability.

The advantages from the viewpoint of the lessor

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

1. Higher profits: The Lessor can get higher profits by leasing the asset.

2. Tax Benefits: The Lessor being the owner of an asset, can claim various taxbenefits such as depreciation.
3. Quick Returns: By leasing the asset, the lessor can get quick returns thaninvesting in other projects of the long gestation period.

Disadvantages of Lease Financing

The disadvantages from the viewpoint lessee

1. Higher Cost: The lease rental includes a margin for the lessor as also the cost of risk of obsolescence; it is, thus, regarded as a form of financing at a higher cost.
2. Risk: Risk of being deprived of the use of assets in case the leasing companywinds up.
3. No Alteration in Asset: Lessee cannot make changes in assets as per hisrequirement.
4. Penalties On Termination of Lease: The lessee has to pay penalties in case hehas to terminate the lease before the expiry lease period.

The disadvantages from the viewpoint lessor

1. High Risk of Obsolescence: The Lessor has to bear the risk of obsolescence asthere are rapid technological changes.
2. Price Level Changes: In the case of inflation, the prices of an asset rises, but thelease rentals remain fixed.
3. Long term Investment: Leasing requires the long term investment in thepurchase of an asset, and takes a long time to cover the cost of that asset

Types of the Lease

Leasing takes different types which are given below;

- Based on Nature.
1. Operating lease.
2. Financial lease.
- Based on the Method of Lease.
1. Direct lease.
2. Sale & Leaseback.
3. Leverage lease.
    - Operating Lease: An operating lease is a cancelable contractual agreement whereby the lessee agrees to make periodic payments to the lessor, often for 5 or fewer years, to obtain an asset set's services. According to the International Accounting Standards (IAS-17), an operating lease is one that is not a finance lease.
    - Financial Lease: A financial (or capital) lease is a longer-term lease thanan operating lease that is non-cancelable and obligates the lessee to make payments for the use of an asset over a predetermined .period of time. According to the International Accounting Standard (IAS-17), in a financial lease, the lessor transfer to the lessee substantially all the risks and rewards identical to the ownerships of the asset whether or not the titleis eventually transferred.
    - Direct Lease: Under direct leasing, a firm acquires the right to use an asset from the manufacture directly. The ownership of the asset leased out remains with the manufacture itself.
    - Sale & Leaseback: Under the sale & leaseback arrangement, the firm sellsan asset that it owns and then leases to the same asset back from the buyer.This way, the lessee gets the assets for use, and at the same time, it gets cash.
    - Leveraged Lease: Leveraged lease is the same as the direct lease, except that a third party, the lender, is involved in addition to the lessee & lessor. The lender partly finances the purchase of the asset to be leased; the lessorturns to be a borrower.

Distinguish between the Operating and Financial Lease

Topics	Operating Lease	Financial Lease
Definition	Operating lease is short term lease used to finance assets & is not fully amortized over the lifeof the asset.	A financial lease is the lease used in connection with long term assets & amortizes the entire cost of the asset over the life of the lease.
Duration	Short term leasing	Long term leasing
Cost	The lessor pays the maintenance cost.	Lessee pays the maintenance cost.
Cancel & Changeable	Cancelable lease & It is a changeable lease contract.	Non-cancelable lease & It is not achangeable lease contract.
Risk	lessor bears the risk of the asset.	The lessee bears the risk of the asset.
Purchase	At the end of the asset is hot purchasable.	At the end of the contract, the asset is purchasable.
Renew	It is a renewable contract.	It is not a renewable contract.
Also called	Service lease, short term lease, cancelable lease.	A capital lease, long term lease, non-cancelable lease.

HIRE PURCHASE FINANCE

MEANING

Hire purchase is a method of financing of the fixed asset to be purchased on futuredate. Under this method of financing, the purchase price is paid in installments. Ownership of the asset is transferred after the payment of the last installment.

Features of Hire Purchase:

The main features of hire purchase finance are:

1. The hire purchaser becomes the owner of the asset after paying the lastinstallment.

2. Every installment is treated as hire charge for using the asset.

3. Hire purchaser can use the asset right after making the agreement with the hirevendor.

4. The hire vendor has the right to repossess the asset in case of difficulties inobtaining the payment of installment.

Advantages of Hire Purchase:

Hire purchase as a source of finance has the following advantages:

i. Financing of an asset through hire purchase is very easy.

ii. Hire purchaser becomes the owner of the asset in future.

iii. Hire purchaser gets the benefit of depreciation on asset hired by him/her.

iv. Hire purchasers also enjoy the tax benefit on the interest payable by them.

Disadvantages of Hire Purchase:

ire purchase financing suffers from following disadvantages:

i. Ownership of asset is transferred only after the payment of the last installment.

ii. The magnitude of funds involved in hire purchase are very small and only small types of assets like office equipment's, automobiles, etc., are purchased throughit.

iii. The cost of financing through hire purchase is very high.

Differences between Hire Purchase and Leasing

There are a number of differences between hire purchase and leasing. They aregiven below

1. Transfer of ownership

In Hire purchase, the agreement is entered for the transfer of ownership after a fixed period. But in Leasing it is only in financial lease, the ownership will get transferred. While in operating lease, the ownership is not transferred.

2. Agreement type

Hire purchase is a tripartite agreement involving the seller, finance company andthe purchaser / hirer whereas Leasing is only a bipartite agreement, involving lessor and lessee.

3. Depreciation Claim

Depreciation is claimed by the purchaser / hirer in a hire purchase. But in leasing,Depreciation is claimed by the lessor in the lease agreement.

4. Buyers count

In hire purchase, the goods or property is sold once and there cannot be more thanone buyer. But in operating lease, though the lessor can be one person, there canbe a number of lessees.

5. Period of Agreement

Period of HP agreement is longer as valuable goods or properties are purchased. But in Leasing, the period of lease will be of shorter duration as technological changes will affect the lessee.

6. Relationship in agreement

The relationship between the seller and the buyer will be that of owner and hirer in a hire purchase. But the relationship in a lease agreement is that of lessor and lessee.

7. Transfer of ownership

In Hire purchase ownership passes on to the buyer only on the last installment from the finance company. But in leasing, the Ownership will pass on when the lessor has acquired enough money from the lessee, which is equivalent to the value of the goods or equipment.

Hire Purchase agreement is more common with the consumer durable goods. But lease agreement is entered more among business concerns.

8. Sales Tax

Sales tax is paid by the buyer on the total value of goods in a hire purchase. Salestax depends on the actual value at the time of sale in leasing.

9. Payment defaults

Any default in payment of installment enables the seller / finance company to seize the goods from the purchaser / hirer. On the termination of lease agreementif it is a operating lease, the equipment is taken back by the lessor. In the caseof financial lease, the equipment can be sold for a particular value to the lessee.

10. Interest rates

The interest rate charged on HP is on a flat rate which is distributed for the entireperiod of HP agreement and collected along with the principal amount on the equated monthly installment basis. In leasing, Interest does not form a major partof lease agreement, but the lease charges will include interest also as a part of it.

FACTORING

Introduction

Factor is derived from the Latin word ‘facere’ which means ‘to get things done’.Factoring is an arrangement between an agency (the factor) and a business concern. This arrangement is a financial service which is provided by an institution called factor. The factor undertakes the task of realizing debts, bills receivables on behalf of its customer and makes payment to its client’s creditors.For this service the factor receives commission. The entire process is known as ‘factoring’. Factoring services originated in USA, and UK.

The specialized financial institutions were established to do this financial service.It helps firms to meet their working capital requirements by selling their receivables.

Definition of Factoring

According to Peter M. Biscose factoring is “a continuing legal relationship between a financial institution (the factor) and a business concern (the client) selling goods or providing services to trade customers, whereby the factorpurchases the clients’ book debts, either with or without recourse to the client, and in relation thereto, controls the credit extended to customers, and administersthe sales ledger”.

According to the report submitted to the RBI by Mr. C.S. kalyanasundaram, factoring as, "a continuing arrangement under which a financing institution assumes the credit and collection functions for its client, purchases receivables asthey arise (with or without recourse for credit losses, i.e., the customer's financial inability to pay), maintains the sales ledger, attends to other book-keeping dutiesrelating to such accounts and performs other auxiliary functions."

Thus, factoring is an agreement or arrangement between two parties (a firm and a factor), in which to collect or purchase the book debts of the firm by the factor, for a commission or profit.

Characteristics of Factoring

➢➢ Factoring is an arrangement between financial institution and a business concern

➢➢ It is an activity of selling the firm's receivables to a factoring organization.

➢➢ Book debts are assigned in favour of a factor.

➢➢ Factoring is not a negotiable instrument

➢➢ Factor acts as a collection agent or representative of a firm

➢➢ Factor charges commission or gets discount on the book debts

➢➢ Factor can get margin in the range of 5 percent to 20 per cent.

➢➢ The normal period of factoring is 90-150 days and rarely exceeds 150days.

➢➢ Factoring is not possible in case of bad debts.

➢➢ Credit rating is not mandatory.

➢➢ Factoring can be with or without recourse to the seller on nonpayment bythe buyers.

➢➢ It is a method of 'off balance sheet' financing.

➢➢ Cost of factoring is always equal to finance cost plus operating cost.

Types of Factoring

There are different forms of factoring arrangement based on the type of special features attached to them which are as follows:

1. Domestic Factoring

2. Export Factoring

3. Full servicing factoring

4. Maturity factoring

5. Advance factoring

6. Agency discounting

7. Bank participation factoring

1. Domestic Factoring

Domestic factoring is the transaction of sales relating to domestic, which is categorized into three forms such as:

a. Disclosed Factoring

b. Undisclosed Factoring

c. Invoice Discounting

a. Disclosed Factoring The factoring agreement is disclosed to the firm's customers. The customers will make payment directly to the factor. The arrangement for factoring may take in the form of either Recourse factoring or Nonrecourse factoring

➢➢ Recourse factoring - The factor purchases the receivables of the firm and collects the debts from the customer. The firm is responsible to the factor when the customer fails to pay the amount on maturity.

➢➢ Non-recourse factoring - The factor undertakes to collect the debts from the customer in case of non-recourse factoring. The factor may settle the amountto its client then and there or pay the balance amount at the end of the credit period.

The advantage of non-recourse factoring is that the firm may discontinue the service of factoring at any time.

b. Undisclosed

The factor realizes money from the debtors in the name of the seller because the factoring arrangement is not informed to the firm's customers. This method is popular in UK.

c. Invoice Discounting The factor provides finance through discounting the bills. The rate of discount is based on market trends.

2. Export Factoring

A bank (factor) located in the exporter's country collects a guaranteed payment of export proceeds on behalf of his client (exporter) from debtor (importer). This is called 'export factoring'.

3. Full Servicing Factoring

It is also known as without recourse factoring service. It offers all types of services such as finance, sales ledger administration, collection, debt protection, and advisory services. Its specialty is that it gives protection to the client againstbad debts.

4. Maturity Factoring

Under this type the payment is made only on the guaranteed payment date oron the date of collection. Financing facility is not provided to the client. All other facilities are provided by it.

5. Advance Factoring

The factor makes an advance payment to its client. The advance paymentcovers 70 to 80 percent of the receivables which are factored. The factor collects interest on the advance payments made. The balance amount is settled to his client on the date of maturity.

6. Agency Discounting

This kind of factoring, the factor provides only financing facility and protection against bad debt. The other services such as maintenance of sales ledger and carrying out the collection of book debts etc are not provided.

7. Bank Participation Factoring

In this system of factoring, the factor arranges an advance amount from a bank. For this service the factor pays interest to the bank and makes the advance to the client.

Functions of a Factor

a. Maintenance of Sales Ledger
   ➢➢ Maintenance of the clients' sales ledgers
   ➢➢ Sending periodical reports to the client on the current status of receivables ➢➢ Maintenance of payment schedule.

b. Provision of Collection Facility helps the client in the following ways

➢➢ Firm may concentrate on its other activities since it is free from collection work

➢➢ Cost reduction, savings in manpower, time and efforts due to outsourcing of the collection activity.

➢➢ The systematic collection of receivables is possible with the help of professional manpower.

➢➢ Due to the timely demands of the factor, the prompt collection can be done. ➢➢ Factor initiates legal action on customers to secure payments.

b. Financing Trade Debts

➢➢ The factor may pay in advance up to 80% of assigned book debts.

➢➢ The factor may finance to his client through purchase of Book debts.

c. Credit Control

➢➢ The factor may fix the credit limits for accepted customers to control the credit risk.

➢➢ The factor may examine 3C's (Character, Capacity and Credit worthiness) of the client's customer.

➢➢ The factor may purchase trade debts within his approvedlimits.

e. Advisory Services

➢➢ Factor may give information to his client like current market trend, feedback of the client's customers etc.

➢➢ Factor may give advice to their client regarding other financial services like leasing, hire-purchase and merchant bankingetc.

➢➢ Factor may assist in evaluation of the procedures of invoicing, delivery and sales returns.

Factoring in India

Factoring service is originated in India based on the proposal of the study group of Kalyanasundaram. In 1989, the study group was appointed by RBI. In 1991, SBI Factors and Commercial Ltd (SBI FACS) was established. It is the first factoring company in India. RBI issued guidelines for factoring services based on the recommendations of the study group.

The main recommendations of the Committee/Group are listedbelow:

➢➢ Taking all the relevant facts into account, there is sufficient scope for introduction of factoring services in India which would be complementary to the services provided by banks.

➢➢ The introduction of export factoring services would provide additional facility to exporters.

➢➢ While quantification of the demand for factoring services has not been possible, it is assessed that it would grow sufficiently so as to make factoring business a commercially viable proposition withina period of two/three years.

➢➢ On the export front, there would be a fairly good availment of various services offered by export factors.

➢➢ With a view to attaining a balanced dispersal of risks, factorsshould offer their services to all industries and all sectors in the economy.

➢➢ The pricing of various services of by factors would essentially depend upon the cost of funds. Factors should attempt a mix from among the various sources of funds to keep the cost of funds as low as possible, in any case not exceeding 13.5 percent perannum, so that a reasonable spread is available.

➢➢ The RBI could consider allowing factoring organizations to raise funds from the Discount and Finance House of India Ltd, as also from other approved financial institutions, against their usancepromissory notes covering receivables factored by them, on the lines of revised procedure under bills discounting scheme.

➢➢ The price for financing services would be around 16 per centper annum and the aggregate price for all other services may not exceed 2.5 percent to 3 percent of the debts services.

➢➢ In the beginning only select promoter institutions/groups of individuals with good track record in financial services and competent management should be permitted to enter this new field.

Benefits of Factoring

The process of factoring is very simple. It involves buying and selling firms' invoices at an agreed discount. Factoring service is different from the traditional bank financing. In traditional bank financing, finance is based on the firms' credit worthiness whereas factoring relies on the credit-worthiness of the firm's customers. Thebenefits of Factoring are as follows

1. Improve Cash Flow Without Adding Debt

➢➢ Firm gets finance on its outstanding invoices

➢➢ It helps to meet tax requirements

➢➢ It helps to maintain sufficient working capital

➢➢ Firm can invest in additional capital equipment

➢➢ Firm can concentrate on market for additional business

➢➢ Market share may increase among with their competitor

➢➢ Firm's customers get advantage of discounts

2. Improve Customer Credit Services

➢➢ It helps to reduce bad debt

➢➢ New customers get advantage of rationalized credit approvals

➢➢ Administration cost may reduce due to entrusting the work

➢➢ Firm gets good Accounts Receivable Management

3. Take Advantage of the Flexibility
   - ➢➢ Firm may entrust to the factor part or full book debts for collection
   - ➢➢ There is no fixed limits of book debts for factoring
   - ➢➢ Firm gets financial support as well as increase in the strength of its customers

Factoring and Bills Discounting

Bills discounting is traditional method of bank financing. Bill is a promissory note and it can be negotiable. It contains the promise to pay the amount mentionedin it to the drawer/payee on the date of maturity.

Bills Discounting Definition

“When the seller (drawer) deposits genuine commercial bills and obtains financial accommodation from a bank or financial institution, it is known as “Bill Discounting”. The seller, instead of discounting the bill immediately may chooseto wait till the date of maturity”.

Features

➢➢ Discount charge: The margin between advance granted by the bank and the face value of the bill is called the discount, and is calculated on the maturity value at rate a certain percentage per annum.

➢➢ Maturity: Maturity of a bill is defined as the date on which payment will fall due. A normal maturity period is 30, 60, 90 or 120 days.

➢➢ Ready Finance: Bank discount and purchase the bills of their customers so that the customers get immediate finance from bank. They need not wait till the bank collects the payment of the bill.

Comparison Chart

BASIS FOR COMPARISON	BILL DISCOUNTING	FACTORING
Meaning	Trading the bill before it becomes due for payment at a price less than its face value is known as Bill Discounting.	A financial transaction in which the business organization sells its book debts to the financial institution at a discount is known as Factoring.

Arrangement	The entire bill is discounted and paid, when the transaction takes place.	The factor gives maximum part of the amount as advance when the transaction takes place and the remaining amount at the time of settlement.
Parties	Drawer, Drawee and Payee	Factor, Debtor and Client
Type	Recourse only	Recourse and Non Recourse
Governing statute	The Negotiable Instrument Act, 1881	No such specific act.
Financier's Income	Discounting Charges or interest	Financier gets interest for financial services and commission for other allied services.
Assignment of Debts	No	Yes

UNIT 4: VENTURE CAPITAL, CREDIT RATING AND CONSUMER FINANCE

Venture Capital

It is a private or institutional investment made into early-stage / start-up companies (new ventures). As defined, ventures involve risk (having uncertain outcome) in the expectation of a sizeable gain. Venture Capital is money investedin businesses that are small; or exist only as an initiative, but have huge potential to grow. The people who invest this money are called venture capitalists (VCs). The venture capital investment is made when a venture capitalist buys shares of such a company and becomes a financial partner in the business.

Venture Capital investment is also referred to risk capital or patient risk capital, as it includes the risk of losing the money if the venture doesn't succeed and takes medium to long term period for the investments to fructify.

Venture Capital typically comes from institutional investors and high net worth individuals and is pooled together by dedicated investment firms.

It is the money provided by an outside investor to finance a new, growing, or troubled business. The venture capitalist provides the funding knowing that there's a significant risk associated with the company's future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan.

Venture Capital is the most suitable option for funding a costly capital source for companies and most for businesses having large up-front capital requirements which have no other cheap alternatives.

Features of Venture Capital investments

- High Risk
- Lack of Liquidity
- Long term horizon
- Equity participation and capital gains
- Venture capital investments are made in innovative projects
- Suppliers of venture capital participate in the management of the companyMethods of

Venture capital financing

- Equity
- participating debentures
- conditional loan

Venture Capital Funding Process:

The venture capital funding process typically involves four phases in the company's development:

- Idea generation
- Start-up
- Ramp up
- Exit

Step 1: Idea generation and submission of the Business Plan

The initial step in approaching a Venture Capital is to submit a business plan. The plan should include the below points:

- There should be an executive summary of the business proposal
- Description of the opportunity and the market potential and size
- Review on the existing and expected competitive scenario
- Detailed financial projections
- Details of the management of the company

There is detailed analysis done of the submitted plan, by the Venture Capital to decide whether to take up the project or no.

Step 2: Introductory Meeting

Once the preliminary study is done by the VC and they find the project as per their preferences, there is a one-to-one meeting that is called for discussing the project in detail. After the meeting the VC finally decides whether or not to move forward to the due diligence stage of the process.

Step 3: Due Diligence

The due diligence phase varies depending upon the nature of the business proposal. This process involves solving of queries related to customer references, product and business strategy evaluations, management interviews, and other such exchanges of information during this time period.

Step 4: Term Sheets and Funding

If the due diligence phase is satisfactory, the VC offers a term sheet, which is a non-binding document explaining the basic terms and conditions of the investment agreement. The term sheet is generally negotiable and must be agreedupon by all parties, after which on completion of legal documents and legal due diligence, funds are made available.

Types of Venture Capital funding

The various types of venture capital are classified as per their applications at various stages of a business. The three principal types of venture capital are early stage financing, expansion financing and acquisition/buyout financing.

The venture capital funding procedure gets complete in six stages of financing corresponding to the periods of a company's development

- *Seed money: Low level financing for proving and fructifying a new idea*
- *Start-up: New firms needing funds for expenses related with marketingand product development*
- *First-Round: Manufacturing and early sales funding*
- *Second-Round: Operational capital given for early stage companies which are selling products, but not returning a profit*
- *Third-Round: Also known as Mezzanine financing, this is the money forexpanding a newly beneficial company*
- *Fourth-Round: Also calledbridge financing, 4th round is proposed for financing the "going public" process*

A) Early Stage Financing:

Early stage financing has three sub divisions seed financing, start up financing and first stage financing.

- Seed financing is defined as a small amount that an entrepreneur receives for the purpose of being eligible for a start up loan.
- Start up financing is given to companies for the purpose of finishing the development of products and services.
- First Stage financing: Companies that have spent all their starting capital and need finance for beginning business activities at the full-scale are the major beneficiaries of the First Stage Financing.

B) Expansion Financing:

Expansion financing may be categorized into second-stage financing, bridge financing and third stage financing or mezzanine financing.

Second-stage financing is provided to companies for the purpose of beginning their expansion. It is also known as mezzanine financing. It is provided for the purpose of assisting a particular company to expand in a major way. Bridge financing may be provided as a short term interest only finance option as well asa form of monetary assistance to companies that employ the Initial Public Offersas a major business strategy.

C) Acquisition or Buyout Financing:

Acquisition or buyout financing is categorized into acquisition finance and management or leveraged buyout financing. Acquisition financing assists acompany to acquire certain parts or an entire company. Management or leveragedbuyout financing helps a particular management group to obtain a particular product of another company.

Advantages of Venture Capital

- They bring wealth and expertise to the company
- Large sum of equity finance can be provided
- The business does not stand the obligation to repay the money
- In addition to capital, it provides valuable information, resources, technicalassistance to make a business successful

Disadvantages of Venture Capital

- As the investors become part owners, the autonomy and control of thefounder is lost
- It is a lengthy and complex process
- It is an uncertain form of financing
- Benefit from such financing can be realized in long run only

Exit route

There are various exit options for Venture Capital to cash out their investment:

- IPO
- Promoter buyback
- Mergers and Acquisitions
- Sale to other strategic investor

Examples of venture capital funding

- Kohlberg Kravis & Roberts (KKR), one of the top-tier alternative investment asset managers in the world, has entered into a definitive agreement to invest USD150 million (Rs 962crore) in Mumbai-based listed polyester maker JBF Industries Ltd. The firm will acquire 20% stake in JBF Industries and will also invest in zero-coupon compulsorilyconvertible preference shares with 14.5% voting rights in its Singapore- based wholly owned subsidiary JBF Global Pte Ltd. The fundingprovidedby KKR will help JBF complete the ongoing projects.

- Pepperfry.com, India's largest furniture e-marketplace, has raised USD100million in a fresh round of funding led by Goldman Sachs and Zodius

  Technology Fund. Pepperfry will use the fundsto expand its footprint in Tier III and Tier IV cities by adding to its growing fleet of delivery vehicles. It will also open new distribution centres and expand its carpenterand assembly service network. This is the largest quantum of investmentraised by a sector focused e-commerce player in India.

CREDIT RATING

Credit rating is an analysis of the credit risks associated with a financial instrument or a financial entity. It is a rating given to a particular entity based onthe credentials and the extent to which the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past.

Usually, is in the form of a detailed report based on the financial history of borrowing or lending and credit worthiness of the entity or the person obtained from the statements of its assets and liabilities with an aim to determine their ability to meet the debt obligations. It helps in assessment of the solvency of the particular entity. These ratings based on detailed analysis are published by various credit rating agencies like Standard & Poor's, Moody's Investors Service,and ICRA, to name a few.

Credit rating is an analysis of financial instruments, more specifically debt instruments offered by corporations, governments, entities, organisations, individuals etc. In other words, it is assessing the creditworthiness of an organisation. The process of rating an instrument involves analysing business risk, financial risk, and credit risk of the entity being rated.

Credit rating agencies do the credit rating of various organisations and their financial instruments. Few of the financial instruments that they rate are Non Convertible Debentures (NCD), company deposits, fixed deposits etc. They consider the statements of assets, liabilities, and cash flows along with previous lending and borrowing transactions to assess their ability to repay financial obligations. SEBI has the sole right to regulate and authorise rating agencies.

Also, the rating system in India under the Act, SEBI Regulations, 1999 of the SEBI 1992.

The process of credit rating involves qualitative and quantitative assessment of the organisation. It shows the risk associated with investing in debt instruments. Hence this gives investors a clear picture to make clear decisions. Moreover, it also helps companies to raise money to finance their projects.

The highest rating in India is AAA. Financial instruments with AAA rating are the ones that have the least risk. Moreover, the companies issuing these financialinstruments are less likely to default their payments. Hence the interest rate or rate of return on these instruments is low.

The lowest rating on the rating scale is D. Also, a rating of 'D' is a very poor credit rating (bad credit rating), and the company with such rating is more likelyto default or is already in default.

There are different types of credit ratings. Two of them are short term credit ratingand long-term credit rating. Short term rating is a type of rating that determines the probability of a borrower to default within one year. On the other hand, long-term ratings indicate the probability of a borrower to default in the extended future. Mostly, the credit ratings are for medium to long term. However, with thecurrent scenario, investors are more inclined towards short term rating than long-term ratings.

Importance of credit rating in India

Credit ratings help an investor assess the creditworthiness of the borrower. Following is the importance of credit rating for borrowers and lenders.

For Borrowers

Loan Approvals: With good ratings, the borrower is perceived to be as low or no risk customer. Hence, loan approvals are easy for such companies.

Rate of Interest: The credit history of the borrower plays a vital role indetermining the interest rate. All banks offer loans at a particular range of interestrates. Therefore, high credit ratings will help the borrower in getting the loan at alow rate of interest.

For Lenders

Safety: High credit ratings can be interpreted as an assurance that the money will be paid back on time. In other words, it assures the safety of money and interest payments.

Investment Decision: No one would like to lend money to a risk customer. Ratings help in assessing the creditworthiness of the borrower. It also helps in interpreting the risk factor associated with the borrower. Therefore, based on the credit ratings, one can make better investment decisions.

How does credit rating work in India?

These are multiple rating agencies in India. Also, each has its own set of criteria to rate financial instruments and entities. A rating agency rates any entity that raises money from the public to finance their projects. Hence countries, governments, companies, non-profit organisations, and special purpose vehiclesare just some of the many organisations that get rated.

A credit rating agency takes into consideration the following before assessing thecredit quality of an entity:

- Financial statements
- Past borrowing and lending transactions
- Past and current debts
- The purpose of raising a new debt (credit) and the type of credit
- Their ability to repay the financial obligations

The above list is not limited to these. Each credit rating agency has the ratingsystem that it follows before it gives a rating.
Once the bond rating agency analyses an entity, it gives a rating that can rangefrom AAA to D.

AAA is a very good credit rating while D is considered as a poor credit rating. The rating agencies give detailed credit reports for every instrument they rate. This rating will only serve as a benchmark to compare multiple financial instruments. Also, investors shouldn't consider the rating agencies as advisors. Moreover, an investor should consider credit ratings only as a tool that helps in making sound financial decisions.

Top rating agencies

SEBI authorizes only certain companies to compute and share the credit report with financial institutions and applicants. Following are the leading rating agencies in India that are registered with SEBI:

CRISIL Limited
Credit Rating Information Services of India Limited (CRISIL), was set up in 1987. Also, it is one of the oldest credit rating agencies. This rating agency provides corporate credit ratings, sovereign credit rating and even short term instruments like commercial paper rating. The agency also does infrastructure rating since 2016. Additionally, CRISIL also operates in countries such as USA,UK, China, Hong Kong, Poland, and Argentina.

India Ratings and Research Pvt. Ltd.
India Ratings and Research, a subsidiary of the Fitch Group and the headquarters are in Mumbai. It provides timely and accurate credit opinions on India's credit market (financial market). Also, this rating agency provides corporate credit ratings.

The company covers financial institutions, project finance companies, structured finance companies, corporate issuers, managed funds, and urban local bodies. Also, India Ratings and Research Pvt Ltd has other branch offices in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, and Pune.

ICRA Limited
Investment Information and Credit Rating Agency (ICRA) is a joint venture between Indian Financial and Banking Service Organisation and Moody's. The company was established in 1991. Also, it is known for assigning performance rating, mutual funds ranking, corporate governance rating, and more.

CARE
Credit Analysis and Research Limited (CARE) is a credit rating agency which has been operational since 1993. The company provides credit ratings that help corporates to raise funds. Also, the credit risk and risk-return expectations help the investors to make investment decisions. In addition to the head office in Mumbai, the company has an excellent pan India presence.

Brickwork Ratings India Pvt. Ltd.

Brickwork Ratings (BWR) is a registered agency under SEBI. In addition to this, BWR is accredited by RBI and also empanelled by NSIC. It offers MSME, NCD and short term instruments like commercial paper grading and rating services. Moreover, it has accreditation from NABARD for NGO and MFI grading. BWR is also authorised to grade companies seeking credit facilities from System Integrators (SIs), Renewable Energy Service Providing

Companies (RESCOs), and IREDA. The leading promoter and strategically planned for BWR is CanaraBank.

SMERA Ratings Limited

SMERA establishes and analyses the credibility of micro, small, and medium enterprises (MSMEs). The MSMEs can grow, improve, and avail faster and cheaper loans.

Infomerics Valuation and Rating Pvt. Ltd.

Infomerics Valuation and Ratings is founded by former banker, finance professionals and administrative services personnel. The agency is SEBI registered, and RBO accredited. It evaluates entities such as large corporations, banks, non-banking financial companies (NBFCs), and small and medium scale units (SMUs).

CONSUMER FINANCE

Consumer financing is when a business offers financing to their customers withhelp from a professional finance company. This allows the consumer to pay for a good or service they couldn't pay for up front in cash or credit card. Consumer finance is helpful for both businesses and consumers

The term 'Consumer Financing' is when a business or retailer offer customer financing options to its customers using either their own funds or the funds of a lending company or bank. This allows the consumer to be able to purchase an item that they would otherwise not be able to, or may not want to pay for using immediate funds. The term is typically used to describe debt for everyday goodsand services.

Additional points:

- 'Consumer financing' covers all point of sale finance, including credit cards and installment loans.
- Businesses of all sizes benefit greatly from offering consumer financing.
- Also referred to as 'Customer financing'

For a retailer, offering consumer financing at the point of purchase can be crucial in converting passive browsers into active buyers. Therefore it can boost sales and conversion rates. At the same time, it can promote customer loyalty and repeat business. Consumer financing encourages a customer to increase their order spend, allowing them the opportunity to spend more than they wouldbe able to if they had to pay the balance upfront.

Key benefits:

- Boosts sales and conversion rates
- Promotes customer loyalty and repeat business
- Increases average spend

Sources of Consumer Finance

- Traders: The predominant agencies that are involved in consumer finance are traders. They include sales finance companies, hire purchase and other such financial institutions.

- Commercial Banks: Commercial Banks provide finance for consumer durables. Banks lend large sum of money at wholesale rate to commercial or sales finance companies, hire purchase concerns and other such finance companies. Banks also provide consumers personal loans meant for purchasing consumer durable goods.

- Credit Card Institutions: These institutions arrange for credit purchase of consumer goods through respective banks which issue the credit cards. The credit card system enables a person to buy credit card services on credit. On presentation of credit card by the buyer, the seller prepares 3 copies of the sales voucher, one for seller, bank/credit card company and 3rd for the buyer. The seller forwards a copy to the bank for collection. Theseller‘s bank forwards company. The bank debits theThe amountbuyer to receives monthly statement from the card issuing bank or company and theamount is to be paid within a period of 20 to 45 days without any additionalcharges.

  (NBFC‘s):Non-bankingFinancial companies constitute an important source of consumer finance. Consumer finance companies also known as small loan companies or personal finance companies are non-saving institutions whose prime assets constitute sale finance receivables, personal cash loans, short and medium term receivables. These companies charge substantially higher rate of interest than the market rates.

- Credit Unions: A credit union is an association of people who agree to save their money together and in turn provide loans to each other at a relatively lower rate of interest. These are caller co-operative credit societies. They are nonprofit deposit taking and low cost credit institutions.

Products covered

- Consumers financing covers a wide range of products such as cars, Televisions, washing machines, refrigerators, Air conditioners, computers etc. The products covered possess some distinct feature such as durability, sustainability, salability and serviceability etc.

Rural Vertical

The CEO would need to articulate a strong commitment to rural marketing, only then will the marketing team give its focused attention and sustained support to this growing market segment.

HUL has already created a separate rural vertical with a team of RSMs,ASMs, SOs and RSPs committed exclusively to servicing the rural market.
Rural has been given separate

sales targets and the company is in the process of allocating separate sales promotion and advertising budgets for this market.

Retail and IT models

IT and connectivity impact the way business is done. Today with STD facility, the retailer can dial the town distributor instantly and fresh stocks would reach him in just a couple of days, because of better road connectivity.

Benefits of IT Driven business strategy Ease of access

Up-to-date content

Layout, design, consistent themes Easy navigation Higher

interactivity

Access through multiple media

Higher use of non-textual information Multiple languages Lower

transaction cost.

Rural managers

- As the rural market is already bigger than its urban counterpart, there is need to develop a good understanding about it among corporate managers. For this to happen rural marketing should be taught as a subject in every business school.

Consumer Credit Insurance

Consumer credit insurance (CCI) covers you if something happens to you that affects your ability to meet your credit repayment.

You may be offered CCI cover by your lender when it approves your credit (such as a credit card, personal loan or mortgage). Check that the lender's product suits your needs – it is wise to get other quotes as you might find a CCI policy that suits you better through another insurer.

UNIT 5: MUTUAL FUNDS & INSTITUTIONS INVOLVED

Mutual Fund

According to Association of Mutual Funds in India (AMFI), "A Mutual fund is a trust that pools number of savings investors, who shares common financial goal'.

From the aforesaid definition,

we can understand the concept of Mutual fund and the key points as mentioned hereunder:-

➢➢ Mutual fund is a trust

➢➢ Mutual fund pools money from a group of investors called Unit Holders

➢➢ The investors share common financial goals

➢➢ Invest the money, collected from small investors into securities (shares,bonds etc.,). It is called as diversified investment.

➢➢ Mutual Fund use professional expertise (investment management skills) on investments made.

➢➢ Asset classes of investments match the stated investment objectives of the scheme

➢➢ Incomes and Gains from the investments are passed on to the unit holders based on the proportion of the number of units they own

Origin

Even though Historians are uncertain of the origin of investment funds, some say that the closed-end investment companies launched at Netherlands in the year 1822 by the King William-I is the first mutual funds, whereas some others say that Dutch merchant named Adriaan van Ketwich, whose investment trust was created in the year 1774 might have given the idea to the king. Ketwich probably theorized that diversification would increase the appeal for investments to smaller investors with the minimal capital. The name of Ketwich's fund, Eendragt Maakt Magt, means "unity creates strength".

A further development of mutual funds was made in Switzerland in the year 1849, and subsequently it was followed in Scotland in the 1880s in the similar fashion. Consequent to the evolution of mutual fund rooted in Great Britain and France, the idea of pooling resources and spreading risk using closed-endinvestments, came to the United States in the year 1890s. The first closed-end fund "Boston Personal Property Trust" was formed in U.S in the year 1893. The modern mutual fund evolution developed in the year 1970 in Philadelphia under the name Alexander Fund had special features of semi- annual issues and facility for investors to withdraw their investments on demand.

The Launching of the Modern Fund

In the year 1924, the modern mutual fund was created in pursuance of the formulation of the Massachusetts Investors' Trust in Boston. Generation of the mutual fund firm namely "MFS Investment Management" went public in the year 1928". The custodian of the Massachusetts Investors' Trust was State Street Investors. However, State Street Investors started generating their own fund at the helm in the year 1924 with Richard Paine, Richard Saltonstall and Paul Cabot. It is also pertinent to note that Saltonstall was also associated with Scudder, Stevens and Clark. In view of the said setup the first no-load fund was launched in the year 1928. Instantaneously, the first new launch of Wellington Mutual Fund emerged to include stocks and bonds, as opposed to direct merchant bank style of investments in business and trade.

Regulation and Development of Mutual Funds

19 open-ended mutual funds and nearly 700 closed-end funds existed before the stock market crash of 1929. Due to that crash, closedend funds were wiped out. Small open-end funds managed to survive. To protect the investors, Government regulators created the

Securities and Exchange Commission (SEC). It paved way to enact the Securities Exchange Act of 1934. As a result,mutual funds must register with the SEC and to reveal it in its prospectus.

The mutual fund industry grew-up gradually during 1950s with 100 top open- end funds. And in addition to that, 50 new funds emerged during the decade. Hundreds of new funds were launched during the decade of 1960s, which had aggressive growth till the bear market condition of 1969. The first index fund concept was established in the year 1971 by William Fouse and John McQuown of Wells Fargo Bank. The mutual fund industry further flourished due to theimpact of Low-cost index fund and the rise of no-load fund.

The assets and household ownership of mutual funds experienced rapid growth simultaneously in United States also. On account of increasing globalization of finance, expanding presence of large multinational financial groups and strongperformance of equity and bond markets, the global growth of mutual funds boosted during 1990s.

Types of Mutual Fund

There are various tools for investing money such as bank deposits, metals, real estates, and stock market instruments. The scale of risk and return is based on the type of investments. Investors should tradeoff between risk and return. If they invest in bank deposits, the risk is very lower and at the same time the return is also very lower than that of any other means of investment. The metalsand real estate assets are not sold easily.

The expectation of investors is higher return with lower risk or Lower risk with optimum return within short period of time. It is possible only in stock market investments. But it is not possible to the common investor because he is not technically competent to understand the stock market operations. A common man can invest his money safely in stock market through the rescuer, Mutual funds.

Mutual funds are dynamic financial institutions which play a crucial role in an economy by mobilizing savings and investing them in the capital market.
Savings pooled from small investors are invested through a fund manager to purchase a diversified portfolio of stocks or bonds. An investor can invest in mutual fund at lower cost with the advantage of diversification. Diversification means “spreading out money across many different types of investments”.
When one investment involves high risk, another might be lower. Diversification of investment holdings reduces the risk tremendously.

On the basis of their structure and objective, mutual funds can be classified intovarious types. Generally, there are two major types of Mutual Funds:-

- ➢➢ Open-end Mutual Funds
- ➢➢ Closed-end Mutual Funds

Open End Mutual Funds

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV)related prices, which are notified a daily. The key feature of open-end schemes is their liquidity.

Closed End Mutual Funds

A close-ended fund or scheme has a stipulated maturity period say for e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launching of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme through the stock exchanges, where the units are listed. In order to provide an exit route to the investors, some closeended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. Stock Exchange Board of India (SEBI) Regulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis. They are traded more like thegeneral stocks.

The reasons to invest in this category are:

➢➢ Prices are determined by market demands and thus, closed end funds trade at lower than the offer price more often.

➢➢ The open end funds provide wide options for investors to choose from

(a) stock funds and balanced funds which give full asset allocation benefit and

(b) bond funds.

After the closure of the offer, buying and redemption of units by the investors directly from the Funds are not allowed. However, to protect the interests of the investors, SEBI provides investors with two avenues to liquidate their positions:

1. Closed-end Funds are listed on the stock exchanges where investors can buy/sell units from/to each other. The trading is generally done based on NAV at a discounted rate. The NAV of a closed-end fund is computed on a weekly basis (updated every Thursday).
2. Closed-end Funds may also offer “buy-back of units” to the unit holders. In this case, the corpus of the Fund and its outstanding units do get changed.

Mutual Fund Classifications

A scheme can also be classified as growth scheme, income scheme, or balanced scheme considering its investment objective. Such schemes may be open-ended or close-ended schemes.

Equity Funds

Equity funds provide higher returns and at the same time it is more risky while compared to any other fund. For long term investment purpose, an investor is advised to invest in equity. There are different types of equity funds under different level of risk as follows:

a. Aggressive Growth Funds – The maximization of capital appreciation is the mantra for fund managers. So they invest in highly grown-up companies' equities and less in speculative investments. Investment in speculative nature ofequities may lead to higher risk.

b. Growth Funds – Here, the objective is to achieve an increase in value of investment through capital appreciation and not in the regular income. Fund manager selects the companies which are expected to earn above average in future for the investment of growth funds

c. Equity Income or Dividend Yield Funds – These are for investors who are more concerned about regular returns from investments. Fund manager investsin those companies which declare high rate of dividends. Capital appreciation and risk level are less while compared to other equity funds.

d. Diversified Equity Funds – Fund manger invests this type of funds in the equities of all the companies and industries without any specified industry or sector. Due to this diversification of investment, the market risk is also diversified. Example Equity Linked Savings Schemes (ELSS). (ELSS investors can claim deduction from taxable income (up to Rs 1 lakh) at the time of filing the income tax return).

e. Equity Index Funds – It is based on the performance of a specific stock market index. Equity index funds are two types namely broad indices (like S&P CNX Nifty, Sensex) and narrow indices (like BSEBANKEX or CNX Bank Index etc). Investments in Narrow indices index funds are less diversifiable; therefore it is more risky than that of broad indices index funds.

f. Value Funds – Fund manager invests in shares of companies which have strong financial performance but whose price-earnings ratio is low. Price- earnings ratio is the relationship between the Market Price per share and Earnings per share. These companies' book value of the shares is higher than the market price. The market price of these shares may rise in future. With this assumption the fund manager invests huge fund for long term time horizon. Thecyclical industries like cement, steel, sugar etc., are the examples of value stocks.

g. Specialty Funds - Specialty funds are concentrated on particular industry or companies. Concentration is based on certain criteria for investments and thosecriteria must match with their portfolio. It is much riskier than other funds.

i. Sector Funds: The portfolio of sector funds comprises of only thosecompanies that meet their criteria.

ii. Foreign Securities Funds: Fund manager invests in securities of one or more foreign companies. This fund gets the advantage of international diversification,but it has to face the foreign exchange rate risk and country risk.

iii. Mid-Cap or Small-Cap Funds: The Mutual Fund invests in securities of those companies whose market capitalization is lower. The market capitalization of Mid-Cap companies is between ` 500 crore and ` 2500. In case of Small-Cap companies' market capitalization is lower than ` 500 crore. The market capitalization is the market price of the share multiplied by the number of outstanding shares of the company. The volatility of this type of companies' securities is very high but the liquidity is very low. Due to this high volatility and low liquidity the risk of this kind of companies' securities will be very high.

iv. Option Income Funds: Option income funds are those funds invested in high yielding companies. The options are used for hedging activity i.e., to reduce the risk or volatility. The risk can be controlled by way of proper utilization of options. It generates stable income for investors.

Money Market / Liquid Funds

Money market instruments are short-term interest bearing debt securities i.e., Treasury bills issued by Governments, (30 days, 60 days, 90 days etc., but maturing within one year), certificate of deposits issued by banks, commercial papers issued by companies etc.,. These securities are having high liquidity and safety. The investments in these funds are called money market/liquid funds.
The risk of these funds is due to interest rate fluctuation. Hybrid

Funds

Hybrid funds comprise the portfolio of equities, debts and money market securities. The debt and equity are equal in proportion for the investment. The types of hybrid funds in India are as follows:

a. Balanced Funds The equal proportion of debt, equity, preference and convertible securities is the portfolio of balanced funds. It gives regular income and moderates capital appreciation to investors. The risk of capital is at the minimum level. This fund is suitable for traditional investors of those who prefer long term investment.

b. Growth-and-Income Funds The combination of the features of growth funds and income funds is referred as Growth-and Income Funds. The capital appreciation as well as declaration of high dividend companies' securities is comprised in the portfolio of this fund.

c. Asset Allocation Funds There are two types of investment avenues namely financial assets (equity, debt, money market instruments) and non-financial assets (real estate, gold, commodities). The fund manager may adopt the strategy of variable asset allocation. It allows change over from one asset to another at any time depending upon the market trends.

Debt / Income Funds

The investment of debt or income funds is purely only on the debt instruments issued by private companies, banks, financial institutions, governments and other entities. These funds are suitable to those investors who expect regular income and low risk. Debt instruments are

graded by credit rating agencies.
Grading indicates the risk of the debt securities. There are different types of debt funds based on investment objectives, which are as follows:-

a. Diversified Debt Funds
The portfolio of the fund comprises the debt securities of all companies belonging to all industries. The result of diversified investments in all sectors isrisk reduction.

b. Focused Debt Funds
Debt funds that invest in debt securities issued by entities belonging to a particular sector or companies of the market are known as focused debt funds.

c. High Yield Debt funds
Generally, all debt funds have default risk. By and large, investors would like to invest in "high investment grade" securities which protect the risk of default.
High yield debt funds invested in "below investment grade" securities provides high returns but the existence of default risk is higher due to more volatility.

d. Assured Return Funds
The investors of this fund will get assured returns with a low-risk investment opportunity. But there may be a shortfall in returns which is borne by Asset Management Company or sponsor. The security of investments depends upon the net worth of the guarantor, whose name is specified in the offer document.

To safeguard the interest of investors, the sponsors must have adequate net worth to guarantee returns as per the norms of SEBI to offer assured return schemes. Unit trust of India had offered 'Monthly Income Plans' under the
scheme of assured return schemes. But the UTI had failed to fulfill its promises due to heavy shortfall in returns. The UTI's payment obligations were taken over by the Government. Now-a-days no assured return schemes are offered inIndia.

e. Fixed Term Plan Series
The funds' attracts the short-term investors and invests in short term debt securities. It is a closed-end scheme that offers a series of plans and issues units to investors at regular intervals. But these plans are not listed on the stock exchanges.

Gilt Funds
The portfolio of Gilt fund' is only the government securities of medium and long term matured bonds. It provides much safety to the investors with no creditrisk. But it is exposed to interest rate risk.

Commodity Funds
The focus of investment of this fund is on different commodities, such as metals (like gold, silver, copper etc.,), food grains, oils, etc., or ptions and futures, contracts of commodities, commodity producing companies etc. The concentration of investment may be made on a

specialized commodity or on a diversified commodity fund. Specialized commodity fund bears more risk than that of diversified commodity fund.

Real Estate Funds

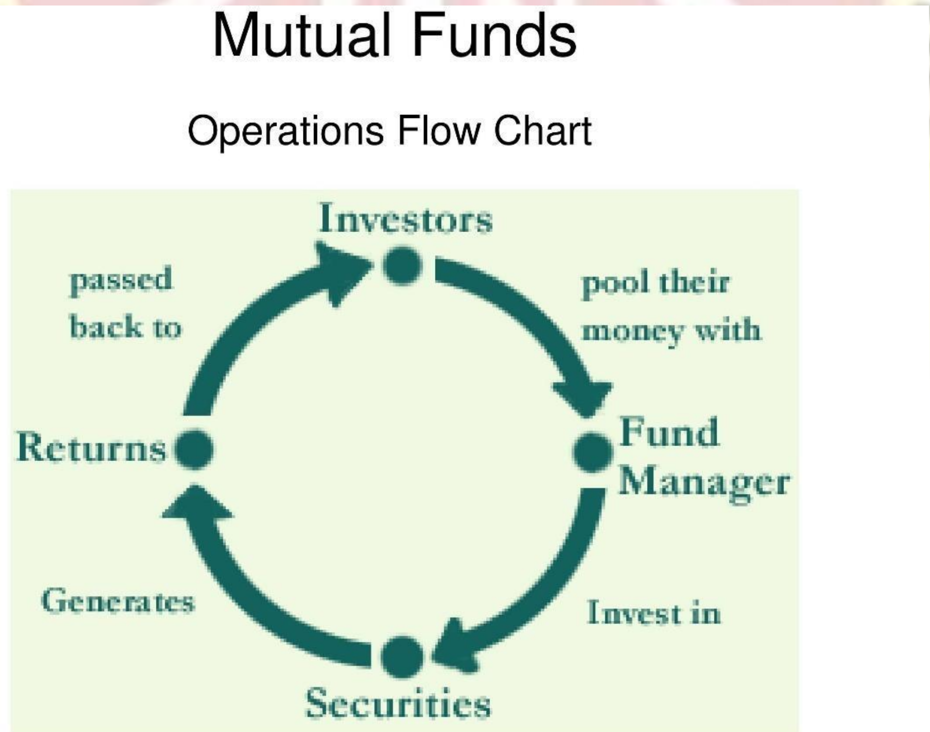
Real estate investment provides higher capital appreciation and generates regular and higher income to the investors. Real estate investment includes notonly in direct investment in real estate but also investments in securities of housing finance companies or lending to real estate developers.

Exchange Traded Funds (ETF)

Exchange Traded Funds are traded on stock exchanges like a single stock at index linked prices and it follows stock market indices. Investors of this fundget benefits of both closed-end fund and open-end mutual fund. It is very popular in London and New York stock exchanges. In India, it is introduced recently. This fund is more diversified and flexible of holding like a single share.

Fund of Funds

It means funds of a mutual fund invested in units of mutual fund schemes offered by other Asset Management Companies. No investments are made on financial (shares, bonds) or physical assets of the Fund of Funds. The investors of this fund get benefit of diversifying into different mutual fund schemes with a small amount of investment. And also, it facilitates diversification of risks.



(Reference: amfiindia.com)

Mutual Fund in India was first started by Unit Trust of India (UTI) in the year 1964 in the form of investment trust. UTI initially started with open-ended mutual fund; the first unit scheme offered was the “US-64” and the face value of a single unit was ` 10, to attract the medium and low income group people. UTI enjoyed the monopoly of Mutual fund till 1987 and later the Government of India by amending the Banking Regulation Act, permitted commercial banks in the public sector to set up subsidiaries operating as trusts to perform the functions of mutualfunds.

Before, the monopoly of the market had seen an ending phase; the Assets under Management (AUM) were ` 67 billion. The private sector entry to the fund familyraised the AUM to ` 470 billion in March 1993 and at the end of April 2004; it reached the height of 1,540 billion.

Putting the AUM of the Indian Mutual Funds Industry into comparison, the total of it is less than the deposits of SBI alone and less than 11% of the total deposits held by the Indian banking industry. The main reason for its poor growth is that the mutual fund industry in India is new to the country. Hence, it is the prime responsibility of all mutual fund companies, to market correctly the product besides selling.

The growth of mutual fund industry in India is broadly put into four phases. The description of each phase is as under:

First Phase - 1964-87

In 1963, Unit Trust of India (UTI) was established by an Act of Parliament. It functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978, the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control from RBI. The first scheme launched by UTI was Unit Scheme 1964. The detailed notes about UTI are given separately in this unit.

Second Phase - 1987-1993 (Entry of Public Sector Funds) Entry of
Non-UTI Mutual Funds

SBI Mutual Fund was the first public sector mutual funds followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92), LIC (1989) and GIC (1990). The end of 1993 marked ` 47, 004 crores as assets under management.

Third Phase - 1993-2003 (Entry of
Private Sector Funds)

During 1993, a new era started in the Indian mutual fund industry due to the entry of private sector funds. The Mutual Fund Regulations came into existence under which all mutual funds were to be registered and governed except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993. In 1996, SEBI (Mutual Fund) Regulations were framed. During this phase, many foreign mutual funds were setup in India and the industry witnessed several mergers and acquisitions. As at theend of January 2003, there were 33 mutual funds with total assets of ` 1, 21,805 crores out of which the assets of UTI alone were ` 44,541 crores.

Fourth Phase - since February 2003

In February 2003, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with AUM (Asset Under Management) of ` 29,835 crores (as on January 2003). The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India does not come under the purview of the Mutual Fund Regulations. The second is the UTI Mutual Fund Ltd, sponsored by SBI, PNB, BOB and LIC. It was registered under SEBI Mutual Fund Regulations Act1996.

Major Mutual Fund Companies in India ABN

AMRO Mutual Fund

ABN AMRO Mutual Fund was setup on April 15, 2004 with ABN AMRO Trustee (India) Pvt. Ltd. as the Trustee Company. The AMC, ABN AMRO AssetManagement (India) Ltd. was incorporated on November 4, 2003. Deutsche Bank AG is the custodian of ABN AMRO Mutual Fund

Birla Sun Life Mutual Fund

Birla Sun Life Mutual Fund is the joint venture of Aditya Birla Group and Sun Life Financial. Sun Life Financial is a golbal organisation evolved in 1871 and isbeing represented in Canada, the US, the Philippines, Japan, Indonesia and Bermuda apart from India. Birla Sun Life Mutual Fund follows a conservative long-term approach to investment. Recently it crossed AUM of ` 10,000 crores.

Bank of Baroda Mutual Fund (BOB Mutual Fund)

Bank of Baroda Mutual Fund or BOB Mutual Fund was setup on October 30, 1992 under the sponsorship of Bank of Baroda. BOB Asset Management Company Limited is the AMC of BOB Mutual Fund and was incorporated on November 5, 1992. Deutsche Bank AG is the custodian.

HDFC Mutual Fund

HDFC Mutual Fund was setup on June 30, 2000 with two sponsorers nemely Housing Development Finance Corporation Limited and Standard Life Investments Limited.

HSBC Mutual Fund

HSBC Mutual Fund was setup on May 27, 2002 with HSBC Securities and Capital Markets (India) Private Limited as the sponsor and Board of Trustees.

ING Vysya Mutual Fund

ING Vysya Mutual Fund was setup on February 11, 1999 with the same named Trustee Company. It is a joint venture of Vysya and ING. The AMC, ING Investment Management (India) Pvt. Ltd. was incorporated on April 6, 1998.

Prudential ICICI Mutual Fund

The mutual fund of ICICI is a joint venture with Prudential Plc. of America, oneof the largest life insurance companies in the US of A. Prudential ICICI Mutual Fund was setup on 13th of October, 1993 with two sponsorers, Prudential Plc. and ICICI Ltd. The Trustee Company formed is Prudential ICICI Trust Ltd. and the AMC is Prudential ICICI Asset Management Company Limited incorporatedon 22nd of June, 1993.

Sahara Mutual Fund

Sahara Mutual Fund was set up on July 18, 1996 with Sahara India Financial Corporation Ltd. as the sponsor. Sahara Asset Management Company Private Limited incorporated on August 31, 1995 works as the AMC of Sahara Mutual Fund. The paid-up capital of the AMC stands at ` 25.8 crore.

State Bank of India Mutual Fund

State Bank of India Mutual Fund is the first Bank sponsored Mutual Fund to launch offshore fund, the India Magnum Fund with a corpus of ` 225 cr.approximately. Today it is the largest Bank sponsored Mutual Fund in India. Theyhave already launched 35 Schemes out of which 15 have already yielded handsome returns to investors. State Bank of India Mutual Fund has more than `5,500 Crores as AUM. Now it has an investor base of over 8 Lakhs spread over 18 schemes.

Tata Mutual Fund

Tata Mutual Fund (TMF) is a Trust under the Indian Trust Act, 1882. The sponsorers for Tata Mutual Fund are Tata Sons Ltd., and Tata Investment Corporation Ltd. The investment manager is Tata Asset Management Limited and its Tata Trustee Company Pvt. Limited. Tata Asset Management Limited’s is one of the fastest in the country with more than ` 7,703 crores (as on April 30,2005) of AUM.

Kotak Mahindra Mutual Fund

Kotak Mahindra Asset Management Company (KMAMC) is a subsidiary of KMBL. It is presently having more than 1,99,818 investors in its various schemes. KMAMC started its operations in December 1998. Kotak Mahindra Mutual Fund offers schemes catering to investors with varying risk - return profiles. It was the first company to launch dedicated gilt scheme investing onlyin government securities.

Unit Trust of India Mutual Fund

UTI Asset Management Company Private Limited, established in Jan 14, 2003, manages the UTI Mutual Fund with the support of UTI Trustee Company Privete Limited. UTI Asset

Management Company presently manages a corpus of over `20000 Crore. The sponsorers of UTI Mutual Fund are Bank of Baroda (BOB), Punjab National Bank (PNB), State Bank of India (SBI), and Life Insurance Corporation of India (LIC). The schemes of UTI Mutual Fund are Liquid Funds,Income Funds, Asset Management Funds, Index Funds, Equity Funds and Balance Funds.

Reliance Mutual Fund

Reliance Mutual Fund (RMF) was established as trust under Indian Trusts Act, 1882. The sponsor of RMF is Reliance Capital Limited and Reliance Capital Trustee Co. Limited is the Trustee. It was registered on June 30, 1995 as Reliance Capital Mutual Fund which was changed on March 11, 2004. Reliance Mutual Fund was formed for launching of various schemes under which units are issued to the Public with a view to contribute to the capital market and to provide investors the opportunities to make investments in diversified securities.

Standard Chartered Mutual Fund

Standard Chartered Mutual Fund was set up on March 13, 2000 sponsored by Standard Chartered Bank. The Trustee is Standard Chartered Trustee Company Pvt. Ltd. Standard Chartered Asset Management Company Pvt. Ltd. is the AMC which was incorporated with SEBI on December 20,1999.

Morgan Stanley Mutual Fund India

Morgan Stanley is a worldwide financial services company and its leading in the market in securities, investmenty management and credit services. Morgan Stanley Investment Management (MISM) was established in the year 1975. It provides customized asset management services and products to governments, corporations, pension funds and non-profit organisations. Its services are also extended to high net worth individuals and retail investors. In India it is known as Morgan Stanley Investment Management Private Limited (MSIM India) and its AMC is Morgan Stanley Mutual Fund (MSMF). This is the first close end diversified equity scheme serving the needs of Indian retail investors focussing on a longterm capital appreciation.

LIC Mutual Fund

Life Insurance Corporation of India set up LIC Mutual Fund on 19th June 1989.It contributed ` 2 Crores towards the corpus of the Fund. LIC Mutual Fund was constituted as a Trust in accordance with the provisions of the Indian Trust Act, 1882.. The Company started its business on 29th April 1994. The Trustees of LIC Mutual Fund have appointed Jeevan Bima Sahayog Asset Management CompanyLtd as the Investment Managers for LIC Mutual Fund.

GIC Mutual Fund

GIC Mutual Fund, sponsored by General Insurance Corporation of India (GIC), a Government of India undertaking and the four Public Sector General Insurance Companies, viz. National Insurance Co. Ltd (NIC), The New India Assurance Co.Ltd. (NIA), The Oriental Insurance Co. Ltd (OIC) and United India Insurance Co.Ltd. (UII) and is constituted as a Trust in accordance with the provisions of the Indian Trusts Act, 1882.

Constitution and Management of Mutual Fund

A Mutual fund is formed as trust, which has sponsor, trustees, Asset Management Company (AMC) and custodian. Sponsor is like the promoters of a company.

More than one sponsor establishes the trust. They take initiative for promoting the Mutual Fund. Trustee is the person/ firm/company/institutions who look afterthe assets of the mutual fund for the benefit of the unit holders. Normally, bankers, insurance companies are appointed as trustees, who supervise the assets of the mutual fund. Asset Liability Management Company (ALM) manages the ‘funds’ which is mobilized by mutual fund. ALM is expertise in the field of investment portfolio and approved by SEBI. They take care of Mutual funds’ investments in various types of securities in a diversified manner. Custodian is the person/company who/which holds the securities of various schemes of the fund in his/its custody and who/which is registered with SEBI.

The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI Regulationsby the mutual fund. SEBI Regulations require that at least two thirds of the directors of trustee company or board of trustees must be independent i.e. they should not be associated with the sponsors. Also, 50% of the directors of AMC must be independent. The registration of mutual funds under SEBI is mandatory.

Asset Management Company (AMC)

Asset Management company acts as investment manager and manages the affairs of Mutual Fund. It is appointed by the sponsor or the trustees. It should have a sound track record with a net worth of at least ` 100 crores. All schemes of the fund are operated by AMC and it is responsible for it. It may also operate as an underwriter with the approval of SEBI.

SEBI Regulations

The following rules and regulations of Securities Exchange of Board of India (SEBI) are related to the establishment and issue of schemes of Mutual Fund.

➢➢ Mutual fund shall be established in the form of trusts under the Indian Trust Act and managed by separately formed Asset Management Company.

➢➢ In the Board of directors of AMC must be 50% members are independent without the influence of sponsoring organization and they should have at least 10 years experience in the field of portfolio management.

➢➢ A minimum of ` 10 crores must have AMC as net worth

- ➢➢ An AMC can function for only one mutual fund and it is prohibited to work for another.
- ➢➢ AMCs are also allowed to do other fund based businesses such as providing investment management services to offshore funds, venture capital funds and insurance companies.
- ➢➢ Minimum issue of fund for closed-end scheme and open end scheme should be ` 20 crores and ` 50 crores respectively.
- ➢➢ The maximum period for subscription is 45 days in case of closeend schemes, but no such limitation in case of open – end scheme.
- ➢➢ The entire subscription has to be returned to the investors when the minimum amount or 60% of the target amount is not raised.
- ➢➢ There should be a separate and responsible fund manager for eachscheme.
- ➢➢ To protect the small investors, SEBI restrict the portfolio investment of Mutual Fund in a single company by 10% of Net Assets Value of a scheme.
- ➢➢ The issue expenses are restricted to 6% of raising funds under eachscheme.
- ➢➢ A minimum of 90% of the profits must distribute to the unit holders in any given year.
- ➢➢ Accounting and Auditing of Mutual funds are mandatory and furnish the audited Annual statements to SEBI.
- ➢➢ SEBI has power to impose penalty on mutual funds for violation of SEBI guidelines.

Unit Trust of India

Establishment

The Unit Trust of India (UTI) was established by the government of India on 1st February, 1964 under the Unit Trust of India Act, 1963 (the bill was introduced by the then Finance Minister Sri.T.T.Krishnamachari).

Structure

The initial capital of UTI was ` 5 crores which was contributed by Reserve Bank of India (RBI), State Bank of India (SBI), Life Insurance Corporation of India (LIC), Scheduled banks and foreign banks. The management was entrusted to an independent Board of Trustees appointed by the Government.

Objectives

The basic objective of the UTI is to offer both small and large investors the means of acquiring shares in the widening prosperity resulting from the steady, industrial growth of the country. There are two primary objectives of UTI,

- ➢➢ To promote and pool the small savings from the lower and middle income people who cannot have direct access to the stock exchange, and
- ➢➢ To give them an opportunity to share the benefits and fruits of prosperity resulting from

rapid industrialization in India.

Functions

The main functions of UTI are as follows:

- ➢➢ To encourage savings of lower and middle-class people.
- ➢➢ To sell units to investors in different parts of the country.
- ➢➢ To convert the small savings into industrial finance.
- ➢➢ To give them an opportunity to share the benefits of industrialization inthe country.
- ➢➢ To provide liquidity to units.

Types of Funds

UTI funds are classified based on the following two aspects:-

I. Maturity period
II. Investment objective

I. Based on Maturity

a. Open-Ended Fund/Scheme

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices, which are declared on a daily basis. The key feature of open-endedschemes is its liquidity

b. Close-Ended Fund/Scheme

A close-ended fund or scheme has a stipulated maturity period, say for example 5-7 years. The fund is open for subscription only during a specified period at thetime of launching of the scheme. Investors can invest in the scheme at the time ofthe initial public issue and thereafter they can buy or sell the units of the schemethrough the stock exchanges where the units are listed. In order to provide an exitroute to the investors, some close-ended funds give an option of selling back theunits to the mutual fund through periodic repurchase at NAV related prices. SEBIRegulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

II. Investment Objective

a. Liquid Funds Category

➢➢UTI - Money Market Fund - It is an open-ended pure debt liquid plan, seeking to provide highest possible current income, by investing in a diversified portfolio of short-term money market securities.

➢➢ UTI - Floating Rate Fund - It is to generate regular income through investment in a portfolio comprising substantially of floating rate debt / money market instruments and fixed rate debt / money market instruments.

➢➢ UTI - Liquid Fund Cash Plan - The scheme seeks to generate steady & reasonable income with low risk & high level of liquidity from a portfolio of money market securities & high quality debt.

b. Income Funds Category

➢➢ UTI - G-Sec Fund - Investment Plan - It is an open-end Gilt-Fund with the objective to invest only in Central Government securities including call money, treasury bills and repos of varying maturities with a view to generate credit risk free return.

➢➢ UTI - G-Sec Fund - Short Term Plan - It is an open-end Gilt-Fund with the objective to invest only in Central Government securities Including call money, treasury bills and repos of varying maturities with a view to generate credit risk free return.

➢➢ UTI - GILT Advantage Fund -LTP - It is to generate credit risk-free return through investments in sovereign securities issued by the Central and / or a StateGovernment LTP.

d. Asset Allocation Funds Category

➢➢ UTI - Variable Investment Scheme - The UTI Variable Investment Scheme is an open-ended scheme with dynamic allocation between equity and debt classes.

e. Index Funds Category

➢➢ UTI - Master Index Fund - UTI MIF is an open-ended passive fund with the primary investment objective to invest in securities of companies comprising the BSE sensex in the same weightage as these companies have in BSE sensex.

➢➢ UTI - Nifty Index Fund - UTI NIF is an open-ended passive fund with the objective to invest in securities of companies comprising of the S&P CNX Niftyin the same weightage as they have in S&P CNX Nifty.

➢➢ UTI - Gold Exchange Traded Fund – Its objective is to endeavor to provide returns that, before expenses, closely track the performance and yield ofGold.

f. Equity Funds Category

➢➢ UTI - Equity Tax Saving Plan - It is an open-ended equity fund investing a minimum of 80% in equity and equity related instruments. It aims at enabling members to avail tax rebate under Section 88 of the IT Act and provide them withthe benefits of growth.

➢➢ UTI - Master share unit Scheme – It is an open-end equity fund aiming to provide benefit of capital appreciation and income distribution through investment in equity.

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