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SCHOOL OF MANAGEMENT STUDIES

UNIT – I – Financial Services– SBAA1403

Financial services-concepts, objectives, functions, characteristics-financial services market, concepts, constituents-Growth of financial services in India-financial services sector problems- financial services environment-forces-players in financial markets-Interest rate determinations-Macroeconomic aggregates in India.

1. INTRODUCTION

Financial Service as a part of financial system provides different types of finance through various credit instruments, financial products and services.

In financial instruments, we come across cheques, bills, promissory notes, debt instruments, letter of credit, etc.

In financial products, we come across different types of mutual funds, extending various types of investment opportunities. In addition, there are also products such as credit cards, debit cards, etc.

In services we have leasing, factoring, hire purchase finance etc., through which various types of assets can be acquired either for ownership (or) on lease. There are different types of leases as well as factoring too.

Thus, financial services enable the user to obtain any asset on credit, according to his convenience and at a reasonable interest rate.

Objectives (or) Functions of Financial Services

Following are the objectives of Financial Services that are generally offered by banking financial companies :-

1. Fund Raising :

Financial Services help to raise the required funds from a host of investors, individuals, institutions and corporate. For this purpose, various instruments of finance are used. The funds are demanded by corporate houses, individuals, etc.

2. Funds Deployment :

An array of financial services are available in the financial markets which help the players to ensure an profitable deployment of the funds raised. Financial Services assist in the decision making regarding the financing mix. Services such as bill discounting, factoring of debtors, parking of short-term funds in the money market, credit rating, e-commerce, and securitization of debts are provided by banking financial services firms in order to ensure efficient management of funds.

3. **Specialized Services :**

The financial services sector provides specialized services such as credit rating, venture capital financing, lease financing, factoring, mutual funds, merchant banking, stock lending, depository, credit cards, housing finance, book building, etc. besides banking and insurance institutions and agencies such as stock exchanges, specialized and general financial institutions, non banking finance companies, subsidiaries of financial institutions, banks and insurance companies also provide these services.

4. **Regulation :**

There are agencies that are involved in the regulation of the financial services activities. In India, agencies such as the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and the Department of Banking and Insurance, Government of India, through a plethora of legislative measures, regulate the functioning of the financial service institutions. The objective is to ensure an orderly functioning of the financial markets.

5. **Economic Growth :**

Financial services contribute, in good measure, to speeding up the process of economic growth and development. This takes place through the mobilization of the savings of a cross section of people, for the purpose of channeling them into productive investments.

Characteristics of Financial Services :

1. **Intangibility :**

The basic characteristics of financial services are that they are intangible in nature. For financial services to be successfully created and marketed, the institutions providing them must have a good image and enjoy the confidence of their clients.

2. **Customer Orientation :**

The institutions providing financial services study the needs of the customers in detail. Based on the results of the study, they come out with innovative financial strategies that give due regard to costs, liquidity, and maturity considerations for various financial products and services. This way, financial services are customer oriented.

3. **Inseparability :**

   The functions of production and supply of financial services have to be carried out simultaneously. This cause for a project understanding between the financial services firms and their clients.

4. **Perishability :**

   Financial Services have to be created and delivered to the target clients instantaneously. They cannot be started. They have to be supplied according to the requirements of customers. Hence it is imperative that the providers of financial services ensure a match between demand and supply.

Importance of Financial Services :

It is the presence of financial services that enables a country to improve its economic condition where by there is more production in all the sectors leading to economic growth. The benefit of economic growth is reflected on the people in the form of economic prosperity where in the individual enjoys higher standard of living.

1. **Promoting Investment :**

   The presence of financial services creates more demand for products and the producer, in order to meet the demand from the consumer goes for more investment. At this stage, the Financial Services come to the rescue of the investor such as merchant banker through the new issue market, enabling the producer to raise capital. The stock market helps in mobilising more funds by the investor. Investments from abroad is attracted. Factoring and leasing companies, both domestic and foreign enable the producer not only to sell the products but also to acquire modern machinery / technology for further production.

2. **Promoting Savings :**

Financial Services such as mutual funds provide ample opportunity for different types of saving. In fact, different types of investment options are made available for the convenience of pensioners as well as aged people so that they can be assured of a reasonable return without much risks for people interested in the growth of their savings, various reinvestment opportunities are provided.

3. **Minimising the risks :**

The risk of both financial services as well as producers are minimized by the presence of insurance companies. Various types of risks are covered which not only offer protection from the fluctuating business conditions but also from risks caused by natural calamities. Insurance is not only a source of finance but also a source of a savings, besides minimizing the risks.

4. **Maximising the returns :**

The presence of financial services enables businessmen to maximize their returns. This is possible due to the availability of credit at a reasonable rate. Producers can avail various types of credit facilities for acquiring assets. In certain cases, they can even go for leasing of certain assets of very high value. Factoring companies enable the sources as well as producer to increase their turn over which also increases the profit.

5. **Ensures greater yield :**

As seen already, there is a subtle difference between return and yield. It is the yield which attracts more producers to enter the market and increase their production to meet the demands of the consumer. The financial services enable the producer to not only earn more profits but also maximize their wealth. Financial Services enhance their goodwill and induce them to go in for diversification. The stock market and the different types of derivative market provide ample opportunities to get a higher yield for the investor.

6. **Economic growth :**

The development of all the sectors is essential for the development of the economy. The financial services ensure equal distribution of funds to all the three sectors namely, primary, secondary and tertiary so that activities are spread over in a balanced manner in all the three sectors.

7. **Economic development :**

Financial Services enable the consumers to obtain different types of products and services by which they can improve their standard of living. Purchase of car, house and other essential as well as luxurious items are made possible through hire purchase, leasing and housing finance companies.

8. **Benefit to Government :**

The presence of financial services enables the government to raise both short-term and long-term funds to meet both revenue and capital expenditure through the money market, government raises short-term funds by the issue of Treasury Bills. There are purchased by commercial banks from out of their depositor's money. In addition to this, the government is able to raise long-term funds by the sale of government securities in the securities market which forms a part of financial market. Even foreign exchange requirements of the government can be met in the foreign exchange market.

9. **Expands activities of financial institutions :**

The presence of financial services enables financial institutions to not only raise finance but also get an opportunity to disburse their funds in the most profitable manner. Mutual funds, factoring, credit cards, hire purchase finance are some of the services which get financed by financial institutions.

10. **Capital Market :**

One of the barometers of any economy is the presence of a vibrant capital market. If there is hectic activity in the capital market, then it is an indication of the presence of a positive economic condition. The financial services ensure that all the companies are able to acquire adequate funds to boost production and to reap more profits eventually.

11. **Promotion of Domestic and Foreign Trade :**

Financial Services ensure promotion of domestic as well as foreign trade. The presence of factoring and forfeiting companies ensures increasing sale of goods in the domestic market and export of goods in the foreign market. Banking and insurance services further contribute to step up such promotional activities.

12. Balanced Regional Development :

The government monitors the growth of economy and regions that remain backward economically are given fiscal and monetary benefits through tax and cheaper credit by which more investment is promoted. This generates more production, employment, income, demand and ultimately increase in prices.

Types of Financial Services :

i. Factoring
ii. Leasing
iii. Forfeiting
iv. Hire Purchase Finance
v. Credit Card
vi. Merchant Banking
vii. Book Building
viii. Asset Liability Management (ALM)
ix. Housing Finance
x. Portfolio Finance
xi. Underwriting
xii. Credit Rating
xiii. Interest and Credit Swap
xiv. Mutual Funds

1. Factoring :

Factoring may be defined as an arrangement between the financial institution and the business concern which is selling goods on credit. There are three parties in a factor agreement. The supplies (or) the saver, the buyer and the factor. After saving the goods to the buyer, the saver prepares a bill either for a period of 3 (or) 6 months as per the agreement. This bill is given to the factor who will provide upto 80% of the bill value to the saver. The factor undertakes to collect the money from the buyer on the due date, there upon the balance amount is handed over to the saver. For this function the factor is provided a commission by the saver.

2. Leasing :

To enable companies (or) small firms to acquire asset of a higher value, leasing companies were setup. The leasing company will purchase the asset and give it the manufacturer on a lease for a period of 10 (or) 12 years the company leasing the machine is called lessor and manufacturer who is taking the asset for use is called leasing. The lease will be paying rent to the lessor for the use of the asset. Basically there are 2 types of lease agreement.

(i) Financial Lease

(ii) Operating Lease

Financial Lease :

A financial lease is a contract involved payment over a fixed period of a specific amount the capital outlay of a specific project.

Operating Lease :

An equipment is purchased and production on lease to the Lessee for use. The Lessee has the option to cancel the contract and at the same time, the Lessee has the option to sell the asset to any other person to cost of the equipment is not fully recovered by the lease amount and the lease period is normally shorter that the economic life of the asset.

3. Forfeiting :

This is an arrangements under which the exporter is provided finance against his bills by forfeiting bank. In domestic trade, it is discounting of foreign bill is favour of the exporter. It is an understanding between the exporter bank : forfeiting bank and the importer bank. Due to this, the exporters are able to get finance immediately after export and the risk of bad debts is eliminated.

4. Hire Purchase Finance :

The hire purchase finance companies provide finance to the buyers of assets from a period of 2 to 5 (or) even 10 years. When a buyer is unable to purchase an asset for example a car the hire purchase finance companies provide finance to the buyer, which is repayable on a monthly instalment over a period of 24 (or) 60 months. The amount of repayment will be an equal amount from which a part of it will be taken towards the principal and the remaining towards interest the hire purchase finance companies will be charging interest at a flat rate of 10 (or) 15% for the period of the loan.

5. Credit Card :

This is a facility given to the customers of fixed income (or) middle and higher income group. A credit card is a plastic card given by the banker to the customer in which the name of the customer is embossed in block letters. The name of the bank and the date of issue and expiry are also mentioned on the face of the card the reverse side of the card will bear the specimen signature of the customer. A list of vendors (or) saver will be given by the banker to the customers.

6. Merchant Banking :

A merchant banker is one who underwrites corporate securities and advise clients on issues like corporate mergers. The merchant banker may be in the form of a bank, a company firm (or) even a proprietary concern. It is basically service banking which provides non-financial services such as arranging for funds rather than providing them. The merchant banker understands the requirements of the business concern and arranges finances with the help of financial institutions, banks, stock exchanges and market.

7. Book Building :

When a company instead of offering shares directly to the public, invites bids from the merchant bankers for the sale of shares it is called book building. The merchant bankers will take the full responsibility for the issue of the shares. The entire procedure of allotment of listing of shares will be undertaken by the merchant bankers. The share price depends on the demand for the shares in the market.

8. Asset Liability Management (ALM) :

It is a method used by banks for adjusting their liability from assets which should qualify the three conditions of safety, liquidity and profitability. In other words, a bank which receives money from the depositors will go for investment (or) grating of loans of different types.

The bank will prefer such kind of assets (while investing (or) lending) which will have safety, liquidity and profitability. There are companies which helps banks is managing assets and liabilities in a creditable manner.

9. Housing Finance :

Housing Finance has not only become popular. But the procedure for obtaining loan has been simplified and housing loans for dwelling houses are made easily available. This due to the change is the housing policy of both the central and state governments. Commercial banks have entered housing finance. In fact State Bank of India has setup a separate subsidiary for housing finance. World bank is providing soft loan repay in 25 to 40 years for the purpose.

10. Portfolio Finance :

Portfolio finance deals with the Management of Portfolio Investment. A company involved in portfolio management undertakes to manage the investment of an individual (or) company is such a manner that a better return on investment is ensured, keeping in that the safety of investment. Thus in portfolio finance the finance in various shares (or) securities is managed by persons with special knowledge of the market and different securities. The mutual fund companies and investment trust companies are very good example of portfolio finance. They help individuals, commercial banks and other finance companies is distributing their investment in different portfolios. Portfolio management consists of investment in shares debentures, government securities, commercial paper, bonds, global deposit receipt and other investment securities such as unit trust of India, Infra structure bonds etc.

11. Under Writing :

Under Writing is an act of guarantee by an organisation for the sale of certain minimum amount of shares and debentures issued by a public limited company. According to the companies act, when a person agrees to take up shares specified in the underwriting agreement, when the public (or) others failed to subscribe for them, it is called underwriting agreement. For this purpose the underwriter who guarantees for the sale of shares is given a commission.

12. Credit Rating :

It is a method of judging the credit worthiness of a borrower (or) of a company in which investments are made the credit rating of a borrowing company is done on the basis of its performance of the company is previous years, liquidity position, market share of the company repayment of deposits, profits earned, interest offered on deposits & assets portfolio etc.

13. Interest and Credit Swap :

There are two types of interest rate fixed interest rate and floating interest rate. The fixed interest rate is applicable for the entire loan while is floating interest rate the interest will be changing. Interest swap is a method where by a person who has taken a loan with a higher rate of interest, would like to take advantage of the lower rate of interest by shifting his previous loan to the new floating rate which has a lower rate of interest.

When an old loan is replaced by a new loan at a lower rate of interest it is called interest swap and also credit swap because of a new creditors replacing the old creditor

14. Mutual Funds :

A mutual fund is a company that brings together from many people and invests it is stocks bonds (or) assets. The combined holdings of stocks bonds (or) other assets the fund owns are known as its portfolio. Each investor in the fund owns shares, which represent a part of these holdings.

The mutual fund offers open-ended and close-ended funds. The open ended funds are kept open and the investors have the option to enter at any time and option out as they like. But in closed-ended fund there is a limit of time and amount and this ensures that mutual fund to get a better return. Apart from this there is also growth. Oriented fund which reinvest the return by the customers so that on a future date they can get a higher return. In the case of tax benefit funds there is a tax relief for the return they get on the investment.

FINANCIAL SERVICES MARKET

The market for the exchange of financial services products and instruments through a wide variety of players, each one offerings a unique type of service, may be designated as the ‘financial services market’.

Constituent

The Financial Services Market comprises of four major constituents as stated below :

1. **Market Players :**

   Financial Services are offered by a host of institutions and agencies that understand and meet the requirements of a wide spectrum of customers. The players include banks, financial institutions, mutual funds, merchant bankers, stock brokers, consultants, underwriters, market makers, corporate bodies, FIIS, custodians, vendute capital funds etc.

2. **Instruments :**

   Financial Instruments constitute an important part of the financial services market. The instruments include equity instruments, debt instruments, hybrid and exotic instruments. It is characteristic of a financial services market that a number of innovative instruments, such as zero-coupons bonds, etc. are floated on a continuous basis. The purpose is to keep the financial markets vibrant.

3. **Specialized Institutions :**

   A financial services market is characterized by the dynamic presence of specialized institutions. These include acceptance house, discount houses, factors, depositories, credit rating agencies, venture capital institutions, etc

4. **Regulatory Bodies :**

   The financial service market is regulated by a host of institutions and agencies. The regulatory bodies include the department of banking and insurance of the Central Government, Reserve Bank of India, Securities and the exchange board of India, board of industrial and financial reconstruction, etc.

Growth of Financial Sources in India :

The growth of financial services in India has taken place under the various stages. It is outlined below :

1. **Merchant Banking Era :**

   The period between 1960 and 1980 may be called the 'Merchant Banking Era'. During this period, financial queries such as merchant banking, insurance and leasing services began to grow. During this period, merchant bankers carried out the following functions.

(i) Identifying projects, preparing feasibility reports, and developing detailed project reports.

(ii) Conducting marketing, managerial, financial and technical analysis on behalf of their clients.

(iii) Assist in designing an appropriate capital structure.

(iv) Acting as a bridge between the capital market and fund-seeking institutions.

(v) Carrying out underwriting functions.

(vi) Assisting enterprises in getting their issues listed on the stock exchange.

(vii) Offering legal advice relating to mergers and acquisitions.

(viii) Providing technical advice on leverged buyouts and takeovers.

(ix) Extending syndication facility as part of arranging project finance.

(x) Arranging working capital loans.

2. Investment Companies Era :

This era marked the setting up of a variety of investment institutions and banks. The investment companies include the Unit Trust of India, which is the largest public sector mutual fund in the world, the life insurance corporation of India that initiated the life insurance business and the general insurance corporations.

3. Modern Services Era :

This stage marked the launch of a variety financial products and services during the eighties. These financial services included over-the-counter services. Share transfers, pledging of shares, mutual funds, factoring, discounting, venture capital & credit rating.

4. Depository Era :

In order to integrate the Indian financial sector with the global financial services industry, depositories were setup. The depository system was introduced with a view to promoting the concept of paperless trading through the dematerialization of shares and bonds. The introduction and popularization of book-building was also another step forward in the direction of building a strong financial services sector in India. Similarly the ‘On-line Trading’ interface introduced by the Bombay Stock Exchange, the Delhi Stock Exchange and the computerization of the National Stock Exchange, are all acting as the fulcrum for the development of a strong financial services market in India.

5. Legislative Era :

Several legislations were introduced in order to allow for broad based development in the financial services sector. The FERA has been replaced by FEMA. Far-reaching amendments were made in the Indian Companies Act, Income Tax Act, etc. to facilitate safe and orderly trading, and settlement of transactions.

Foreign Institutional Investors (FIIS)

This era marks the latest stage in the growth of the Indian financial markets. The economic reform measures initiated by the Government necessitated greater free play for various participants. As part of it, divestment guidelines have been issued by the SEBI in recent times, where by FIIs are permitted to operate in the Indian capital market.

Financial Services Sector – Problems in Indian Financial Services:

(i) Lack of expertise
(ii) Inadequate accommodation
(iii) Inadequate technology
(iv) Inadequate quality service
(v) Captive organization
(vi) Restricted scope of operations
(vii) Limited innovation
(viii) Lack of sound institutional mechanism
(ix) Lack of core-competence

Macroeconomic Aggregates in India :

Real Sector Policies :

Real Sector Policies are guided by the objective of boosting domestic investment demand by expanding the participation of private enterprise and by promoting foreign investment.

Fiscal Policies :

Fiscal Policies renew commitment to consolidation and rectitude alongside a six-pronged strategy to reinvigorate the economy and return to a growth path consistent with its potential. Monetary policy aims at ensuring adequate liquidity to meet credit demand and pursues the objective of softening of interest rates consistant with a vigil on price stability. The refined channels of credit delivery and the operational effectiveness of monetary policy are sought to be improved as an integral part of building the institutional infrastructure and augmented for an efficient and vibrant financial system.

Agriculture Policy :

Agriculture policy aims at initiating measures for the development of the agriculture sector. A number of steps have been undertaken in this regard for instance measures have been taken to reduce food grain stocks that are posing problems of storage and disposal.

Policy on Manufacturing Infrastructure and Services :

Policy initiatives are continued to be taken under the gamut of 'economic liberalization' to support and promote manufacturing, infrastructure and services sector. The plan outlay on power, roads and national highways and railways in enhanced substantially to step up public investment in infrastructure.

Trade Policies :

The Medium-Term Export Strategy (MTES) sets out a road map for the export sector, which is coterminus with the tenth five-year plan period. The MTES aims at increasing India's share in world trade.

Export and Import (EXIM) Policy :

The five year Exim policy for the period 2002-2007 includes, inter alia, removal of all QRs on exports (except a new sensitive items reserved for exports through state trading enterprises), a farm-to-port approach for exports of agricultural products, special focus on cottage sector and handicrafts and Assistance to States for Infrastructural Development for Exports (ASIDE).

Policies for external capital flows :

a. Foreign direct investment.
b. Portfolio investment
c. Non resident deposits
d. Indian direct and portfolio investment overseas
e. External commercial borrowings and EEFC accounts.

Interest Rate Determination :

The rate of exchange between present and future resources is called ‘market interest rate’. An interest rate refers to the price of a loan. Interest rate represents terms at which short-term funds are loaned and borrowed.

Features of Rate Determination :

a) **Shifting Resources :**

Interest rate helps those who wish to shift present resource to future by lending.

b) **Future Expectation :**

The exchange of resources takes place through the mechanism of market rate of interest. It tells participants as to how much money is to be expected in future for the money lent now.

c) **Rate Determination :**

d) The relative demand for and supply of funds determine the market rate of interest. The market rate of interest is always positive because lenders have the alternative of keeping the funds idle and therefore there is no question of getting anything less in future than what they give up now.

e) **Different Rates :**

There are many market rates depending on the length of time and the extent of risk of funds. The rate as applicable to a risky company will be higher than that paid by the government because lenders are risk-average and require greater compensation in future resources from risky borrowers.

Determining the rate of interest :

The rate of interest for funds is determined by the demand for and the supply of funds

a) **Demand for funds :**

Demand for funds is indicated by the “demand curve”. The function of a demand curve is to show different rates of interest a which borrowers would be willing to borrow. Demand curve always slopes downwards. This is because, high interest rate would result is less borrowing and vice versa. Further, higher rate of interest funds the necessity for a promise of higher amount in future for a given amount at present. This makes borrowings less attractive moreover, demand curve represents the behavior of borrowers.

b) Supply of funds :

Supply of funds is indicated by the 'Supply Curve'. The function of a supply curve is to show the different rates of interest at which lender would be willing to lend. Supply curve always slopes upwards. This is because; high interest rate would result in more lending by lenders and vice versa. Supply curve represents the behavior of lenders.

As shown in Exhibit 3, the rate of interest of 10 percent is determined by the interplay of the forces of demand for any supply of funds of Rs. 1000/-. If demand for funds increases from Rs.1000/- to Rs.1200/- the rate of interest increases from 10 percent to 12 percent. This is of course based on the assumption that the supply of funds remains constant at Rs.1000/-.

Financial Services and Economic Environment :

The growth of financial services in a country needs proper economic environment. This consists of various economic factors such as (a) favorable economic system, (b) economic laws, (c) economic policies, (d) economic planning, (e) economic condition.

A) Favorable Economic System :

Financial Services provide financial assistance according to the requirements of different business activities. A business may function under different forms of organizations, such as sole trader, partnership firm, joint stock companies (or) by multinational corporation etc. It may also be undertaken by the government by way of public sector enterprises.

B) Economic Laws :

(1) Industries and Regulation Act for promoting proper investment.

(2) Companies Act for regulating proper management of companies

(3) Securities (contract and regulation) Act for streamlining transactions in stock exchange.

(4) Consumer Protection Act to safeguard the interests of consumers.

(5) Foreign Exchange Regulation Act for regulating foreign investment, which is now called Foreign Exchange Management Act (FEMA).

C) Economic Policies :

In economy policy, we deal with aspects connected with improving the economic conditions of the country. The government will adopt such policies which promote investment, production, employment, foreign trade, economic growth, etc. For their purpose, the policy will be aimed at encouraging investment, both from domestic and foreign country. Increase of production in agriculture, industry and service sectors has to be taken up through proper pricing policy, procurement policy, allowance and subsidies, tax concessions, etc.

D) Economic Planning :

In economic planning, accounting decides a particular course (or) path for its development. Planning fixes the rate of growth of the economy and accordingly links all the physical, fiscal and monetary resources to achieve the desired growth. The purpose of economic planning is to achieve rapid economic growth in all the sectors of the economy so that the people in the country experience a higher standard of living.

E) Economic Condition :

Financial Services can be active only under favourable economic conditions. If there is depression with falling prices and closing down of production, financial services cannot experience more scope. So, a controlled inflation with more scope for investment and production will be ideal for the expansion of financial services.

Macro Economic Aggregates and Policies :

Here, we deal with various macro economic factors which not only influence the economic condition of the country but also the working of financial services in the country.

Economic factors at the national level, influencing the economic condition of the country can be stated as macro economic aggregates. There are

1. Savings of the economy.
2. Investment
3. Economic growth
4. Capital Formation
5. Capital output ratio
6. Population growth
7. Growth of foreign trade
8. Balance of payments
9. Foreign debt
10. Exchange rate stability
11. Employment level
12. Capital inflow
13. Per capita income as an indicator of economic development

1. Savings of the economy :

In most of the developed countries, savings of the people form a major part of investment in the country. Savings can be there only when the income level of the people is higher and the people are living above the poverty level. In our country, savings are on an average only 9% of the total gross domestic product. As against this, in developed countries, they are nearly 28 to 30% of GDP. (For example, the purchase of jewels in the rural economy). Hence the financial services in our country are unable to play a major role due to poor savings.

2. Investment :

The growth of the economy depends on the extent of investment made in the country. Investments must generate more production and they should promote a balanced growth of all the sectors in the economy. Thus, the more production in agriculture will create conditions for growth in industrial sector and services sector. Investment can be done both by public and private sectors. Investment as a percentage of GDP should be sufficient so that the desired growth is achieved in all the sectors of the economy.

3. Economic growth :

The increase in physical production in all the three sectors of the economy namely agriculture, industry and service is referred as economic growth. An increase in economic growth need not bring an increase in economic development. Because, the increased production may be consumed by the increased population.

4. Capital formation :

When a company earns profits, it may plough back a part of its profits in the business which expands its capital. In this way, capital formation takes place for capital formation, a reduction in consumption is very essential. Financial services can play a major role by attracting the savings (or) the profit earned by the companies for a beneficial investment.

5. Capital-output ratio :

The amount of capital required for an output is dealt in the capital-output ratio. The significance of this ratio is the quantum of capital needed for generating the required output with more technology. Lesser capital is utilized and more output is obtained with a higher amount of investment, the capital-output ratio is bound to bring in more benefits to the economy. The difference between an under developed and a developed country in this – a developed country consumers less capital but brings out more output, while an under developed country consumers more capital and turns out lesser output due to poor technology. We can very well experience this in our agriculture.

6. Population Growth :

Increase in population may retard the economic growth of a country. If the increased population is not put to use for productive purposes. But unfortunately, the productive force is of a higher percentage. Of late, the export of services is gaining ground and in this context, India has earned more than 15% of its expert earnings in the IT industry by exporting software financial services require more human touch and it is here that a trained person in financial service contributors more to the economy.

7. Growth of Foreign Trade :

Export forms a major part of any developed economy most of the countries which have developed rapidly have given due importance to foreign trade. The promotion of foreign trade requires the active support of financial services. Bank provide export finance. Factoring and forfeiting companies finance the exporter. In this way, every aspect of financial service promotes foreign trade which in turn plays a crucial role in the development of the economy.

8. Balance of Payments :

The receipts and payments of a country from abroad are represented by the balance of payments statement. If the receipts are more and the payment is less, the country experiences a favourable balance of payments position. But sometimes, it may face a reverse situation, with more payments and less receipts, leading to unfavourable balance of payments. Thus the financial services can act as a bridge between the foreign investor on the one hand and the domestic producer on the other.

9. Foreign Debt :

Financial Services helps the economy in mobilizing foreign debt. Such debts can be obtained in the global financial market at a competitive rate of interest. Normally, the credit rating of the country is taken into consideration before extending any foreign loan. Hence, raising foreign debts at a competitive rate of interest and putting them for proper use is another important factor and the financial services ensure that the returns commensurate with the interest rate on the foreign debts.

10. Exchange Rate Stability :

When a country continuously borrows in the foreign market followed by heavy imports, then it will experience a decline in its currency value in relation to foreign currency. For (e.g) If India has an exchange rate of 1 US Dollar = Rs.48/-, after the imports and foreign debts, its exchange rate may slide to 1 US Dollar = Rs. 60/-. This slide will affect India, as we have to pay more for our debts which are now 25% more than what they were at the time of our borrowing.

11. Employment Level :

Another Marco economic aggregate influenced by financial services is the level of employment. With more financial services such as leasing, hire purchase finance, housing finance, insurance etc., the level of employment opportunity in the country is bound to increase. This will create more demand and other industries will also expand. Thus, the country can reach the level of full employment.

12. Capital Inflow :

The capital market in the country can attract more capital from aborad, leading to capital inflow. This will take place only when the return on capital much higher or the interest rate offered is higher that what is prenailing in the domestic country.

13. Per Capita Income as an indicator of Economic Development :

When the national income of the country increase due to increased production and services, the benefits goes to the population in the form as per capita income which is an indicator of the economic development of the country. Financial services can increase the per capita income by providing various types of loans and encouraging self employment schemes.

Players in the Financial Services Sector :

14. Financial Service Sector comes under the tertiary sector is which banks play a major role. For the growth of financial services, banks are led by the central bank of the country followed by commercial banks, co-operation banks, development banks, foreign banks etc.
15. Hire purchase financier is also a player in the financial service sector as he enables the consumer to buy the product on credit basis.
16. Leasing companies through financial and operating lease ensure the acquiring of assets by producers on a long-term basis at a reasonable charge.
17. Factoring enables the saver to obtain 80% value of sales from the financial companies undertaking factoring services.
18. Under writers and merchant bankers are additional players who promote not only companies but also ensure dynamic activity in the capital market.
19. Book-builders help companies in allotting shares to different categories of investors.

20. Mutual funds ensure investment by the public and also ensure tax relief to the investor.
21. Credit cards, another important player in the financial services, ensure the circulation of plastic money and enable purchase on credit by the consumer.
22. Credit rating companies play an important role by giving different credit ratings to companies to mobilize public deposits.
23. Housing finance companies and insurance companies also promote investment in the economy as they also form a part of the players in the financial services.
24. Asset liability management company enables mutual funds to undertake proper investment in different types of economy.
25. Finance companies in general and also as a part of non-banking finance companies provide additional funds to the above players so that there is more activity in the economy.

Question bank

UNIT 1

PART A

1. What are financial services? Name them
2. What is a financial services market?
3. List out the financial services environment?
4. Define interest rate?
5. Meaning of Forfeiting?
6. Mention any four players in financial services?
7. Mention any four problems in financial services sector?
8. What is mean by financial market?
9. Name any three components of financial services
10. list any four characteristics of financial services?

Part B

1. Bring out the important role played by financial services in developing the economic growth of a country

2. What kind of economic environment should prevail for the effective functioning offinancial services in a country

3. State the features of rate determination

4. State the financial Services Sector – Problems in Indian Financial Services:

5. Describe the types of players in the financial services sector

6. Explain the Functions of Financial Services

7. Explain the types of financial services

8. Mention and explain the Characteristics of Financial Services

9. Explain the growth of financial services in India?

10. Explain the role played by the financial services in favorable economic system

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SCHOOL OF MANAGEMENT STUDIES

UNIT – II – Financial Services – SBAA1403

Merchant Banking and Public Issue Management

Definition-Functions-Merchant Bankers Code of Conduct-Public Issue Management-Concept-Functions-Categories of Securities Issue-Mechanics of Public Issue Management-Issue Manager-role of issue manager-Marketing of issues-Under writing, types, benefits functions

MEANING OF MERCHANT BANK:

Merchant banker is one who underwriters corporate securities and advises clients on issues like corporate mergers. The merchant banker may be in the form of a bank, a company, a firm or even a proprietary concern.

It is basically services banking which provides non financial services such as arranging for funds rather than providing them. The merchant banker understands the requirements of the business concern and arranges finance with the help of financial institutions banks, stock exchanges and, money market.

DEFINITIONS:

According to **Charles's.Kindleberges**, "Merchant banking is the development of banking from commerce which frequently encountered a prolonged intermediate stage known in England originally as merchant banking."

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

MERCHANT BANKING ORGANISATION IN INDIA:-

It comes under four categories:-

- Merchant banking division of commercial banks-both Indian and foreign. Example:-SBI Capital Market, Grind lays Banks, Citi Bank, etc.
- Sub division of commercial banks. Examples: -can bank.
- Merchant banking activities of financial institutions. Example:-ICICI and IFCI.
- Merchant banking by financial services firms-stock brokers or other independent companies. Example: kotak Mahindra, Fair Growth financial Company, CRB Capital Market.

FUNCTIONS:-

Corporate Counseling:-

Corporate Counseling refers to a set of activities under taken to ensure efficient running of a corporate enterprise at its maximum potential through effective management of finance. It aims at rejuvenating old-line companies and ailing units, and guiding the existing units in locating areas/ activities of growth and diversification.

- Providing guidance in areas of diversification based on the government's economic and licensing policies.
- Arranging for the approval of the financial institutions banks for the schemes of rehabilitation in involving financial relief, etc.
- Providing assistance in getting soft loans from financial institutions for capital expenditure, and the requisite credit facilities from the bank.

Project Counseling:-

- Project counseling is a part of corporate counseling, and relates to project financing.
- It broadly covers the study of the project.
- It offers advisory assistance on the viability and procedural steps for its implementation.
- Undertaking the general review of the project ideas projects profile.
- Providing advice on procedural aspects of project implementation.
- Conducting review of technical feasibility of the project on the basis of the report prepared by own experts or by outside consultants.
- Arranging and negotiating foreign collaborations, amalgamations mergers, and take over's.
- Advising and assisting clients in preparing applications for financial assistance to various national financial institutions, state level institutions, banks,etc.

Pre-investment Studies:-

- Activities that are connected with making a detailed feasibility exploration to evaluate alternative avenues of capital investmentin terms of growth and profit prospectus are called 'Pre-investment Studies'.
- Carrying out an in-depth investigation of environment and regulatory factory, location of raw material suppliersdemandsprojections, and financial requirements in order to assess the financial and economic viability of a project.
- Conducting each studies as many be required for foreign companies wishing to participate in joint ventures in India.

Capital Restructuring Services:-

Activities that are carried out to assist projects in achieving their maximum potential through effective capital structuring and to suggest various strategies to widen and restructure the capital base, diversify operations and implement schemes for amalgamations, merger or change in business states are collectively known as "Capital Restructuring Services"

- Examining the capital structure of the client company to determine the extent of capitalization required
- Preparing a memorandum covering valuation of shares and justifying the level of premium applied for.
- Capital restructuring may cover mergers, take over's and amalgamations, involving modernization or diversification of the existing production systems and the units.

Credit Syndication:-

Activities connected with joint credit procurement and project financing, aimed at raising Indian and foreign currency loans from banks and financial institutions, are collectively known as 'credit syndication' Estimating the total cost of the project to be undertaken.

Issue Management and underwriting:-

Issue management and underwriting are the activities connected the management of the public issues of corporate securities, viz, equity shares, preference shares, and debentures or bonds, and are aimed at mobilization of money from the capital market.

- Preparation of an action plan
- Preparation of budget for the total expenses for the issue

- Drafting of prospectus
- Selection of issue houses and advertizing agencies for undertaking pre and post- issue publicity.
- Co-ordination with the underwriters, brokers and bankers the issue and the stock exchange.

Portfolio Management:-

- Undertaking investment in securities
- Undertaking review of provident fund investment, trust investment,etc.
- Providing advice on selection of investment
- It involves making the right choice of investment, aimed at obtaining an optimum investment mix, taking into account factors such as the objectives of the investment, tax bracket of the investor, need for maximizing yield and capital appreciation, etc.

Working Capital Finances:-

The finance required for meeting the day -to -day expenses of an enterprise is known as "Working Capital Finance"

- Assessment of working capital requirements
- Preparing the necessary application to negotiations for the sanction of appropriate credit facilities.
- Advising on the issue of debentures for argument long –term requirements of working capital.

Acceptance Credit and Bill Discounting:-

Activities relating to the acceptance and the discounting of bills of exchange, besides the advancement of loans to business concerns on the strength of such instruments, are collectively known as" Acceptance Credit and Bill Discounting. It is the integral part of a developed money market.

Merger and Acquisition:-

This is a specialized services provided by the merchant banker who arranges for negotiating acquisitions and mergers by offering expert valuation regarding the quantum and the nature of consideration, and other related matters.

- Examining the pros and cons of proposals and formulating schemes for financial reconstruction, merger, and acquisition.
- Obtaining approvals from shareholders, depositors, creditors, government and other authorities.
- Monitoring the implementation of merger and amalgamation schemes.
- Identifying organizations with matching characteristics.

Venture Financing:-

A specially designed capital, as a form of equity financing for funding high risk and high rewards projects, is known as 'Venture capital'.

In India, venture capital companies have largely contributed to the technological and industrial revolution.

A large number of Indian and international companies are engaged in venture capital funding for high-risk projects. A number of leading national developments financial institutions such as IFCI, IDBI and ICICI are engaged in venture capital financing , and have developed a number of special schemes for this purpose.

Lease Financing:-

A merchant banking activity whereby financial facilities are provided to companies that undertake leasing, is known as ‘Lease financing’. Leasing involves letting out assets on lease for a particular times period for use by the lessee.

- Providing advice on the viability of leasing as an alternative source for financing capital investment projects.
- Providing advice on the choice of a favorable rental structure.
- Providing assistance in establishing lines of lease for acquiring capital equipment, including preparation of proposals, documentations etc.

Foreign currency Financing:-

The finance provided to fund foreign trade transactions is called ‘Foreign Currency Finance’. The provision of foreign currency finance takes the form of export import trade finance,curo currency loans, Indian joint ventures abroad, and foreign collaborations.

- Providing assistance in opening and operating bank accounts abroad.
- Arranging foreign currency loans under buyer’s credit scheme for importing goods.

Brokering Fixed Deposits:-

- Computation of the amount that could beraised by a company in the form of deposits from the public and loans from shareholders.
- Drafting of advertisement for inviting deposits.
- Filling a copy of advertisement with the resistor of company for registration
- Arranging for the issue of advertisement in newspapers, as required by the company act.
- Drafting and printing of application forms.
- Making arrangements for the collection of deposits at the bank’s branches.
- Submission of periodical statements to companies concerned.
- Making arrangements for payment of interest amounts
- Helping the company to observe all the rules and regulation in this connection.
- Assisting in maintenance of records and registers for the purpose.

Mutual Fund:-

Institutions and agencies that are engaged in the mobilization of the savings of innumerable small investors for the purpose of channeling them into productive investment of a wide variety of corporate and other securities, are called ‘mutual funds’. Some of the services rendered by mutual funds are as follows:-

- Mopping up public savings
- Investing the funds in a diversified portfolio of shares and debentures belonging to well-managed and growing companies.
- Making investment in any commercial paper floated by the central government, RBI, any local authority, any foreign Government, foreign bank or any other authority outside India and approved by RBI.

Relief To Sick Industries:-

- Rejuvenating old- lives and ailing units by appraising their technology and process, assessing their requirements, and restructuring their capital base.
- Evolving rehabilitation packages which are acceptable to financial institutions and banks.
- Monitoring the implementation of rehabilitation schemed, mergers and or amalgamations.
-

Project Appraisal:-

The evaluation of industrial projects in terms of alternative variants in technology, raw materials, production capacity, and location of plant is known as 'Project Appraisal'.

- The various components of project appraisal are financial appraisal, technical appraisal and economic appraisal.

Financial Markets

It deals about the raising of finance by various institutions through the issue of various securities. Every business concern requires two types of finance. They are short-term or working capital requirements and long term or fixed capital requirements. The short-term or working capital requirements are raised or borrowed in the money market through the issue of different securities such as bills, promissory notes etc.

CODE OF CONDUCT FOR MERCHANT BANKERS

The SEBI regulations have outlined the following code of conduct for the merchant bankers operation in India;

1. A merchant banker shall make all efforts to protect the interests of investors.
2. A Merchant Banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.
3. A Merchant Banker shall fulfil its obligations in a prompt, ethical, and professional manner.
4. A Merchant Banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
5. A Merchant Banker shall Endeavour to ensure that enquiries from the investors are adequately dealt with, grievances of investors are redressed in a timely and appropriate manner, where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.
6. A Merchant Banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.
7. A Merchant Banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any misrepresentation and are made aware of the attendant risks before taking any investment decision.
8. A Merchant Banker shall endeavour to ensure that copies of the prospectus, offer document, letter of offer or any other related literature is made available to the investors at the time of issue of the offer.
9. A Merchant Banker shall not discriminate amongst its clients, save and except on ethical and

commercial considerations.

10. A Merchant Banker shall not make any statement, either oral or written, which would misrepresent the services that the Merchant Banker is capable of performing for any client or has rendered to any client.
11. A Merchant Banker shall avoid conflict of interest and make adequate disclosure of its interest.
    • A Merchant Banker shall put in place a mechanism to resolve any conflict-of-interest situation that may arise in the conduct of its business or where any conflict of interest arises, shall take reasonable steps to resolve the same in an equitable manner.
12. Merchant Banker shall make appropriate disclosure to the client of its possible source or potential areas of conflict of duties and interest while acting as Merchant Banker which would impair its ability to render fair, objective and unbiased services.

13. A Merchant Banker shall always endeavour to render the best possible advice to the clients having regard to their needs.
14. A Merchant Banker shall not divulge to anybody either oral or in writing, directly or indirectly, any confidential information about its clients which has come to its knowledge, without taking prior permission of its client, except where such disclosures are required to be made in compliance with any law for the time being in force.
15. A Merchant Banker shall ensure that any change in registration status/any penal action taken by the Board or any material change in the Merchant Banker's financial status, which may adversely affect the interests of clients/investors is promptly informed to the clients and any business remaining outstanding is transferred to another registered intermediary in accordance with any instructions of the affected clients.
16. A Merchant Banker shall not indulge in any unfair competition, such as weaning away the clients on assurance of higher premium or advantageous offer price or which is likely to harm the interests of other Merchant Bankers or investors or is likely to place such other Merchant Bankers in a disadvantageous position while competing for or executing any assignment.
17. A Merchant Banker shall maintain arm's length relationship between its merchant banking activity and any other activity.
18. A Merchant Banker shall have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients, investors and other registered entities from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.

19. A Merchant Banker shall not make untrue statement or suppress any material fact in any

documents, reports or information furnished to the Board.

20. A Merchant Bankers shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made there under, circulars and guidance, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under Securities and Exchange Board of India (Ombudsman) Regulations, 2003.
21. A Merchant Banker shall ensure that the Board is promptly informed about any action, legal proceedings etc., initiated against it in respect of material breach or non-compliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body.
22. A Merchant Banker or any of its employers shall not render, directly or indirectly, any investment advice about any security in any publicly accessible media, whether real-time , unless a disclosure of his interest including a long or short position, in the said security has been made, while rendering such advice. In the event of an employee of the Merchant Banker rendering such advice, the merchant banker shall ensure that such employee shall also disclose the interests, if any, of himself, his dependent family members including their long or short position in the said security, while rendering such advice.
23. A Merchant Banker shall demarcate the responsibilities of the various intermediaries appointed by it clearly so as to avoid any conflict or confusion in their job description.
24. A Merchant Banker shall provide adequate freedom and powers to its compliance officer for the effective discharge of the compliance officer's duties.
25. A Merchant Banker shall develop its own internal code of conduct for governing its internal operations and laying down its standards of appropriate conduct for its employees and officers in carrying out their duties. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance or resolution of conflict of interests, disclosure of shareholdings and interests etc.
26. A Merchant Banker shall ensure that good corporate policies and corporate governance are in place.
27. A Merchant Banker shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed
28. A Merchant Banker shall ensure that it has adequate resources to supervise diligently and does supervise diligently persons employed if appointed by it in the conduct of its business, in respect of dealings in securities market.
29. A Merchant Banker shall be responsible for the acts or omissions of its employees and agents in respect of the conduct of its business.

30. A Merchant Banker shall ensure that the senior management, particularly decision makers have access to all relevant information about the business on a timely basis.
31. A Merchant Banker shall not be a party to or instrumental for creation of false market; price rigging or manipulation; or passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

Public Issues Management

The management of securities of the corporate sector offered to the public on a regular basis, and existing shareholders on a rights basis, is known as public issue management. Issue management is an important function if merchant bankers and lead managers.

The management of issues for raising funds though various types of instruments by companies is known as Issue management. The function of capital issues management in India is carried out by merchant bankers who have the requisite professional skill and competence. One of their functions, in fact, is issue management. Factors such as the tremendous growth in the number and size of public listed companies, and the complexity arising due to the ever increasing SEBI requirements have all attributed to the increasingly significant role played by merchant bankers in the recent past.

Functions of Public Issue Management

1. Raising finance: Merchant bankers support their customers to collect funding through debenture issuances, stocks, bank loans, etc. Both domestic and foreign markets are filmed. The funds generated by this strategy increasing be used to launch a new project or company, or also to extend and modernize the current enterprise.
2. Promotional activities: Merchant bankers perform the role of industrial business promoters. They allow developers to create innovations, define ventures, produce feasibility studies, receive permits from public bodies, and opportunities. At times, merchant bankers may also assist with political, technological, and joint projects.
3. Brokers in stock exchanges: On behalf of the consumers, they purchase and sell stock in the stock market. They often carry out surveys of equities, remind consumers of the share to be purchased, the date of purchasing, the amount of such acquisition, and the period that these shares will be exchanged.
4. Project management: In the project management cycle, they assist consumers in a variety of areas. They guide the position of the plant, the writing of the plant study, feasibility reports, and the project finance preparation, sources of support, policy benefits, and concessions.
5. Advice on modernization and expansion: Advice on amalgamation, mergers, partnerships, partnerships, international alliances, market diversification, up-gradation of technologies, joint ventures, etc.
6. Managing public issue: They serve as consultants on the terminology, form, and timing of corporate securities issues and helps them to be tailored to customers and provides the issuing companies with transparency and versatility.
7. Credit syndication: They offer professional services during project planning, loan applications required to collect short- and long-term credit from various institutions and companies, etc.

8. Handling government consent for industrial projects: They complete all formalities for their client and allow the government to extend and modernize their businesses and launch new companies
9. Special assistance to entrepreneurs and small companies: They offer guidance and resources for market prospects for start-ups and small businesses, discounts, grants, and government policy, and help them make the best of this opportunity open to them.
10. The revival of sick units: They help to restore disabled manufacturing units. They meet with various long-term financing institutions and the Industrial and Financial Restoration Council.
11. Portfolio management of sick units: They give guidance on investment choices to customers, typically institutional investors. They purchase and sell shares and offer fund investment services and them.
12. Corporate restructuring: They help mergers acquisitions, selling and disinvestment comprise them. Such protocols include careful discussions, detailed planning, and delivery of various documentation and lengthy legal formalities.

Public Issue of Securities:

When capital funds are raised through the issue of a prospectus to the public, it is called public issue of securities. It is the most common method of raising funds in the capital market. A security issue may take place either at par, or at a premium or at a discount. The prospectus has to disclose all the essential facts about the company to the prospective purchasers of the shares. Public issues may be two types they are:

1.Initial Public Offer(IPO) and 2.further Public Offer(FPO)

1. Initial Public Offer(IPO)

The IPO is the very first time a company goes public. But what does going public mean? This means the company has now offered its shares to the public at large and is ready to get listed at the stock exchanges of the country.

The company will now be a part of the BSE and National Stock Exchange (NSE). The first time a company gets listed at BSE, NSE, or both and offers its shares to be publicly traded, the offering is called an IPO.

2.further Public Offer(FPO)

FPO (Follow on Public Offer) is a process by which a company, which is already listed on an exchange, issues new shares to the investors or the existing shareholders, usually the promoters. FPO is used by companies to diversify their equity base.

The company uses FPO after it has gone through the process of an IPO and decides to make more of its shares available to the public or to raise capital to expand or pay off debt.

Rights Issue:

When shares are issued to the existing shareholders of a company on a privileged basis, it is called as Rights Issue. The existing shareholders have a pre-emptive to subscribe to the new issue of shares. Rights shares are offered as additional issues by corporate to mop up further capital funds. Such shares are offered in proportion to the capital paid up on the shares held by them at the time of the offer.

Private Placements:

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

Mechanics of Public Issue Management

1. Decision to Raise Capital Funds
2. Obtaining SEBI Approval
3. Arranging Underwriting
4. Preparation & Finalization of Prospectus
5. Selection of Registrars, Brokers, Bankers, etc
6. Arranging press and Investor conference
7. Printing and publicity of Public Issue
8. Documents SEBI Compliance

ROLES OF AN ISSUE MANAGER′

1. Easy floatation′
2. Financial consultant′
3. Underwriting′
4. Market makers′
5. Due diligence′
6. Coordination′
7. Liaison with SEBI

Issue Managers of issue of securities and SEBI

Issue Managers are required to be registered with SEBI to carry on their Issue Management activities, since setting up of SEBI. SEBI has formulated Rules and Regulations for merchant bankers which bring out the requirements for Registration of issue managers apart from prescribing the conduct rules for them. In terms of these regulations, issue managers are required to mainly comply with the following requirements for registration:

l. Issue manager should be a corporate body, not being a Non-Banking Financial Company (as per RBI).

2.He should have necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities.
3.He should have minimum two persons who have the experience to conduct business of Merchant Banking.
4.He should fulfill capital adequacy requirements i.e. should have a minimum net worth of Rs.5 crores.
5.He should have professional qualification from an institute recognized by government in Law, Finance or Business Management.

The intermediaries or issue managers involved in an issue of securities

Intermediaries which are registered with SEBI are Merchant Bankers to the issue (known as Book Running Lead Managers (BRLM) in case of book built public issues), Registrars to the issue and Bankers to the issue & Underwriters to the issue who are associated with the issue for different activities. Their addresses, telephone/fax numbers, registration number, and contact person and email addresses are disclosed in the offer documents.

(i) Merchant Banker: Merchant banker does the due diligence to prepare the offer document which contains all the details about the company. They are also responsible for ensuring compliance with the legal formalities in the entire issue process and for marketing of the issue.

(ii) Registrars to the Issue: They are involved in finalizing the basis of allotment in an issue and for sending refunds, allotment details, etc.

(iii) Bankers to the Issue: The Bankers to the Issue enable the movement of funds in the issue process and therefore enable the registrars to finalize the basis of allotment by making clear funds status available to the Registrars.

(iv) Underwriters: Underwriters are intermediaries who undertake to subscribe to the securities offered by the company in case these are not fully subscribed by the public, in case of an underwritten issue.

SEBI Regulations have laid down restrictions on the number of Issue Managers who can be associated with an Issue.

Size of the Issue	No. of Lead Managers
Less than Rs.50 crores	2
Rs. 50 crores but less then Rs. 100 crore	3
Rs. 100 crores but less then Rs.200 crores	4
Rs.200 crores but less then Rs. 400 crores or more	5

All lead managers, before taking up the assignment relating to an issue, shall enter into an agreement with the concerned company setting out their rights and obligations. In case more than one lead manager is associated, their demarcation of responsibilities is a must. A minimum underwriting agreement is to be made. A Lead manager cannot manage an issue of its associate company. No lead manager can exit during the issue period.

Underwriting:

Meaning and Nature of Underwriting:

Underwriting in the context of a company means undertaking a responsibility or giving a guarantee that the securities (shares and debentures) offered to the public will be subscribed for. The firms which undertake the guarantee are called ‘underwriters’. Underwriting is similar to insurance in the sense that it provides protection to the issuing company against the failure of an issue of capital to the public.

It ensures success of new issues of capital and if the shares or debentures are not subscribed by the public. Wholly, the underwriters will have to take them up and pay for them. Underwriting is, therefore, an act of undertaking the guarantee by an underwriter of buying the shares or debentures placed before the public in the event of non- subscription.

“an agreement entered into before the shares are brought before the public that in the event of the public not taking up the whole of them or the number mentioned in the agreement, the underwriter will, for an agreed commission take an allotment of such part of the shares as the public has not applied for”.

Forms or types of Underwriting:

The nature and form of underwriting transactions depend mainly upon the nature of the project, the state of the capital market, the general response of the investors to the new issues, the reputation of the promoters and capacity of the underwriters. It may be undertaken on a commission basis.

An issuing company may get underwriting from a single underwriter but where the size of the issue is so large that it is unmanageable by a single underwriter and the risk involved is also high, the company may approach a number of underwriters.

Thus, an underwriting agreement may take any of the following forms:

1. Full Underwriting:

It is an agreement under which the underwriter undertakes the guarantee of buying the whole of shares or debentures placed before the public in the event of non-subscription. The liability of the underwriter is to buy and pay for the entire unsubscribed portion of the issue.

2. Partial Underwriting:

Under this type of agreement, the underwriter undertakes the guarantee for only part of the issue offered to the public and his liability is limited to the extent of unsubscribed portion of the issue underwritten by him.

3. Joint Underwriting:

In case of a large issue which is unmanageable by a single underwriter and where the risk involved is too high, the issuing company may enter into underwriting agreement with more than one underwriter. Each underwriter undertakes the guarantee for the issue of a certain portion of the whole issue offered to the public.

Thus, underwriters share the risk involved in the ratio of the number of shares or debentures underwritten by them. Sometimes the promoters of issuing company prefer joint underwriting from underwriters operating in different regions of the country so as to diffuse the issue over a number of investors scattered all over the country and retain control over management of the company.

4. Syndicate Underwriting:
Under this type of underwriting, a number of underwriting firms enter into an agreement among themselves to undertake the guarantee of buying shares or debentures of a large issue offered to the public involving huge funds and risk.

Syndicate underwriting is essentially different from joint underwriting so far as the agreement among the underwriters is concerned. Thus, in syndicate underwriting two types of separate agreements take place, one between the issuing company and the syndicate of underwriters, and the other among the underwriters who are members of the syndicate.

5. Firm Underwriting:
When an underwriter undertakes to buy or subscribe a certain number of shares or debentures irrespective of the subscription from the public, it is called firm underwriting.

The liability of underwriters in case of firm underwriting is both for shares underwritten as well as such part of the shares as the public has not applied for. Firm underwriting generates confidence among investors and increases the chances of success of the issue.

6. Sub-Underwriting:
Sometimes, the underwriter enters into agreement with some other underwriters to undertake guarantee for the issue of whole or part of the issue underwritten by him. Such an agreement between the underwriter and the other underwriters (called sub-underwriters) is known as sub-underwriting.

The sub-underwriters have no agreement with the issuing company and work under the main underwriter who pays them some commission out of his underwriting commission.

7. Outright Purchases of Issues:
In all the six forms of underwriting agreements discussed above, the underwriters provide the services on commission basis.

However, in some cases the underwriters, instead of undertaking guarantee to buy shares or debentures not subscribed by the public, may enter into an agreement to out-rightly purchase the issue (shares or debentures) at an agreed price and arrange to sell the same latter through their own arrangements.

The importance of underwriting can further be highlighted from the following functions performed by the underwriters:

1. Assurance of Adequate Finance:

Underwriting is an act of undertaking guarantee by an underwriter to buy and pay for the shares or debentures placed before the public in the event of their non-subscription. Thus, through underwriting, an issuing company is assured of procuring the required funds from the issue of shares or debentures.

In the event of non-subscription by the public, underwriters purchase the unsubscribed part of the issue and provide finance to the company.

2. Supplying Valuable Information to Companies:

In addition to the protection of risk of the issuing companies with regard to the success of the issue, the underwriters supply valuable information in regard to capital market conditions, general response of the investors, etc. to the issuing companies. These companies are, usually, benefited from the expert-advice of the underwriters.

3. Distribution of Securities:

After purchasing securities, underwriters distribute the same to the real investors. The underwriters, through agents and others diffuse the issue over a large number of investors scattered in different part of the country. Thus, underwriting helps promoters to retain control over the management of the company.

4. Increase in Goodwill of the Issuing Company:

The underwriting of capital issues by prestigious institutions generates confidence among investors and improves their response to the issues. Investors in advanced countries are influenced more by the prestige of the underwriting agencies than by the prestige of the issuing company. Underwriting, thus, ultimately increases the goodwill of the issuing company.

5. Service to Prospective Investors:

Underwriters provide essential information about the issuing companies to the prospective investors and also advise them about various issues. They encourage people to save more and direct their savings in corporate securities. Thus, investors are also benefited through underwriting.

6. Service to the Society:

The pace of industrialization of a country depends to a great extent upon the successful flotation of capital issues. By mobilizing resources and providing adequate finance, underwriters play a very important role in setting up of new projects, increasing employment, production and per capita income. Thus, it is not only the corporate enterprises but also the society at large which is benefited by underwriting.

Benefits of Underwriting
Underwriting has become very important in recent years with the growth of the corporate sector. It provides several benefits to a company:- It relieves the company of the risk and uncertainty of marketing the securities. Underwriters have an intimate and specialised knowledge of the capital market. They offer valuable advice to the issuing company in the preparation of the prospectus, time of floatation and the price of securities, etc. They also provide publicity service to the companies which have entered into underwriting agreements with them.

Question Bank

UNIT II

PART A

1. Define merchant bank
2. State four functions of merchant banks.
3. State four code of conduct of merchant bankers
4.Underwriting - Meaning
5. What is pure underwriting?
6. What is firm underwriting?
7. Define underwriting commission
8. What is public issue of securities?
9. What do meant by IPO?
10. What do you meant by FPO?

Part B

1. Describe the functions of merchant banking function in India
2. Discuss code of conduct of merchant bankers
3. Describe the Functions of Public Issue Management
4. Explain mode of Public Issue of Securities
5. Discuss role of issue managers in public issue of securities.
6. Explain Mechanics of Public Issue Management.
7. Explain various types of underwriting?
8. Discuss the importance of underwriting.
9. Explain benefits of underwriting.
10.Discuss issue managers of issue of securities and SEBI.

<u>Reference:</u>
Gurusamy.S Essential of Financial Service Vijay Nicole Imprints P Ltd.-Chennai.
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SCHOOL OF MANAGEMENT STUDIES

UNIT – III – Financial Services – SBAA1403

Leasing and Hire Purchase

Lease financing-definition-characteristics-types of leasing-leasing process-services of lessor-advantages of leasing-limitations of leasing-Hire purchase-definition-features concepts of hire purchasing-rights of hirer-bank finance for hire purchase-difference between hire purchase and lease finance-consumer finance-mechanic-source-modes-demand for consumer finance

LEASING:

A financing arrangement that provides a firm with the advantages of using an asset without owning it may be termed as leasing.

According to the Institute of chartered accountants of India" as lease is an agreement whereby the lesson conveys to the lessee, in return for rent, the right to use an asset for an agreed period of time. Lessor is a person who conveys to another person the right to use an asset in consideration of a payment of periodical rental under a lease agreement lessee is a person who obtains forms the lessor the right to use the asset for a periodical rental payment for an agreed period of time.

Characteristics of lease:

1. **Parties to lease agreement**

   There are two parties to lease agreement. They are lessor and the lessee. Lessor is a person who conveys to another person the right to issue an asset inconsideration of a periodical rental payment, under a lese agreement. Lessee is a person who obtains, the right to use the asset form the lessor for periodical rental payment for a agreed period of time.

2. **Lease asset:c**

   Leasing is used for financing the use of fixed assets of high value. The asset is the property to be leased out . It may include an automoblile,an aircraft, plant and machinery, a building etc. However the ownership of asset is separated form the use of the asset. During the period of the lease, the ownership of the asset rest with the lessor while the use is transferred to the lease.

3. **Lease term:**

   The term of the lease is called the lease period. It is the period for which agreement is in operation. It is illegal to have a lese without a specified term. Sometime the lease period may be broken into primary lease period and secondary lease period. A primary lease period is a period during which the lessor harts to get back in investment together with interest. A secondary period comprises the later part of the lease period, where only nominal rentals are charged in order to keep the lease agreement operational.

4. **Lease rentals:**

   Lease rental constitute the consideration payable by the lessees as specified in the lease transaction. Rentals are determined to cover such costs as interest on the lessor's investment cost of any repairs and maintenance that are part of the lease package, depreciation on the leased asset and any other service charge in connection with lease.

Types of lease:

1. **Financial lease:**

   A financial lease also called capital lease, is a contract investing payment over an obligatory period of specified sure sufficient in total to amortize the capital outlay beside giving some profit to the lessor

   According to the international accounting standard (IAS) no "a financial lease is a lease that transfers substantially also the risks and rewards incident to ownership of an asset. TITLE may or may not eventually be transferred".

a. **Full payout lease:-**

In this type of lessee, the lessor recovers the full value of the leased asset, within the period of the lease, by way of lease rental and the residual value.

b. True lease:

In this type of lease, the typical tax-related benefits such as investment tax credit, depreciation tax shield etc are offered to the lessor.

2. Operating lease:

An operating lease is any other type of lease where by the asset is not fully amortized during the non cancelable period of the lease, and where the lesson does not rely on the lease rentals for profits. The lease is cancelable at short – notice by the lessee. The lessee has the option of renewing the lease after the expiry of the lease period it is the responsibility of the lessor to ensure maintenance, insurances of the asset, which is chargeable by the lessor.

a. Net Lease:

A variant of operating lease is not lease. A type of lease where the lessor is not concerned with the repairs and maintenance of the leased asset is known as net lease. The only function of the lesson is to provide a financial service.

3. **Conveyance – type lease**:

It is a very long tenure lease applicable to movable properties. The intension of the lease is to convey title in property. Such leases are entered into for periods which may be as long as 99 years or 999 years.

4. Leveraged lease:

When a part or whole of the financial requirement involved in a lease are arranged with the help of a financier. It takes the form of leveraged lease. This type of lease is resorting to in cases where the value of the leased asset is very his In the type of lease, the lessor who is also a financier. Involves one more financier, who may hold a charge over leased asset, over and above part of the lease rentals.

5. Sale and lease back :

Under this type of lease, the owner of an asset sells it to the lessor, and gets the asset back under the lease agreement the owner ship of the asset changes hands from the original owner to the lessor, who is turn lease out the asset, back to the original owner. This paper exchange of title has the effect of providing immediate free finance to the selling company the lessee.

6. Partial payout lease:

It is a type of lease where by the lesson obtains full payment of the lease is several lease. This broadly falls under the category of operating lease.

7. Consumer leasing:

Leasing of consumer durable such as televisions, refrigerators, etc is called consumer leasing. It has assumed popularity with the rapid increase in the quarturn of consumer credit.

8. Balloon lease :

A type of lease which has zero residual value of the end the lease period it is called ballon lease. It also means a kind of a lease where the lease rentals are low at the inception high during the mid years and low again during the end of the lease.

9. Close-end- leasing:

A leasing arrangement whereby the asset leased out is reverted to the lessor is known as close –end leasing. It is also called walk away lease.

10. Open-end leasing:

A term commonly used in automobile leasing in the USA it means a lease agreement where the lessee guarantees that the lessor will realize a minimum value from the sale of the asset at the end of the lease period.

11. Swap leasing:

In swap leasing the lessee is allowed to exchange equipment leased out whenever the original asset has to be sent to the lessor for some repair or maintenance.

12. Import leasing:

The leasing of imported capital goods is known as "import leasing". It is beneficial to the lessee because arranging any other source of funding may take a long time, during which the prices of the importable items as also the rates of exchange may change. Moreover lenders don't usually finance the import duty, which forms a sizable part of the acquisition of such items.

13. Wrap leasing:

When the lessee further subleases the asset to the end user, retaining a fee and a share of the residual value it is called wrap leasing. Normally the term of the first lease is longer than the second, in order to maximize the firm lessor's tax deduction. It is so called because the firm lessee wraps the second lease.

14. Cross- border leasing:

A type of lease where the lessor in one country lease out assets to a lessee to another country it known as cross- border leasing. The jurisdictions of lessors and lessses are in two different countries cross- border leasing originated in the 1970 in the US Financial Institutions in the US leased out big assets, such as airplanes etc, to the lessess outside USA. The intension was to skim the benefits of income tax and depreciation with a view to reduce financial cost to the lessees.

a. **Double-dip:-** According to the concept of double- dip it is possible to have the advantage of depreciation tax benefits twice, depending on the prevalence of differing tax laws in two different countries.
b. **Triple – dip:-** Where the benefit of depreciation tax allowances is available in three different jurisdictions for a single assets leased out it is a case of triple- dip. Accordingly, benefits are available for hire purchase, true lease and capital lease.

15. International leasing:-

When a leasing companies in different countries through its branches it is a case if international leasing. International leasing is active countries such as US,, japan and Hong Kong.

Advantages of leasing

Advantages to lessor

a. **Stable business**: - leasing mechanism provides for a continuous and stable manufacturing business for the lessor. It is possible for the lessee to acquire the asset even in times of depression, thus contributing to the growth of the manufactures sales, even in times of depression.
b. **Wider distribution:-** Leasing allows for capturing a wider distribution network by the lessor . This assumes significance given the fact that the lessees do not have to allocate funds for heavy capital investments.
c. **Sale of supplies:-** Depending on the nature of the leasing arrangement, the lessor has to ensure the supply of spare parts and components required for the maintenance of the asset leased, This would augment the sale by the lessor – manufacturer

d. **Secondhand market:-** In the case of operating lease, where the asset leased by the lessee is reverted to the lessor, it is possible for the lessor to either lease out the asset again , or to sell it in the open market. This creates a secondhand market for the used asset.

e. **Tax benefits**:- There is relative tax benefit for the receipts of lease rentals the lessor- owner of the asset can also claim depreciation tax benefits on assets let out on lease. This provides a better tax planning opportunity to the lessor.

f. **Absorbing obsolescence risks: -** In the case of a no cancelable financial lease, the risk of obsolescence arising from the usage of asset have to be borne by lessee. In the same way, the cancelable nature of operating lease enables the lessor to cancel the lease and acquire a new asset for further lease. In addition, the lessor charges a premium on the lease rentals

g. **Fillip to capitals market: -** Leasing companies, as intermediaries finance, given an impetus to investment activity, and facilitate the flow of savings into real investments. This way leasing company contribute to the growth and development of the capital market.

h. **Easy finance: -** The availability of easy and convenient finance has proved to be a great stimulant for the increase in demands for capital equipment. This is turn boosts the manufacture and sales of the leasing companies

Advantages to lessee: -

a. **Efficient use of funds: -** Leasing arrangements allow the lessee to acquire the use of the asset without having to own it. This dispenses with the need for capital investment. This way, more funds are released for working capital purpose.

b. **Cheaper source: -** Leasing as a mode of financing the use of capital assets is found to be less expensive, as compared to other modes such as the buying options'

c. **Flexible source:-** Leasing of equipment is highly flexible source of financing ass compared to other methods. The flexible nature of the lease contract allows for promotion of the mutual interest of the parties, especially of the lessee

d. **Enhanced borrowing capacity:-** Leasing is considered advantageous to the lessee since it helps enhance the ability to borrow in a diversified way. This is possible because the lessor's credit rating of the lessee is less stringent.

e. **Off – balance sheet financing:-** The biggest advantage claimed by lease financing is that the asset acquired , and the corresponding liability, need not be shown in the balance sheet.

f. **Tax benefits:-** The extent of benefit that would be derived by owing an asset, by way of depreciation tax shield is less than the benefit to the lessee by way of lease rentals. This is because depreciation tax shield is lease than lease rentals. Moreover, lease rental are fully tax- deductible.

g. **Favorable terms:-** The terms of financial arrangements with institutions are usually restrictive and disadvantageous to loan lease arrangements allow the use of the asset on favorable terms.

h. **Guards against obsolescence**:- in the case of operating lease, the lessee can be protected from the risk of obsolescence of the asset leased, since it is always possible for the lesee to terminate the existing lease arrangement anytime, and to take up another asset under a fresh lease. This because all the more significant in the context of rapid technological changes.

i. **Avoidance of initial cash outlay:-** Leasing provides 100 percent financing and the benefit of using the finances without having to borrow. The initial investment required is thus avoided in a leasing arrangement.

j. **Better liquidity:-** Sale and lease-back arrangements provide the advantage of better liquidity since it enables the lessee to making a sale of the asset owned to the prospective lessor, and then take the asset back on lease.

k. Other benefits:-

(i) Provision for long-term finance without ownership control

(ii) Easy and convenient payment of lease rental, which is unaffected even during the inflation periods.

Limitations of leasing:-

1. **Disguised debt financing:-** Evidence has been gained through studies that lease financing is another form of debt financing.
2. **Costly option**:- When the leasing company acts only as a financial intermediary , and borrows from the market at prevailing or even higher interest rates, leasing may prove to be a costlier exercise as compared with a straight borrowing.
3. **Loss of tax shield:-** If depression rates are higher and leasing is preferred over buying , it may result in loss of deprecation tax shield of the lease.
4. **Double sales tax:-** Depending on the prevailing sales tax laws in various states there are responsibilities of the lease rental revenues attracting sales tax twice. Once at the time of the sale and again when the asset is leased out.
5. **Loss of residual value**:- there is a loss of residual value for the lessee, since the leased asset has to be returned to the lessor at the end of the lease period.
6. **Unfavorable gearing**:- this result in an increase in the capital gearing of the company . This might be disadvantageous to the borrowing capacity of the company.
7. **No ownership**:- unfortunately leasing does not provide the advantage of ownership to the users.
8. **Risk of default**:-If the lessor has borrowed funds in hypothecation in order to acquire the asset for being leased out and if there is default in the repayment of installments, the asset may taken over by the financial institution.
9. **Indiscriminate finance**:- Lease companies provide lease financial assistance to the lessee, sometimes to enthusiastically, without considered their requirements, projects feasibility , repayment capacity etc. this attitude of indiscriminate financing defeats the genuine object of leasing.

10. **No working capital:-** Leasing provides a mechanism, only for long terms capital requirements. It fails to provide access to much needed working capital finance.
11. **Long term venture:-** the lessor is in a relatively disadvantageous position since funds are required to be invested for a longer term. It naturally takes years to recover the original cost of the assets that are leased out, which is turn exposes the lessor to various types of risks.

Financial lease Vs operating lease

Financial Lease	Operating Lease
Specificity	
The asset leased out is use specific for the lessee	The asset leased out may be used commonly by a number of users in sequence.
Ownership risks	
The lessee bears the risks and rewards associated with the use of the asset leased; the lessor is simply the legae owner of the asset	The risks and rewards associated with the use of the asset leased is borne by the lessor and the lesse is simply provided with the use of the asset for a certain period of time.
Obsolescence risk	
The lessee bears the risks of obsolescence	The lessor bears the risks of obsolescence
Cancel ability	
The lease cannot be cancelled either of the parties. The lessor rather interested in rental and in the asset	The lease can be cancelled at the option of the lessee and the lessor does not have the difficulty of leasing the same asset to willing lessees
Lease period	
The lease period usually coincides with the life of the asset, and may be broken into primary and secondary period	Lease period is generally small as the lessor intends to lease the same asset several time to various users.
Maintenance	
The cost of repairs and maintenance are borne by the lessee; the lessor is merely a financier in the deal	The cost of repairs and maintenance are borne by the lessor
Lessor's service	
As the lessor is just a financial institution, it does not render any specialized service in connection with the lease	The lessor is specialized in handling and operating the particular asset and usually provides specialized services.
Payout	
It is a full payout lease where a single lease repays th cost of the asset, together with the interest	It is usually a honpyout lease as the lessor is in the business of leasing the asset to various users serval times.

Hire Purchase

Definition

A transaction of finance whereby goods are bought and sold as per the terms and conditions specified below is known as 'hire purchase finance'.

1. Payment of periodic instalments
2. Immediate possession of goods by the buyer
3. Ownership of goods remaining with the vendor until the payment of the last instalment
4. Vendor's right to repossess the goods in the event of default committed by the buyer
5. Treatment of each installment as hire charge till the payment of the last instlment.

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

- Possession of goods is delivered by the owner thereof to a person on the condition that such person pays the agreed amount in periodic payments
- The property of the goods is to pass to such a person's on the payment of the last of such installment
- Such a person has a right to terminate the agreement any time before the property so passes".

Rights of Hirer

The Hire Purchase Act of 1972 provides the following rights to the hirer:

Right of Protection

It is not possible for the hire vendor to terminate the hire purchase agreement on account of default in payment of hire charges by the hirer or due to unauthorized act or breach of express conditions, unless the hire vendor gives notice in writing to the hirer in this regard.

Right of Notice

When the hire charges are weekly, or for a period less than that, one week notice is to be given, and in all other cases a two weeks' notice is to be given.

Right of Repossession

The right of repossession is not available to the hire vendor, unless sanctioned by the court in the following cases:

1. One half of the price has been paid where the hire purchase price is less then Rs.15,000 (Rs.5,000 in the case of motor vehicles)
2. Three fourth of the price has been paid where the hire purchase price is not less than Rs.15,000 (Rs.5,000 in the case of motor vehicles)
3. Three fourth or such higher proportion, not exceeding nine-tenth, where the hire purchase price is not less than Rs.15,000.

Right of Statement

The hirer has the right to obtain a statement on payment of Re.1, containing details such as the amount paid by the hirer, the amount and the date upon which the instalment becomes due but has not been paid, the amount of instalment, which will become payable, etc.

Right to Excess Amount

The hirer has the right to obtain any amount in excess of the value of goods repossessed, over and above the amount of instalments payable by the hirer, in the event of a default

LEASE FINANCING VS.HIRE PURCHASE FINANCING

Following points of distinction exist between lease financing and hire purchase financing:

SI.no	Characteristics	Lease Financing	HP Financing
1.	Ownership	Ownership of the property lies with the finance company, the lessor and it is never transferred to the lessee, the user	Ownership of the property is transferred to the hirer on the payment of the last instalment.
2.	Depreciation	Lessor, and not the lessee, is entitled to claim depreciation tax shield	The hirer (owner) is entitled to claim depreciation tax shield
3.	Capitalization	Capitalization of the asset is done in the books of the lessor, the leasing company	Capitalization of the asset is done in the books of the hirer
4.	Payment	The entire lease payments are eligible for tax computation in the books of the lessee	Only the hire-interest is eligible for tax computation in the books of the hirer
5.	Salvage Value	The lessor, and not the lessee, has the right to claim the benefit of salvage value	The hirer can claim benefit of salvage value as the prospective owner of the asset
6.	Magnitude	Leasing is used as a source of finance, usually for acquiring high cost assets such as machinery, ships, airplanes, etc.	Hire purchase is used as a source of finance, usually for acquiring relatively low cast assets such as automobiles, office equipments, etc.
7.	Down Payment	No down payment is required for acquiring the used of the leased assets	Down payments is required to be made for acquiring the asset and there is a margin maintained to the extent of 20-25 percent
8.	Reporting	In the books of the lessee, leased assets are disclosed by way of a note only	The asset bought on hire purchase will be shown as an asset, and the amount of instalments payable to the lessor as a liability
9.	Maintenance of Asset	Whereas the lessee has to maintain the leased asset in the case of financial lease, upkeep is the responsibility of the lessor in the case of operating lease.	It is the hirer's responsibility to ensure the maintenance of the asset bought.
10.	Suitability	It is not suitable for the low-capital enterprises which desire to show a strong asset position in their balance sheets	It is highly suitable for the low- capital enterprises which need to show a strong asset position in their balance sheets
11.	Nature of Asset	An asset given on lease by a leasing company is considered as the fixed asset of the lessor	The hire vendor normally shows the asset let under HP either as stock in trade, or as receivables.
12.	Receipts	All receipts from the lessee is taken into the lessor's profit and loss account.	Only the interest portion is taken into the hire-vendor's profit and loss account.
13.	Income	Lessor's income declines as the investment outstanding in the lease declines	In the case of HP transactions, finance charges are allocated to the HP period equally

Consumer Finance

When a bank or any other financial agency provides loan to a consumer for the purchase of consumer durable, it is called ‘Consumer finance’. A consumer may obtain loan for the purchase of a vehicle, refrigerator, washing machines, etc.

A consumer, with his limited income is not in a position to pay the full value of consumer durables but would like to take advantage of his future earnings and purchase them through instalment payment to his creditor. By doing so, he not only enjoys the product, but he is also in a position to repay the value of the product. During a period of inflation, when the money value is eroding,it is beneficial for the loan. The value of the durable goods will increase if he postpones his purchase. Hence, in consumer finance, banks provide loans to enable the consumer to purchase valuable goods.

Benefits to banks in consumer finance

Consumer finance enable banks to create money out of thin air. When a bank gives loan to a consumer, it sets off a chain of steps in the form of a procedure. They are-

1. The customer is asked to produce a Performa invoice form the proposed seller of the goods.
2. The consumer is asked to pay into the bank 15% of the value of the goods, he is proposing to buy.
3. A pay order or draft is made by the bank in favour of the seller.
4. The pay order or draft is given to the customer, who in turn delivers it to the seller.
5. The goods are delivered and they are also insured.
6. The customer starts paying the instalments from the subsequent month of his purchase.
7. Before granting loan, a promissory note is obtained from the customer along with a guarantee.
8. In case of default, the guarantor will be held liable.
9. The interest will be on a declining balance by which the loan is made much cheaper, as the effective rate of interest will be less
10. In the case of purchase of vehicles, the registration certificate book will contain hypothecation note because of which the sale of vehicles to any third party is prohibited.
11. On the repayment of entire loan, the loan agreement is terminated, which was executed at the time of commencement of the loan.
12. The promissory note is cancelled and returned to the customer.
13. In the case of hypothecation of vehicles, a declaration will be given by the bank to the transport authorities for cancellation of hypothecation. The same will be done to insurance companies also.

Significance of consumer finance

We have already stated that the banker issues a cheque/pay order/draft in favour of the seller as a part of consumer loan.

The seller will either deposit in the same bank if he is a customer or in some other bank in which he has his account. In any case, there is no cash involved in the entire transaction. The seller may also obtain loan from the bank for expanding his business. The cheque given by the customer may be appropriated towards the loan. Thus, the consumer loan is a kind of savings the banker is encouraging with the customer and it is capital mobilized in the economy which is a forced saving on the part of the customer as he has purchased the goods.

From the above transaction, we could conclude that a consumer loan granted by the bank.

a. Benefits the consumer in the form of goods
b. Benefit the seller in expanding his business
c. Benefits the banker as he grants loan through book entries but in the process earns interest for the loan
d. It benefits the producer with more demand for goods
e. It creates more production, thereby more employment
f. It increases the profit of the manufacturing company
g. More dividend is declared and so the capital market expands

Thus, the consumer loan of the bank creates an all round impact on the economy.

Different types of loan are available for a consumer to avail from the bank. They are dealt below:

Different types of loans:-

Loans can be classified as (a) *clean loan* (b) *secured loan.*

A. Clean loan

When a banker gives loan, not against any security but based on the anticipated income of the borrower, it is a clean loan. Example: when a salaried permanent employee of a government department is given loan for buying a vehicle, his monthly salary certificate is taken as a security and a statement from his employer that the loan amount will be deducted from his salary every month before disbursement is obtained. The vehicle will also be hypothecated. However, for granting the loan, it is the salary of the employee that is taken as a proof but not as a security. Hence, it is a clean loan.

B. Secured loan

When loans are granted against the securities which are either purchased with the help of loan amount or which are used for obtaining additional funds, they are called secured loans. The security forms the major component in deciding the loan.

Banker will give secured loan in different forms. For an account holder, the banker will give secured loan as either (i) *overdraft* or (ii) *cash credit.*

Overdraft: **-** For overdraft, the account holder must have a current account and the borrower is given loan over and above his credit balance. In overdraft, the borrower has an advantage of getting lower interest for his loan. The interest rate is charged on the basis of the debit balance and according to the number of days the debit balance is prevailing in the account. Hence, the borrower under the overdraft facility will get cheap credit compared to others. But this loan is available only to selected customers.

Cash credit:- Cash credit is different from overdraft. The borrower is given a stipulated sum for a stipulated period and it can be utilized by the borrower in any manner. For example, if Rs.10lakhs is given under cash credit from January to December, the borrower can utilize rs.2 lakhs in March, Rs.2 lakhs in June and the remaining balance of Rs.6 lakhs in November. The interest rate for this loan will be as given below: The first Rs.2 lakhs borrowed in March will be charged for 9 months, the loan taken in June will have interest 6 months and the last loan taken in November will carry interest for two months. Thus, the cash credit facility gives enough choice for the borrower to draw the money according to his requirements, at the same time; he has to pay lesser interest only. But if the borrower utilizes only part of the amount allocated, say, Rs.4lakhs against Rs.10lakhs allocated, the borrower will have to pay 'commitment charge' for the remaining unutilized portion. This kind of loan is more beneficial to such borrowers who require funds on a seasonal basis. Example: Industries purchasing raw material from the market at a particular season when the price will be lower.

Other types of secured loans

A banker may provide loans against securities in the following forms:

- **(a) Pledge**
- **(b) Mortgage**
- **(c) Hypothecation**
- **(d) Assignment.**

(a) **Pledge**:- Pledge is applicable for movable goods and is governed by contract act. There is physical possession of security by the creditor, though ownership is still retained by the borrower. The banker exercises a lien on securities given to him and banker's lien is an implied pledge.

A banker gives loan under pledge especially jewel loans.

(b) **Mortgage:-** When loans are granted against immovable properties, it is mortgage. Here, the borrower who is the owner of the property surrenders his right of sale to the creditor or the mortgagee for obtaining loan. When the borrower defaults, the mortgagee will sell the property for recovering the loan. In some defaults, the mortgagee will sell the property for recovering the loan. In some cases, the mortgagee himself may take over the property as a settlement for the loan.

(c) **Hypothecation:-** This is applicable to movable goods. The borrower is given loan for the purchase of goods or vehicles. Though the borrower is the owner of the security, the creditor has a charge on the security until the loan is repaid. If the borrower fails to pay, the creditor will cease the goods form the borrower. Thus, hypothecation provides a right for the creditor to take possession of the goods.

(d) Assignment: - When there is a transfer of an actionable claim be a person to his creditor as a security, it is assignment. For example, a borrower has an insurance policy which is to mature in a couple of months. He may borrow firm a bank against the security of the insurance policy. The claim on the insurance policy is transferred by the borrower to the bank as a security for the loan. This is the transfer of an actionable claim. Similarly, book debts can be transferred to the banker for obtaining loan by a wholesaler. There are two types of assignment, namely, equitable assignment and legal assignment. Inequitable assignment, there is only a formal handing over of the policy by the borrower to the bank but in legal assignment, the borrower will be transferring the policy in a legal manner towards the banker. The insurance company will also acknowledge the transfer.

Question bank

UNIT III

PART A

1. What are the terms used in a lease agreement? 2, list out the legal aspects involved in leasing?
3. How does financial lease differ from operating lease?
4. What is hire purchase?
5. Who is hirer?
6. Who is Hire Vendor?
7. What is leveraged lease?
8. Who is Lessee?
9. Who is lessor?
10. What is consumer loan?

Part B

1. Discuss the various types of leasing?
2. What are the contents of hire purchase agreement?
3. Bring out the differences between hire purchase and lease?
4. Discuss the advantages of leasing?
5. What are the benefits available under leasing agreement in india?
6. Explain features of hire purchase
7. Detail functions of the various participants in lease contract?
8. What are the limitations of lease financing ?
9. What are the characteristics and features of a leasing?
10. Discuss various consumer finance

Reference:

Gurusamy.S Essential of Financial Service Vijay Nicole Imprints P Ltd.-Chennai.
Santhanam.B Financial Services Margam Publications, Chennai.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – IV – Financial Services – SBAA1403

Venture capital

Venture Capital meaning, Characteristics-Stages, Institutions-Credit Rating System-Growth Factors

Introduction

Venture capital can be defined as a temporary equity or quasi- equity investment in a growth –oriented small or medium business managed by a highly motivated entrepreneur. The investment is combined with managerial assistance.

Features of Venture capital

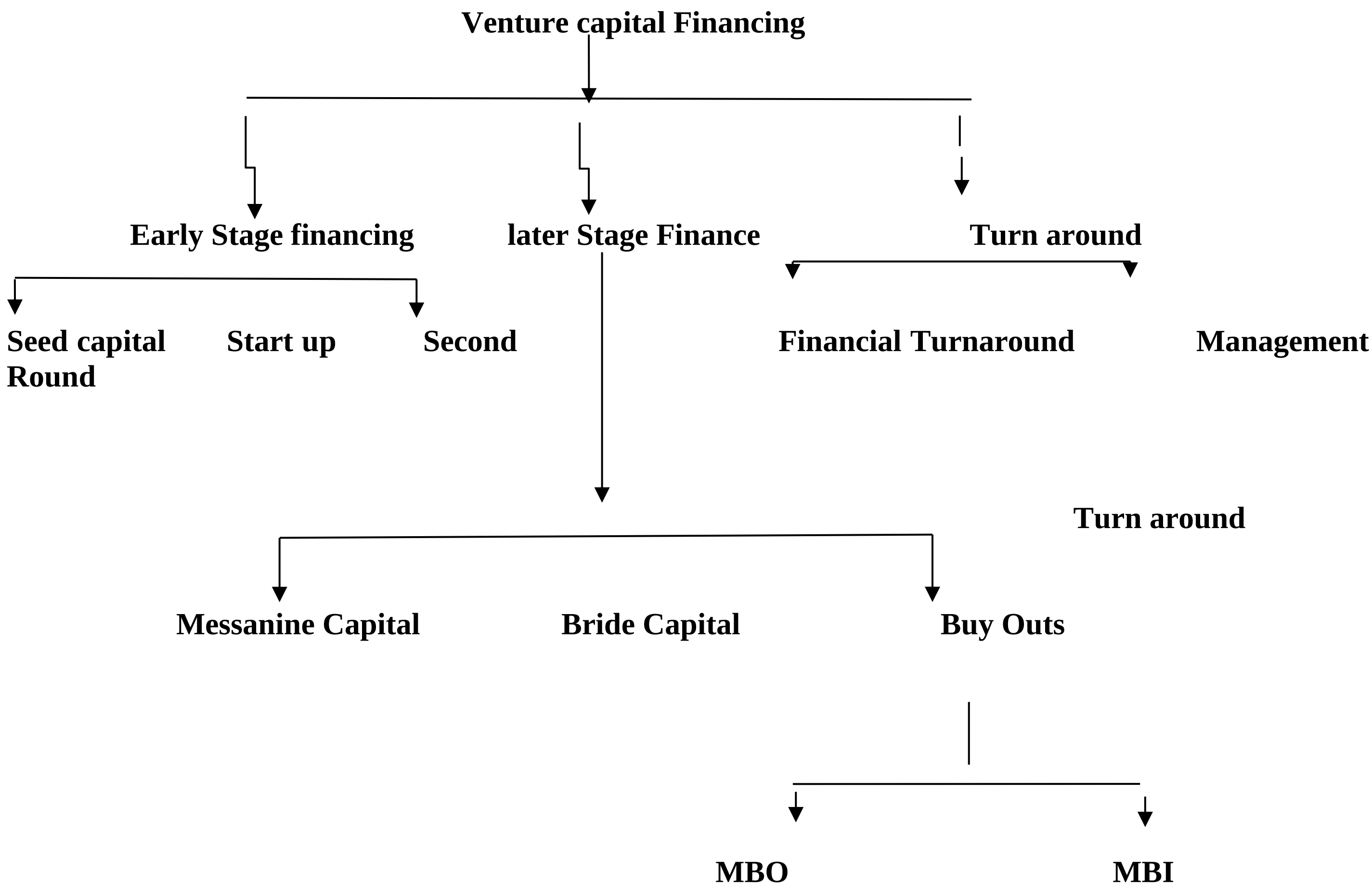
The following are the features of venture capital-

1. It is basically financing of new companies which are finding it difficult to go to the capital market at their early stage of existence.
2. This finance can also be loan-based or in convertible debentures so that they carry a fixed yield for the providers of ventures capital.
3. Those who provide venture capital aim at capital gain due to the success achieved by the borrowing concern.
4. Venture capital is always a long-term investment and made in companies which have high growth potential. The provision of venture capital will bring rapid growth for the business.
5. The venture capital provider will also take part in the business of borrowing concern whereby , the venture capital financier not merely confines to finance, but also provides managerial skill.
6. Not all the capitalists will experience high risk. But venture capital financing contains risks. But the risk is compensated with a higher return.
7. Not much of technology is involved in venture capital; it involves financing mainly small and medium size firms which are in their early stages. With the assistance of venture capital, these firms will stabilize and later can go in for traditional finance.

METHOD OF FINANCDING BY VENTURE CAPITAL INSTITUTIONS

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

Stages involved in Venture Capital Finance.



Early Stage Financing

The venture capital institution provides seed capital at the early stage of the borrowing concern.

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

Start up: - Once the product is tested in the market and after being satisfied with its acceptability by the market, financing will be provided for further development of the product and marketing of the product.

The start up may be classified into four categories.

1. A new high technology , introduced by the entrepreneur
2. A new business started by an entrepreneur who has a thorough working knowledge and experience – normally started by persons who were working in an established firm and having gained sufficient experience.
3. New projects started by existing by Hindustan Lever Limited
   Example: Retail business started by Hindustan Lever Limited
4. A new company promoted by existing company. Here, the venture capital institution is keen to have a first-rated management which may have a second- rated product. But not vice versa i.e., venture capital will not be provided for a concern having a second-rated management but a first-quality product.

Second round finance:- The borrowing concern has successfully launched the product in the market which is evident from its acceptability. However, the business has not become commercially successful for want of some more finance. It is at this stage, the venture capital institution provides more funds than at the initial stage.

Later stage financing

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

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

Bridge capital:- This is a medium terms finance ranging from one to three years and used for growth of the business.**Example:** Extending bridge loan for acquiring other firms.

Management Buy-outs (MBO):- Here, we deals about the nature of management that is likely to exist in the borrowing concern. In the case of management buy- outs, venture capital is used for removing the external control on the management, by acquiring all the shares and the voting rights.

Example: An Indian company's shares may be purchased by NRIs at the initial stage and after sometime these shares are bought back by the company with the help of profits and finance by venture capital institutions.

Management Buy – in (MBI):- In the case of buy-in, funds are provided for an outside group to buy an ongoing company. But this is not popular as it requires a ready management, an investor and a company to take over the existing one.

Turn Around

A sick company may be taken over by providing two important inputs of capital and management.

Financial Turnaround: - When the company is able to improve its conditions financially, it is called financial turnaround, which is due to the financial assistance by venture capital institution.

Management Turn around: - Similarly, when the management of the company makes a turn around by becoming self dependent and is able to face the challenges of business, it is called management turn around.

Important of Venture Capital Financing

1. Promoting Entrepreneurs
2. Promoting products
3. Encouraging customers
4. Bringing out latent talent
5. Promotion of exports
6. Catalyst
7. More employment opportunities
8. Financial viability
9. Technological growth
10. Sick companies
11. Development of Backward areas

CREDIT RATING

Credit Rating Process-Domestic and Global Crediting Agencies

Meaning of credit rating

Credit rating is a mechanism by which the reliability and viability of a credit instrument is brought out. When a company borrows or when a businessman raises loan, the lenders are interested in knowing the credit worthiness of the borrower not only in the present condition but also in future. Hence, credit rating reveals the soundness of any credit instruments issued by various business concerns for the purpose of financing their business. In credit rating, the investor is not only able to know the soundness of the credit instrument, but he is also able to analyse between different credit instrument and he can make a tradeoff between risk and return.

BENEFITS OF CREDIT INSTRUMENTS

We shall now study about the various benefits credit rating offers-From the point of view of investors, companies, regulating authorities and public.

Benefit from the point of view of investors:

1. The investors can choose their investments on the basis of credit rating.
2. As the credit rating is done by professionals, the investors can rely on the credit rating.
3. It gives scope for the investors to forecast about the future of their investments.
4. A comparative study between different credit instruments enables the investors to choose their investments.
5. Even unknown securities could be purchased based on credit rating. It also enables the investors to go for a diversified investment
6. As there is a periodical review of the companies by credit rating agencies, the investors have the opportunity of swapping their weaker investment with a stronger investment, based on the credit rating.
7. The investors can minimize their existing loss by choosing effective future investment. Thus, it act as hedge for the investors.
8. Liquidity, safety and profitability are duly considered through credit rating mechanism by investors.

Benefit from the point of view companies:

1. Companies will be able to raise funds from the market as their debt instrument are backed by credit rating.
2. Credit rating acts as a motivation for companies to either improve their position or maintain their existing position, if they are in higher level of credit rating.
3. When companies of equal standing are issuing their credit instruments, better placed companies are identified with a positive signal on the credit rating such as A+.
4. In the market, companies with a higher rating will be in a position to provide better liquidity for their credit instruments.
5. When companies are raising funds in the overseas market, credit rating enables them to mobilize more funds.
6. Credit rating will provide better security form the lenders' point of view. This will enable the companies to sell their credit instruments easily.

Benefit from the point of view of regulating authorities:

1. The regulatory authorities such as SEBI and RBI can discipline financial institutions by insisting on credit rating before going for public issue.
2. By imposing various conditions in credit rating, the financial soundness of the companies is maintained.
3. Any down-grading of credit rating will send clear signals to the regulating authorities to closely monitor the functioning if the company concerned
4. The general economic condition in the country could also be analysed by the regulating authorities form the credit rating of various companies.
5. Credit rating also provides authority, responsibility and accountability to the regulating authorities.

Benefit from the point of view of public:
1. Any unknown company or infant company cannot try to cheat the public by offering an unusually higher rate of interest, as without credit rating, the reliability of the company will be in questing.
2. Proper credit rating also channelizes the savings of the public to productive purposes and prevents unwanted conspicuous consumption, such as investing in gold.
3. Public can also discriminate their investments and go in for better credit instruments on the basis of credit rating.
4. Off –shore savings can be attracted through credit rating. Indians settled abroad can choose investment in domestic companies based on credit rating.
5. Legal action could be taken when credit rating companies fail to fulfill their obligations. This will instill confidence in the minds of the investors.

Credit rating of individuals, companies and countries

a)Companies
b) Individuals
c) Countries
a**) Rating of Individuals:-** Individuals go for credit rating when they want to borrow form recognized institutions. In India, we have Onida Individuals Credit. Rating Agency (ONICRA)which gives credit rating for individuals.
b) **Rating of Companies:** - As per the guidelines of SEBI and RBI, companies have to resort to credit rating when they.
(i) Accept public deposit
(ii) Issue credit instruments in domestic market
(iii) Issue credit instruments in overseas market

c) **Rating of Countries: -** Credit rating is resorted to be countries for borrowing in international market or for attracting foreign investments or for raising funds from the international institutions like IMF and IBRD. Standard and poor is a leading international credit rating agency.
Types of credit rating
We have seen the various rating symbols for different categories of debt instruments. We can also classify credit rating as types of credit rating which are based on different securities. These are.
1. Equity rating
2. Bond rating
3. Promissory note rating
4. Commerical paper rating
5. Soverign rating

The above ratings will help both the investor and credit agencies in dealing with the instruments while accepting them as securities for advancing any type of loan . Let us study about them briefly.

1. **Equity rating**

When different companies are issuing shares, equity rating will enable the investor to choose proper equity share on the basis of the credit rating. While judging the equity rating, the past performance of the company, the earning per share and the turn-over of the company will be taken into account.

If a loss making company turns into a profit making one, after wiping off its losses, its equity rating will go up.

At the same time , if there is a decline in the dividend rate of an existing concern, compared to its previous year, its rating will get a beating.

2. **Bond rating**

Bonds are issued both by Government as well as by private sector companies. In the international market, rating of bonds will depend on the rate of interest offered and the value of the currency it represents. If the bond is issued in terms of U.S. Dollar or Pound Sterling, its value will be high and the rating will naturally be on the positive side. But the bonds of underdeveloped countries will have lesser credit rating due to high fluctuations in their currency value.

Bonds are also issued in the domestic market by both State and Central government. Even the local government, such as Corporations and Boards also issue bonds for raising long-term finance. In India government bonds are preferred to private bonds as there is a guarantee for repayment of the principal and interest amount.

3. **Promissory note rating**

In order to raise short- term loans, promissory notes are issued by different commercial companies and depending upon their resources, these promissory notes will have credit rating. But, the issue of promissory notes will have no backing and the person advancing the resources against the promissory notes will undertake greater risks. Depending upon the credit rating, ranging from P1 to P6, promissory noted are preferred as a short-dated instrument. The unutilized resources lying with commercial banks may be invested in promissory notes of a better credit rating so that within a short period, a reasonable ‘return’ can be obtained on idle funds.

4. **Commerical papers**

These are instruments issued by leading non-banking financial companies which can be obtained by companies for raising short-term loans form commercial banks. On due date, commercial banks will present these papers to the NBFC which has issued the commercial paper and funds will be obtained along with interest. Later on, the NBFC will collect the amount form the company which has utilized its commercial paper for raising its short-term loans.

In order to enable the commercial banks to discount commercial papers, credit rating is provided to the commercial papers which depends upon the standing of the non banking financial company(NBFC) which is issuing the commercial papers. In India NBFCs like Sundaram Finance may issue the commercial papers which may be credit-rated by a credit rating agency.

5. **Soverign rating**

When countries are issuing credit instruments in the international market such as Treasury bills and Bonds, they will be rated according to the economic conditions of the country. Generally, the countries in the world are grouped under three categories,viz.,

(a) Countries which are politically and economically well developed,

(b) Countries which are politically stable but economically weak

(c) Countries which are politically and economically unstable or weak.

In the first category, we have all the developed countries like U.S.A, U.K, Japan, etc., and their bonds will have high credit rating. In the second category we have countries like India which have slightly lesser credit rating and In the third category we have some of the African countries such as Rwanda, Kenya, Zulu, etc. The credit rating of third category of countries will certainly be lower.

In India, State Bank of India issued in the international market different credit instruments such as India Resurgent Bonds and Millennium Deposits and they were oversubscribed owing to the reputation of SBI. All the NRIs throughout the world, could subscribe to these bonds and SBI could raise a substantial amount in terms of foreign exchange.

Defects of credit rating in India

1. **No uniformity among rating companies:** An average investor in India is not able to understand the different credit ratings prevailing in India as there is no uniformity among the credit rating agencies, especially among CRISIL, CARE and ICRA.
2. **No standardization in rating:** there is no standardization of credit rating for the same instruments. For fixed deposits, there are 6 different grades and for promissory notes, there are 5 grades.
3. **No standardized fee structure:** The credit rating agencies do not have uniform charging rates and as a result, they create anamoly among the borrowing concerns.
4. **No proper Distinction:** Distinction between equity instruments and mutual funds is not provided.
5. **Making rating mandatory for equity instruments and Mutual funds:** Rating exercises should be made compulsory to equity instruments and mutual funds. In India, we have large number of private sector mutual funds and the investors must know the details of mutual funds, having either positive or negative features.
6. **Difference between two credit rating agencies:** In India, there is no remedy for difference in the credit rating agencies. One may give the rating of ‘safety’ and another may give ‘risky’. In such as case, what is the remedy open to the public? In foreign countries, in similar situations, credit rating from a third credit rating agency becomes mandatory.

7.Lack of reliability of Credit rating: Even credit-rated companies have failed in India and there is no remedy is no remedy for this. Example CRB Capital Markets which had a turnover of Rs.1,000 crores per year and with a credit rating of ‘A’, failed , and neither SEBI nor RBI could come to the rescue of investors. The credit rating agency in India lacks transparency.

QUESTION BANK

UNIT IV

Part A

1. Define venture capital
2. Mention the two credit rating companies?
3. What do you know of CRISIL
4. What do you know of CARE?
5. What do you know of CIBIL
6. What is “Start-up financing?
7. What is seed capital?
8. What is startup business?
9. what do you meant by credit rating?
10. What do you know of credit score ‘ AAA’?

Part B

1. Explain features of venture capital funds

2 Explain the procedure followed by venture capital for providing vci to a borrowing concern

3. Discuss characteristics of venture capital funds

4. Explain the methodology adopted by CRISIL for rating a company?

5. What are the different types of loan available to a consumer?

6.Explain the methodology adopted by CARE for rating a company?
7. Explain the mechanism of consumer finance and sources finance?

8. Explain various stages of venture capital..

9. Explain various sources of consumer finance.

10. What are the advantages of venture capital finance?

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UNIT –V – Financial Services – SBAA1403

Factoring

The word factor has been derived from the latin word facere which means to make or do or to get things done. Factoring originate in countries like USA,UK,France etc.,

A financial service, where by an institution called the factor undertakes the task of realizing accounts receivables such as book debts, bills receivables, and managing sundry debts an sales registers of commercial and trading firms us the capacity of the agent, for a commission is known as factoring.

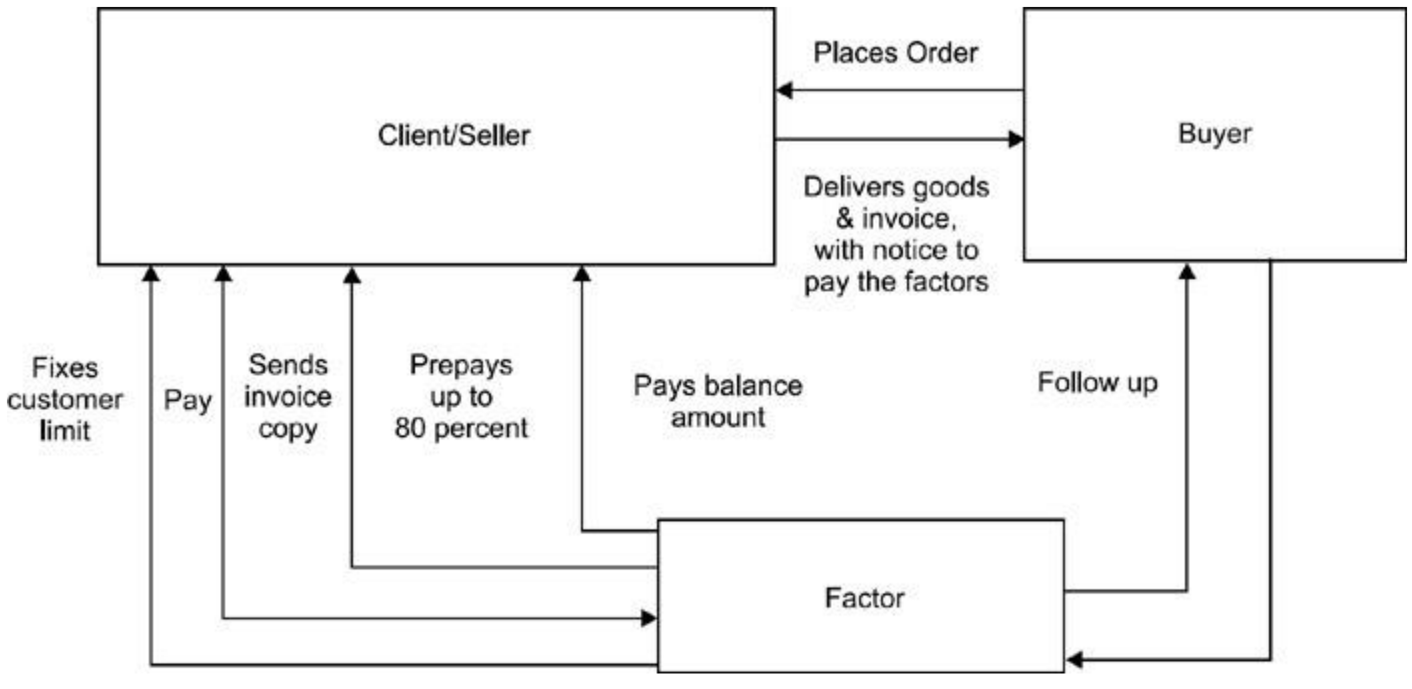
Definition :

C.S.Kalyansundaram in his report (1988) submitted to the R B defines factoring as, " a continuing arrangement under which a financing institution assumes the credit and collection function for its client, purchase receivables as they arise maintains the sales ledger, attends to other book keeping duties relating to such accounts, and performs other auxiliary functions.

Where specialized financial institutions were established to assist firms in meeting their working capital requirements by purchasing their receivables.

Mechanism

Under the factoring arrangement, the seller does not maintain a credit or collection department. The job instead is handed over to a specialized agency called the factor. After each sale, a copy of the invoice and delivery challan, the agreement and other related papers are handed over to the factor.



i) An agreement is entered into between the selling firm and the factor firm. The agreement provides the basis and the scope of the understanding reached between the two for rendering factor services

(ii) The sales documents should contain the instructions to make payments directly to the factor who is assigned the job of collection of receivables.

(iii) When the payment is received by the factor, the account of the selling firm is credited by the factor after deducting its fees, charges, interest etc. as agreed.

(iv) The factor may provide advance finance to the selling firm if the conditions of the agreement so require.

Functions of Factors:

(i) Credit Cover: The factor takes over the risk burden of the client and thereby the client's credit is covered through advances.

(ii) (ii) Case advances: The factor makes cash advances to the client within 24 hours of receiving the documents.

(iii) (iii) Sales ledgering: As many documents are exchanged, all details pertaining to the transaction are automatically computerized and stored.

(iv) (iv) Collection Service: The factor, buys the receivables from the client, they become the factor's debts and the collection of cheques and other follow-up procedures are done by the factor in its own interest.

(v) (v) Provide Valuable advice: The factors also provide valuable advice on country-wise and customer-wise risks. This is because the factor is in a position to know the companies of its country better than the exporter clients.

Types of factoring:

1.Domestic factoring:

Factoring that arises from transactions relating to domestic sales is known as Domestic factoring. Domestic factoring may be of three types as described below.

a) *Disclosed factoring:*

In the type of factoring, the payment has to be made the buyer directly to the factor named in the invoice. The arrangement for factoring may take the form of recourse. Where by the supplier may continue to bear the risk of nonpayment by the buyer without passing it on to the factor. In the case of nonrecourse factoring, factor assumes the risk of bad debt arising from nonpayment.

b) *Undisclosed factoring:*

Under undisclosed factoring the name of the proposed factor finds no mention on the invoice made out by the seller of goods. At through the control of all monies remains with the factor the entire realization of the sales transaction is done in the name of the seller. This type of factoring is quite popular in the U.K.

c) *Discount factoring:*

Discount factoring is process where the factor discounts the invoices of the seller at a pre- agreed credit limit with the institutions providing finance .book debts and receivables serve as securities for obtaining financial accommodation.

2. **Export factoring**:

When the claims of an exporter are assigned to banker or any financial institution, and financial assistance is obtain on the strength of export documents and guaranteed payments it is called export factoring.

3. **Cross – border factoring:**

Cross border factoring involves the claims of an exporter which are assigned to a banker or any financial institution in the importer's country and financial assistance is obtained on the strength of the export documents and guaranteed payments.

4. **Full – service factoring**:

Full – service factoring also known as old – line factoring is a type of factoring where' by the factor has no recourse to the seller in the event of the failure of the buyers to make prompt payment of their dues to the factor, which might result from financial inability or insolvency of the buyer.

5**. With Resource factoring:**

The factor has recourse to the client firm in the event of the book debts purchased becoming irrecoverable. The factor assumes no credit risks associated with the receivables. If the customer defaults in payment, the resulting bad debt loss shall be met by the firm.

6. **Without Resource factoring:**

No right with the factor to have recourse to the client. The factor bears the loss arising out of irrecoverable receivables. The factor charges higher commission called "delcredere commission" as a compensation for the said loss. The factor actively involves in the process of grant of credit and the extension of line of credit to the customers of the client.

7. **Advanced and Maturity factoring:**

The factor makes an advance payment in the range of 70 to 80 percent of the receivables factored and approved from the client the balance amount being payable after collecting from customers. The factor collects interest on the advance payment from the client.

8. **Bank participation factoring :**

It is variation of advance and maturity factoring under this system of factoring, the factor arranges a part of the advance to the clients through the banker. The net factor advance will be calculated as follows.
[factor advance percent X Bank advance percent]

9. **Collection / maturity factoring:**

Under this type of factoring, the factor makes no advancement of finance to the client. The factor makes payment either on the guaranteed payment date or on the date of collection, the guaranteed payment date being fixed after taking into account the previous ledger experience of the client and the date of collection after the due date of the invoice.

Advantages of factoring:

1. **Cost saving:**

Factoring allows for the elimination of trade discounts besides it also helps in reduction administrative cost and burden, facilitating cost and burden, facilitating cost savings. There is also over able savings in cost, expenses and efforts as there is no need for the client to maintain a special administrative setup to look after credit control.

2. **Leverage benefit**:

Another advantages of factoring is that it helps improved the scope of operating leverage.

3. **Enhanced return**:

Factoring is considered attractive to users as it help enhance return.

4. **Liquidity:**

Factoring enhance liquidity of the firm by ensuring efficient working capital management. For instance it helps avoid increased debts in the case of without recourse factoring. Similarly, the efficient management of current assets leads to reduced working capital requirements, besides helping to minimize bad debt losses.

5. **Credit discipline**:

Factoring brings about better credit discipline amongst customers due to regular realization of dues. This is achieved through effective control of the sales journal, reduced credit risk, better working capital management, etc.

6. **Accelerated Cash flows:**

Accelerated cash flows helps the client meet liabilities promptly, as and when they arise.

7. **Credit certificate**:

The factor's acceptance of the client's receivables is tart amount to credit certification by the factoring agency.

8. **Prompt payment:**

Factoring facilitates prompt payments and credits by providing insurance against bad debts.

9. **Information flow:**

Factoring ensures constant flow of critical information for the purpose of decision making and follow – up. It therefore helps eliminate delays and wastage of man – hours.

10. **Better linkages:**

Factoring allows for the promotion of linkages between bankers and factors. Such an arrangement help better dealings, debt protection, collection of sales ledger etc.,

11. **Infrastructure:**

Factoring acts as a stimulant to go in for sophisticated infrastructure to words high level. Specialization in credit control and sales ledger administration.

12. **Efficient production:**

The factor undertaking the responsibility of credit control sales ledger administration and debt collection problems. Thus the client can concentrate on functional areas of the business such as planning, purchase, production, marketing and finance.

13. **Reduced risk:**

Factoring allows for reduction in the uncertainty and risk associated with the collection cycle, since fund form a factor are an additional source of finance for the client outside the purview of MPBF.

14. **Export promotion:**

Factoring facilities are designed to help exporters avail of financial assistance on attractive terms, which in turn allows for promotion of exports.

Disadvantages of Factoring:

1. Engaging a factor may be reflective of the inefficiency of the firms receivables.
2. Factoring may bereundart if a firm maintains a nation-wide network of branches
3. Difficulties arising from the financial evaluation of client
4. A competitive cost of factoring has to be determined before taking a decision about engaging a factor.

Difference Between Bill Discounting and Factoring

Basis	**Bill discounting**	**Factoring**
Meaning	Bill discounting means to trade bill before it becomes due for payment at par value.	Factoring means to sell its bool debt to the financial transaction to the factoring company at a discount.
Existence	Bill discounting comes under the Negotiable instrument act, 1881.	There is no such specific law for factoring.
Settlement of finance	In bill discounting, the bill is discounted and paid when the transaction takes place.	In factoring, the financer gives a maximum amount as an advance when a transaction takes place the remaining amount at the time of settlement.
Parties involved	In bill discounting there is a drawer, drawee, and a payee.	In factoring, there is a factoring company, debtor and a customer.
Fees	A financer charges fees in the form of discounting charges or interest.	Financer gets fees in the form of interest for the financial services and commission for extra services facilitate.
Type	Recourse only	Recourse and Non-Recourse
Assignment of Debts	No	Yes

Forfaiting

Meaning

Forfaiting is a kind of international trade finance wherein export bills receivables are discounted, with which the exporters can get instant cash by selling their receivables. **'Forfait' is a French word, which refers to 'relinquish a right'**.

Therefore, in financing 'forfaiting' implies giving up of the right to receivables, which are due at a future date, by the exporter, to get quick cash, at a discount. Further, all the risks and responsibilities as to the collection or non-payment of the bills, or notes are passed on to the purchaser, i.e. forfaiter, who is the third party to the transaction.So, the exporter does not have any interest in the transaction further and so, the forfaiter receives the payments in future.

Salient Features of Forfaiting

- In forfaiting credit is advanced to the importer of capital goods for a certain period.
- The amount of payment is receivable in any convertible currency.
- The letter of credit or bank guarantee is given by the importer's bank.
- Finance is provided on a fixed or floating interest rate.

The forfaiter, can be an individual or an entity, like a bank or a financial institution. The risks associated with the forfaiting are credit risk, transfer risk, foreign exchange rate risk or interest rate changes.

Moreover, it involves buying of international trade receivables such as the bill of exchange or promissory notes at a discount, on a **100% without recourse** basis. This means that the seller (client) is eligible for complete credit protection and the exporter has no liability if the importer defaults in the payment.

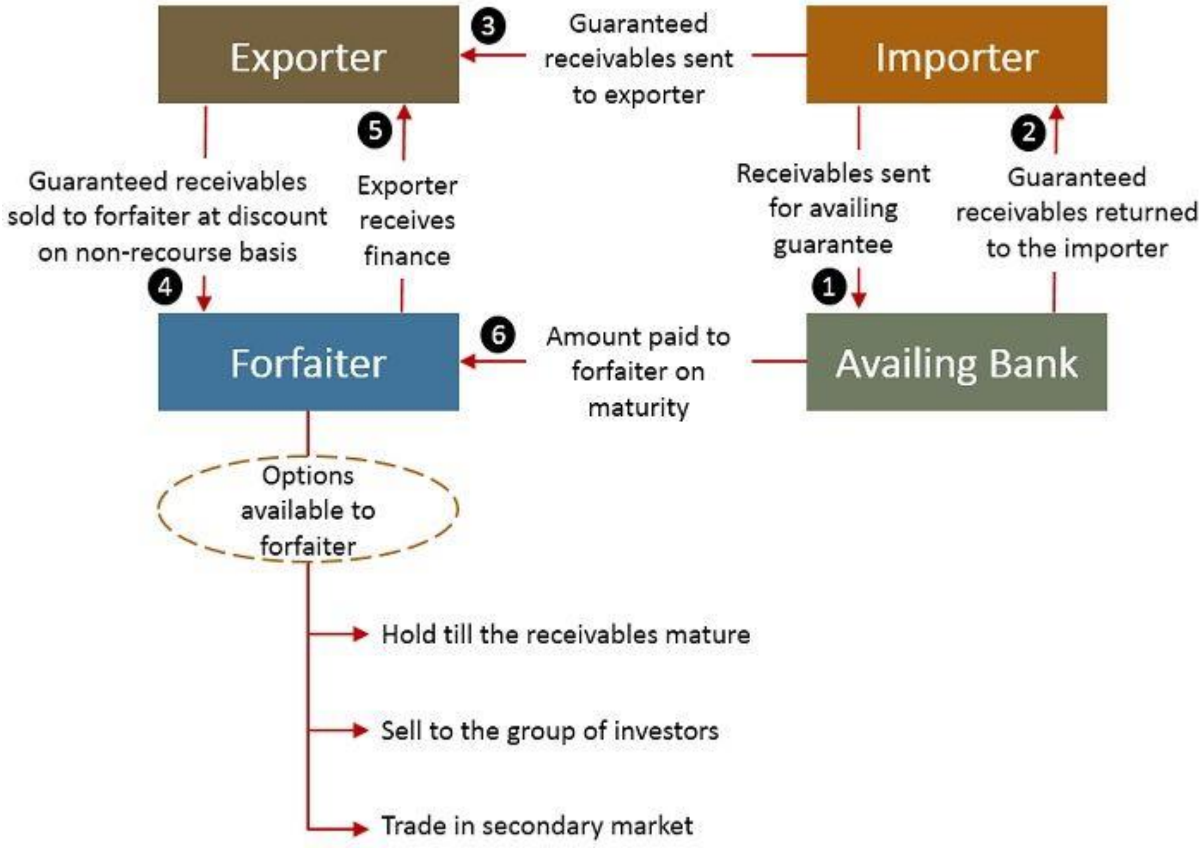
Along with that, all the segments of the services such as short term finance, administration of sales ledger are available to the seller of the receivables.

Documents Required by the Forfaiter from the Exporter

- Copy of supply contract, or its payment’s terms
- Copy of shipping documents, including airway bill, bill of lading, certificates of receipt, railway bill, or equivalent documents
- Copy of signed commercial invoice
- Letter of assignment and notification to the guarantor Letter of guarantee

Forfaiting Process

1. Goods are sold by the exporter (seller) to the importer (buyer), based on deferred payment distributed over three to five years.
2. A series of promissory notes are drawn by the importer in favour of the exporter, for the amount to be paid in future, which includes the amount of interest.
3. Further, the promissory notes issued are guaranteed by a recognized international bank, often importer’s banker. The guaranteeing bank assures that it covers the failure in payment of the buyer if any.
4. The notes so availed, are sold by the exporter to the forfaiter (exporter’s banker), at a discount on a non-recourse basis to the seller.
5. Now, when the forfaiter buys those notes, it can hold these notes until it gets matured or he can sell them to the investor’s group, who may be interested in buying an unsecured note having high-yielding potential or freely trade the debt instrument in the secondary market.
6. The unconditional trade bills and notes hold legal enforceability, which ensures security to the forfaiter or next buyer of the instrument. The maturity of these instruments may lie between one month to ten years.



The following are the **legal aspects of factoring**:

1. The sale is taking place on a credit basis and the factor takes the responsibility for collecting payment from the buyer. For this purpose, the agreement between the seller and the factor should clearly state the role of each party involved in the sale.

. The seller should give due authority to the factor for collecting money from the buyer.

3. Legally, the claim on the buyer is assigned by the seller to the factor. For this, a letter of authority is given by the seller to the factor.

4. The buyer is also informed by the seller that he should make payment only to the factor.

5. All the rights of the seller on the buyer now get transferred to the factor in his capacity as an assignee.

6. In case of default by the buyer, it is the factor who will take action against the buyer in his capacity as an assignee.

7. No other creditor can have any claim settled with the buyer towards the sale of goods except the factor.

8. The banker will be informed that he should not finance the seller for any post sales requirements or accounts receivable discount, as it is the factor who has been assigned with the bills.

9. Disputes arising between the seller and buyer should be settled by the parties concerned and they should not affect the factor.

10. The factor must have the right to take legal action against the buyer in the case of default.

Advantages of factoring from company point of view

From the view point of the firm, factoring offers the following advantages

. Collection service

Many firms find it difficult to collect their trade debts. Collection of debts is an important area of credit management and it requires more time. Firms are therefore not able to devote time as they are preoccupied with other activities. Factors purchase book debts of clients at a price.

Debts are assigned in favor of the factor. The factor, through the use of trained man power and sophisticate infrastructural back-up systematically follows up debtors. He makes timely demand on debtors. The debtors are more responsible to the demand from the factor being a credit institution. Credits are collected on time.

2. Assumption of credit risk

Assumption of credit risks is one of the important advantages of factoring. All the trade debts of the customer is undertaken by the factor without recourse. In simple words, the risk of default in customer's payment is assumed by the factor in factoring.

The client is assured of complete realization of his book debts. Even if the customer fails to pay the debt, the factor pays the amount to the client.

3. Reduced current liabilities

The amount received from the factoring is used to pay off the bank borrowing and other current liabilities comprising trade creditors. As a result, current liabilities are considerably reduced. The liquidity position of the firm is strengthened further.

4. Off-balance sheet finance

When the factor purchases the clients' debts, the finance is provided off the balance sheet. In recourse factoring, the finance appears in the client's balance sheet only as a contingent liability.

In recourse factoring, if the customer defaults in payment, the client has to make good the loss incurred by the factor. The factor is entitled to recover from the client the amount paid in advance.

But in case of non-recourse factoring, the finance provided does not appear anywhere in the financial statements of the borrower. The factor does not have the right of recourse.

5. Higher credit standing

With increased cash flows to the client, he is able to meet his liabilities promptly as and when they arise. The factor's acceptance of the client's receivables itself is the mark of high quality of the receivables factored. The problem of bad debts does not arise.

6. More concentration on functional areas

In any business, certain proportion of management time has to be diverted in credit control. Only large companies can afford to create a special department for this purpose. But smaller sized units cannot afford it.

A factor undertakes the responsibility of credit control. The client, by utilizing factoring service can devote time to functional areas like planning, purchase, production, marketing and finance.

7. Consultancy service

Factoring creates a close relationship between a factor and a client. By virtue of their specialized knowledge and experience, factors can provide a variety of advisory services to their clients.

For example, customer's perception of the client's products, changes in marketing strategies, emerging trends in the market and so on can be brought to the knowledge of the clients.

Factoring and Forfaiting:

1. Factoring is both domestic and foreign trade finance. Whereas forfaiting is only financing of foreign trade.

Factoring provides only 80% of the invoice. But 100% finance is provided in forfaiting.

3. In factoring, invoice is purchased belonging to the client. Whereas the export bill is purchased in forfaiting.

4. There is no letter of credit involved in factoring. But there is letter of credit involved in forfaiting.

5. Factoring may have recourse to seller in case of default by buyer. But there is no recourse to exporter in forfaiting.

6. Factoring does not provide scope for discounting in the market as only 80% is financed. But forfaiting provides scope for discounting the bill in the market due to 100% finance.

7. Factoring may be financing a series of sales involving bulk trading. Only a single shipment is financed under forfaiting.

Mutual Funds

Introduction

A mutual fund is a corporate body (trust) that attracts savings, which are then invested in money market, debt market and capital market instruments such as shares and debentures. A mutual fund acts as a link between the public and the capital market. It is promoted by an agreement between three entities, namely sponsor ,trustee and Asset Liability Management Company(ALM.)

Organizational structure of Mutual Fund

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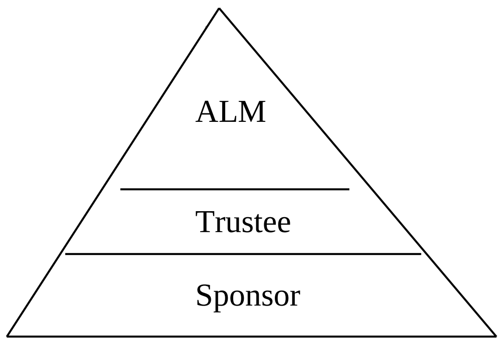

The mutural fund is promoted by an agreement between three distinct group of people, vix., Sponsor, Trustee ALM (Asset Liability Management Company)

Sponsor: They are like the promoters of a company and are responsible for starting the Mutual Fund. Mutual Fund such as LIC, TATAs, and BIRLAs are examples for Sponsor. They take the initiative of fulfilling all the initial measures required for promoting the Mutual Funds.

Trustee: These are the people who act as the watch dog for the properties of the mutual fund. Judges, Bankers and insurance companies are appointed as Trustees, who will look after the assets of the mutual Fund. Their main task is to supervise the assets of the mutual fund, so that on any account there should not be any erosion in the value of these assets.

ALM:- The assets mobilized by the mutual fund are entrusted in the ALM company for investment in various companies. There will be diversified investments such as debt instruments (Bonds or Bills), Equities and foreign securities. As the ALM consists of experts in the field of investment portfolio the profitability of the investments is not only ensured, but it is also kept transparent through the declaration of NAV's

Types of Mutual funds

From the point of investors

1.Open-ended mutual fund:- Open- ended scheme consists of mutual funds which sell the units to the public. These mutual funds can also repurchase the units. There is no fixed maturity period. Initial Public Offer (IPO) is open for a period of 30 days and then reopen as an open –ended scheme after a period not excedding 30 days from the date of closure of the IPO. Investors can buy or repurchase units at net asset value or net value related prices, as decided by the mutual fund.

2.Close-ended Mutual fund:- A close –ended mutual fund has its mutual fund open for a fixed period and whatever money invested forms the basis for investment in various securities. These mutual funds have fixed maturity period ranging from 2to 15 years. Once can invest in the scheme at the time of initial issue new units . The investors cannot buy units directly from the fund after the closing period. Example: UTI Master Share,1986.

3.Growth- oriented Mutual Fund: It has the object of capital appreciation through investment in equity shares. Normally, investment is done in equity shares of such companies which have high growth potential . Examples: Software companies, petrol chemical companies and MNCs will come under this category.

4.Income-oriented fund: The main object of this type of fund is to provide regular income to the investor. So, the mutual fund would wish to invest the public money raised in bonds, debentures and other debt related instruments. In some cases, they may even invest inequity shares of companies with high dividend pay out Example: UTI's Monthly income fund.

5.Specialised mutual fund: When the mutual fund will be investing the investors' money in particular industry such as steel, or petroleum so that such industries will grow rapidly.

6.Domestic mutual fund: When the mutual fund mobilizes savings from a particular geographic location like a country or region, it is known as domestic mutual fund. Example; UTI Mutual fund, LIC Mutual Fund and SBI Mutual Funds ,etc.

7.Off-shore mutual fund: The object of launching off-shore mutual funds is to attract foreign capital for investment in the country of the issuing company. Due to these mutual funds, there is cross border fund flow. Off-shore mutual funds open up the capital market to the foreign investors and to global portfolio investments.

From the point of promoters

1. **Stock funds:** These are mutual funds which primarily invest in common stock, ranging from blue chip companies such as Hindustan Lever to newly promoted companies, They can be growth oriented funds or income oriented funds.
2. **Bond funds:** These are mutual funds which invest in various types o bonds, for obtaining current income.
3. **Balanced fund:** It is a combination of investment in company securities with government bonds. The purpose is to balance the commitment of the funds.
4. **Index funds**: Here, the investment will be in those companies which form the part of index number of the stock exchange. For example,SENSEX refers to Sensitivity index number of Bombay Stock Exchange, consisting of 30 companies which influence the index of the stock exchange.
5. **Money market funds:** Here, the mutual fund will be investing in short-term securities such as treasury bills, bank's Certificate of Deposits (CDs) and commercial paper. For example, promissory note of leading companies such as Sundaram Finance.
6. **Dual fund:** The close-ended mutual fund units are traded in the open market and they have a specific duration. The fund sells two classes of stock-one is preferred shares and the other is income shares. Dividends on preferred shares are assured.
7. **Leverage fund**: In this mutual fund, investments are made in common stock , whose value will appreciate. The mutual fund uses borrowed money in order to purchase shares and later on it is repaid form out of the sale of the units. The fund leverages on the interest rate, and pays form out of the dividends it earns on those shares.

8. **Specialised funds:** These are funds set up for some specialized purpose.

(a) International funds: They consist of foreign securities

(b) Global funds : Here, the stocks are traded in market throughout the world with the exception of the country which launches the fund

(c) Regional or country funds: These may be confined to continents. In India, they are called off- shore funds.

(d) Sector funds: They are specializing in a particular industry and are regarded as aggressive funds. Example is India Development Bonds.

9. **Taxation funds**: The investors in these funds, will have exemption benefits from income tax. Example is Magmum of SBI Capital Market

10. **Real Estate funds**: The mutual funds invest in real estate institutions such as commercial property company, residential builders and mortgage bankers. They are popular in U.S.A and U.K.
11. **Junk-bond funds**: These funds are rated low and carry high risk. However, the reward comes in the form higher yields. They are not found in India. Junk-bond funds are popular in U.K.

Benefits of Mutual Funds

From the point of view of banks

1. It provides an opportunity to invest its funds in profitable stock
2. Banks can give loan on security of stock
3. Liquidity of stock is possible though stock exchange
4. Money market mutual fund provided short-term fund deployment.
5. Demand of stock by banks increase dynamism in capital market.
6. Higher interest rates can be offered for depositors by higher returns from mutual funds.

Form the point of view foreign investors:

1. Mutual funds can attract foreign investment: Examples- merry lynch, Morgon Stanley.
2. Capital market gets additional funds by which it is made more dynamic.
3. Foreign exchange rate is maintained due to the inflow of foreign funds.
4. It strengthens the capital market and enables further growth.

From the point of view of Domestic investor

1. It provides him regular income without much risks
2. It ensures a higher return on his investment
3. It provides liquidity as he can encash the units any time
4. It ensures growth of his investment
5. Experts services are made available to the individual
6. It also provides tax shelter to the individual

From the point of view of Government

1. It provided short-term funds to government as there is money market mutual funds.
2. Government promoters investment trusts such as Unit Trust of India for attracting savings of middle and lower income group
3. Government can regulate capital market through the control of mutual funds.
4. It provides better opportunities for government to invest its funds in a profitable venture. Example: LIC mutual fund
5. Government can meet its revenue and capital expenditure with the income derived from mutual funds.

From the point of view of Economy

1. Mutual funds ensure adequate funds to secondary sector
2. The return on mutual funds is an indication of the functioning of the economy
3. Small investors are mobilized and huge investments undertaken
4. Government sponsored mutual funds attract public funds which promote savings in the economy
5. Government ensures equal distribution of funds to various companies through its own mutual funds.

From the point of view of Capital market

1. It attracts funds from the mutual funds
2. Huge volume of transaction are ensured
3. Wide fluctuations in the market prices are prevented by the presence of mutual funds
4. A fair return is given to the unit holders and it helps in briging transparency to the capital market.

Investment of Mutual Funds

Mutual fund investments can be represented by the following diagram.

Investment of Mutual Funds

Debt Instruments | Equity Based | Sector Based | Index Based | Government securities

Debt Instruments: Mutual funds invest in debt instrument of companies, which carry attractive interest rates. By this, the mutual fund ensures a reasonable return for its investors. These will improve the Net Asset value of the Mutual fund. In fact, debt instruments are safe for investment, as they are backed by securities. For example, mortgage debentures of companies.
Sectoral Investment:- Mutual Funds invest in different sectors of the economy. They may invest in fertilizer companies or pesticide companies in the primary sector. In the secondary sector, they may invest in power, iron & steel and cement industries by which infrastructure companies are promoted. In the services sector, hotel industry and hospital along with banking and insurance companies 'shares are preferred.
Equity based:- Investment are made by mutual funds in equity based companies, wherein the fundamentals of the company are good. If the company has good resources with a high earning per share, naturally such companies will be regarded more attractive for investment. There are fast moving consumer goods companies (FMCG) which have found more favour for investment.

Index bond:- Index based investments are those which are called heavy weight age based companies. These companies have more volume and have higher value in the stock market. Such companies decide the Index of the market. There are also Sensex companies (sensitivity based) and Nifty companies. Thus, mutual funds will prefer such companies whose Index is high and which will decide the market conditions.
Government Securities:- Initially, stock markets were dealing with both company securities and government securities. But after the stock scam (Harshad Metha),the Government has delinked the treasury securities form stock market. We have now a separate market for Government securities. This enables mutual funds to invest there. There are also statutory obligations to invest in Government securities.

Regulation of SEBI of Mutual Funds

1. The mutual fund company must be a registered company
2. Before commencing mutual fund, prior permission of SEBI must be obtained.

SEBI Control on Mutual Funds

Investment | Expenditure | on NAV | On Transparency

3. Capital structure must be according to the regulation stipulated by SEBI
4. Every mutual fund company must give their Net Asset Value periodically, (preferably weekly),in the leading newspapers of the country
5. Proper information about the mutual funds must be made though pamphlets, through websites and other methods so that the public is clear about their investment.
6. While investing funds, a mutual fund company cannot invest mort ha 10% of his investable funds in single company
7. Not more than 10% of the issued shares of the company can be purchase by mutual fund companies
8. Issuing of dividend, bonus shares, right shares etc., requires prior permission of SEBI
9. Any complaints about mutual funds can be made to SEBI directly and investigation on the working of a mutual fund will be conducted by SEBI.

QUESTION BANK
UNIT V

Part A

1.Define Factoring Services

2.What is Domestic factoring?

3. What is export factoring ?

4. What is with recourse factoring?

5 State four benefits of factoring services

6.Define Mutual Fund

7.What is an open –ended scheme of mutual fund

8.What do you meant by close –ended scheme of mutual fund

9.What is an income fund?

10.Metion four specialized fund.

Part B

1. Discuss mechanism of Factoring service

2 Explain types of Factoring services

3.Discuss advantages and limitations of Factoring services

4.Explain functions of Factor.

5.Differentiate between Factoring finance and bills discounting

6.Discuss organizational structure of Mutual Fund

7.How are mutual funds schemes classified? Explain.

8.What are the benefits of mutual fund?

9.Discuss Investment of Mutual Funds.

10.Explain Regulation of SEBI on Mutual Funds

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