Unit 1.

MERCHANT BANKING

INDIAN FINANCIAL SYSTEM

MEANING:

According to Robinson, Financial system provides or make link between SAVINGS and INVESTMENT for creation of new wealth.

Seekers of fund ← **Flow of Fund** — Supplier of fund

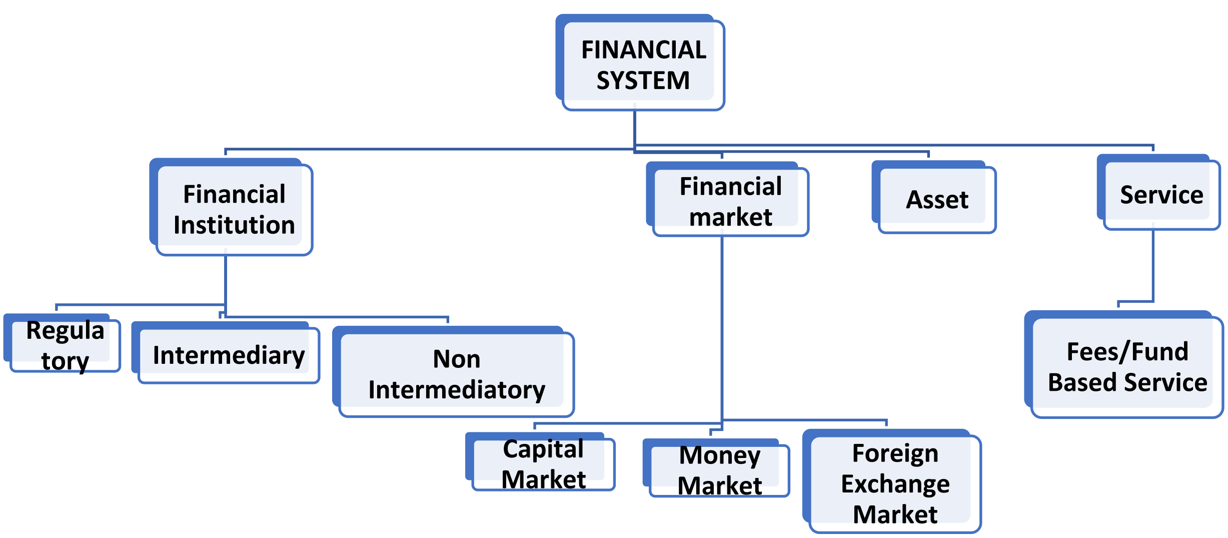
→ **Income and Financial claims**

- **CANARA BANK** is one of the leading "Merchant Bankers / Investment Bankers" in India
- **GRINDLAYS BANK STARTED IN 1828**
- **SBI**
- **ICICI**

FEATURES OF FINANCIAL SYSTEM:

- ➢ Financial system provides Link between depositors and investors
- ➢ Financial system expand the financial market
- ➢ Financial system helps for economic development

COMPONENTS OF FINANCIAL SYSTEM/STRUCTURE /OVERVIEW OF INDIA FINANCIAL SYSTEM



Financial Institution:

Regulatory:

- Regulatory of financial institution are SEBI, IRDI, RBI, etc…
- Before investing the money, they need to be safe for their fund. so these are the regulatory institution giving safe for investors money.
- These regulatory institutions controlling the intermediary also.

Ex: RBI regulatory institution regulates money market, and money market institution.

SEBI -regulate capital market and merchant banks

Intermediaries:

- Intermediary provide short term fund to customers or public.
- Provide link between savers and investors.
- Intermediary can be divided into two types.
  - Banking (controlled by RBI) Ex: SBI, IOB
  - Non Banking (not controlled by RBI) Ex: LIC, UTI, GIC

Non intermediaries:

- This non intermediary mainly provides long term funds to individual/ corporate customer.
- Such as NABARD, IDBI, IFCI

Financial institution consists of

1.Central bank, 2.commercial bank 3. Co-operative bank. 4. Development bank 5. Merchant bank 6. Hire purchase bank 7. Finance companies 8. Mutual funds 9. Leasing companies. 10. Factoring companies

Financial Market:

- Financial market is the place where transfer of money between suppliers and customers. It can be two ways organised market and unorganized market.
- Organized Market controlled by the regulatory board. It can be divided into four
  - Capital Market
  - Money Market
  - Foreign Exchange Market
  - Government Security Market

Capital Market:

- Deal with stock and bonds
  Ex: SEBI, OTCET
  Capital market can be divided into 2 types
- Primary market– Buy stock directly. It is the new issue market. There is no intermediary in process.
- Secondary market – Buy through Intermediary.

Money Market:

- It is otherwise called as short term money market. Deal with short term money. Its collect money from the savers and invest to investors in terms of loan like educational loan, business loan, personal loan etc. All the rules and regulation, guidelines given by the RBI.(Reserve Bank Of India)

  Ex: Controlled by RBI

  It can be also divided as two types organised and unorganised market
  - **Organised –** controlled by RBI. Organised money market includes all the nationalised and private banks.
  - **Unorganised-** money lenders

Foreign Exchange Market:

- Foreign Exchange means bought and sold different form of currency are dealt.
- Currency may be in the form of currency, demand draft, cheque

Ex: commercial banks
Exim bank (export and import bank)
Authorised dealer
Money changer
Foreign banks
Exporter / Importer

Government Security Market:

When government is in need of funds to meet budgetary deficits, it goes for the issue of Treasury bill and bonds.

- Treasury bills – Issued for raising short term funds and meet expenditure
- Bonds – to Raise long term loans. And it is repayable.

Financial Asset/Instrument:

All the financial instruments and securities known as financial asset. The product which will increase the money called financial instrument.

Such as:

- Commercial paper
- Bill of leading
- Letter of credit
- Cheque
- Promissory note

1.Commercial paper:

- It is called in short CP
- It can be issued by leading financial institution in order to raise money.
- Mostly this paper issued to only commercial banks and reputed companies.

For ex, if the IOB in deficit position, they need high amount to overcome the deficit. During that time IOB issued one paper to commercial and leading financial institution. That paper will be called as commercial paper. On the due date, the paper will be presented to the financial institution which will make payment along with interest.

2 Bill of lading:

A document of the title of goods, signed by the carrier, acknowledging shipment of the goods and containing the terms and conditions of carriage.

3. **Letter of credit**
   It is a letter given by importers bank guaranteeing the credit worthiness of the importer.

4. **Cheque**
   A cheque is a negotiable instrument which is supplied by a banker to the customer who opens a saving and current account in bank.
5. **Promissory note:**
   It is a written document an unconditional promise, signed by the maker to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument.

Financial Service:

Doing services in financial market called financial services such as

- Helps to arrange the loan
- Helps to select project
- Helps to frame budget
- Helps to sell the securities
- Lending loan
- Protect interest
- Leasing
- Housing finance
- Hire purchase

Financial services can be divided into two

- Fee based
- Fund based

Fee Based Financial service:

Fee based financial services does not create immediate funds such services are mutual fund, merger, credit syndication etc.....

Fund Based Financial service:

Money directly involved in the transaction. Fund based services are Equipment leasing, housing finance, venture capital, factoring stock broking.

FUNCTIONS OF FINANCIAL SYSTEM OR ROLE OF FINANCIAL SYSTEM:

1. **Link between savers and investors:**

One of the important function or primary function of financial system to provide or make link between seekers of the fund and supplier of the fund and thereby help in mobilizing and allocating the savings efficiently and effectively

2. **Helps in project selection:**
- Some of the trading activities done by financial institution. Financial system not only helps in selecting project to be funded but also inspires the operator to monitor the performance of the investment and performance of project.
3. **Allocation of Risk:**
- This function is one of the most important functions of financial system is to bear the risk of investors and helps to overcome the brisk of investors.
4. **Information Available:**

Financial system makes available information which related price for financial decision.

5. **Reduce cost of Transaction and Borrowing:**
- Financial system lowers the cost of transaction.
- And increase the rate of return.
- It also reduces the cost of borrowings.

6. **Promotion of liquidity:**
    - The major functions of financial system is the provision on money and monetary assets for the production of goods and services
- Liquidity means cash/money in financial language.
- Liquidity easily convert the asset into money or cash.
- So hence the financial system promote the liquidity and there should not be shortage of money in financial market.

MERCHANT BANKING

MEANING:

According to SEBI, Merchant banker means who is engaged in the business of issue management either by making arrangement regarding selling, buying or subscribing to security manager consultant advisor or rendering corporate advisory service in relation to such issue management.

INSTITUTIONAL STRUCTURE OF MERCHANT BANKING:

There are four structure of merchant banking

- Development / public financial institute
- Commercial bank
- NBFC
- Security / capital market

1.Development / public financial institution:

Development / public financial institution. It is that main back bone for Indian financial institution. This development / public financial institution helps to increase or provide the money during the shortage in economic.

Secondly , in addition to the financing of industry by these institution in the traditional form of rupee/ foreign currency term loans for

- Project finance
- Under writing
- Lease financing

Ex: National Housing Bank, IDBI

2.Commercial bank:

- **The post 1991 era of Indian banking is characterized by profitable banking**
- It became as profitable institution in 1990 post.
- Commercial bank achieving social goal.
- All the nationalized bank will be considered as commercial bank.
- In 1969-14 major scheduled banks in the country were nationalized.
- In 1980-6 more banks were nationalized

Commercial banks has two functions such as

Primary function:

- Accepting deposits
- Discounting bills
- Granding loan

Secondary function:

- Paying telephone bill, insurance, premium.
- Purchasing or selling securities
- Collecting dividend / interest.

3.NBFC:

- Non banking financial services
- It is entirely different from banking.
- They are partly fund based and partly fee based.

Fund based: (services of NBFC)

Equipment leasing, housing finance, venture capital, factoring stock broking.

Fee based:

Issue management, port folio management, loan syndication.

4.Mutual fund:

In 1963, mutual fund established by unit trust of india. Currently sponsored by UTI, insurance organization, private sector with foreign collaboration. Mutual fund means collecting money from savers and invests in various securities.

Various mutual fund institution in india

SBI MUTUAL FUND

HDFC MUTUAL FUND

BIRLA MUTUAL FUND

UTI MUTUAL FUND

5**. Money market:**

- Till early nineties only limited number of participants in Indian money market. And it restricted to banks and LIC, UTI. All the participants they were fixing price according to their convenient. And it is all deregulated. Later RBI voluntarily put agreement with all participants in order to regulate the interest rate through Indian bank association. Hence all the participants should follow the rules and regulation offered by the RBI. In 1969-14 major scheduled banks in the country were nationalized. In 1980-6 more banks were nationalized

6. Security market:

- Otherwise known as 'Capital Market'
- Capital market entirely deal with stock and capitals
- Long term need fulfil by LIC and
- This security market started under the security contract regulation act 1956

Capital market can be divided into two types of market.

- Primary
- Secondary

Primary market:

Primary market is a new issue market which directly sell the securities to investors.

EX IPO INITIAL PUBLIC OFFERINGS

Secondary market:

Sell securities through intermediary

Such as karvy stock broking limited

There are two popular capital market in india.

- Bombay Stock Exchange
- National Stock Exchange

FUNCTIONS OF MERCHANT BANKING:

- Under writer
- Banker
- Broker
- Registrar
- Debenture trustee
- Portfolio manager

Under writer:

Underwriter is a person or agencies that provides guarantees or commitment to take up failure of the stock to get subscription for public known as underwriter.

Banker:

Banker who engaged in the function of collecting application or money from the investors and he should repay the application money to applicants to whom security could not be allotted are called “Banker to an issue”.

Broker:

Then another functions of merchant banker is acting as intermediary between savers and investors.such as collecting application, issuing the shares etc…..

Registration:

The registrar an issue, as an intermediary in the primary market carry an activities of

- Collecting application from an investor
- Keeping a proper record
- Money receiving
- Money repaying
- Allotment of securities

Debenture trustee:

This trustee is the person who are appointed as person to give safeguard the interest of debenture holder called “Debenture Trustee”. He only in-charge for interest of debenture.

Port folio Manager:

The person who contact with client in oldest invest and manage or administrative the various stock and security called portfolio manager.

It means investing in different kind of securities

SERVICES OF MERCHANT BANKING:

There are various services rendered by merchant banking

- Corporate counselling
- Project counselling
- Loan syndication
- Management of capital issue
- Corporate advisory services
- Portfolio management
- Merger and Acquisition services
- Leasing
- Foreign currency financing

Corporate counselling:

Merchant banker start the services with corporate counselling. The scope of corporate counselling is very vast. such as Loan syndication, project management, lease finance, corporate appraisal capital structuring etc…it covers wide merchant banking activity.

Project counselling:

Merchant banker helps to prepare project report, cost of the project, arranging finance, project appraisal on the basis of location, technical, marketing.

Loan syndication:

It is otherwise known as credit syndication. Credit or loan syndication means arranging loans for borrower who is likely to be an large company. Before arranging loan they need to finalize the cost of project.

Management of capital issue:

Management of capital issue involves selling of securities, namely equity shares, debentures, preference shares and bonds.

The merchant banker prepare the action plan and prepare budget for the total expenses for the issues and drafting prospectus getting the consent letter from SEBI.

Corporate advisory services:

Merchant banker set up corporate advisory services to their corporate customer and provides advisory services to select right type of security and also SEBI insisted to manage the issue by merchant banker.

Port folio management:

Port folio management refers to minimize the risk and maximize the profit. Merchant bankers help the investor to select the right product or right type of security.

Advisory services to merger and takeover:

Merger means combination of two companies. Takeover means purchase a company by another company for that they acting as intermediary between two companies by giving safeguarding.

Leasing:

The merchant banker arrange for lease finance for leasing companies.and he behaving as intermediary between leasee and lessor

Foreign currency financing:

Merchant banker doing services for foreign currency financing such as

- Fund transaction
- Export – Import trade finance
- Euro currency loan
- Joint venture

RECENT DEVELOPMENTS IN MERCHANT BANKING IN INDIA

- The origin of merchant bankers is traced in Italy.
- The oldest merchant bank in London was baring brothers in Europe.
- The first merchant banker started by grindlays bank in 1970.
- This bank giving and evaluating new project and raising funds to improve their business.
- After the rcommendation of banking commission 1972. All the bank got permission for starting merchant banking.
- In 1972, the second bank was state bank of india. Which started merchant banking division.

Role of merchant banking:

- Management of the customer securities.
- Management of the portfolio.
- Management of projects and counselling as well as appraisal.
- Management of interest and dividends
- Arrange the loan

Factors affecting the growth of merchant banking:

- SEBI
- Industry policy
- Economic condition
- Economic environment of the outside world.
- Competition among the existing players and upcoming entrants.

At present the following banks have merchant division:

- SBI – 1972

- BOI – 1977
- Syndicate bank – 1977
- Bank of Baroda
- Punjab national bank
- ICICI
- IFCI
- IDBI

Challenges faced by merchant banking:

- They need to innovate and deliver new financial product to stay one step a head of the market.
- Providing integrated view to the clients
- Outsourcing / off sharing of business
- Risk management

LEGAL AND REGULATORY FRAMEWORK

SEBI REGULATION ON MERCHANT BANKING

Registration of Merchant banking:

Categories of merchant banking:

- **Category – I** To carry issue management
- **Category – II** Act as advisor, underwriter, portfolio manager
- **Category – III** Underwriter, advisor, consultant to an issue
- **Category – IV** Advisor

Requirement for granting of certificate:

- Should have minimum two year experience.
- Should have adequate amount for registration
- Any partner, director should not involved in activities.
- Should have professional qualification.
- Should be fit and proper person

Capital need for requirement:

For making application company must have the following net worth not less than that.

Category	Minimum Amount
I	50000000
II	5000000
III	2000000

IV	Nil

Procedure for Registration:

If they want to grant of the certificate applicant shall be liable to pay the fees according to the following tables.

Merchant Banker	Initial Fees for 2 years	Continuation fees
I	2.5 lakhs	1 lakh
II	1 lakh	50000
III	1 lakh	25000
IV	5000	1000

Renewal for Certificate:

Should renewal before get expiry

Merchant Banker	Initial Fees	Continuation Fees
I	1.1 lakh	20000
II	75000	10000
III	50000	5000
IV	5000	2500

RESPONSIBILITIES AND OBLIGATION OF MERCHANT BANKING:

Maintenance of books of accounts record:

- Copy of balance sheet
- Copy of auditor report
- Statement of financial position
- Every merchant banker has to intimate the SEBI the place where the books of accounts, balance sheet maintained.

Submission of half yearly:

Every merchant banker should furnish unaudited half year financial report to SEBI which is required by SEBI.

Appointment of lead merchant banker:

At least one merchant banker should functioning as lead merchant banker in order to manage all the issues from public.

Restriction on appointment of lead merchant banker:

The lead merchant banker should have fifty crores of his registration otherwise he is not eligible for lead merchant banker.

Responsibilities of lead merchant banker:

- Lead merchant banker must give his responsibility details to SEBI at least one month before.
- In case there is more than one lead merchant banker the responsibility should be clearly demanded and divided.

Appointment of compliance officer:

Every merchant banker should appoint one compliance officer to monitor the complaints of public. He is responsible for monitoring the compliance act, rules and regulation.

Underwriting obligation:

In respect of every issue to be managed, the lead merchant banker holding a certificate under category I shall accept 5% of total underwriting commitment.

PROCEDURE FOR INSPECTION:

SEBI Right to issue:

SEBI should or may appoint one authority person to inspect the following books such as the Book of accounts,

Record,

Document of the merchant banker.

The purpose of inspection is

- To monitor whether they have been maintaining books of accounts properly or not.
- To monitor whether they are following rules and regulation or not given by SEBI.

Notice before inspection:

Before inspection the SEBI should send notice to merchant banker under regulation act 29

Submission report to the SEBI:

The authority of inspection committee shall, as soon as may be possible submit.

Inspection report to security exchange board of india.

Investigation report:

After getting report the IAS the chairman or SEBI shall investigate the report and need to take necessary action.

Appointment of auditors:

The SEBI may appoint qualified auditor to auditing the report and submit auditor report to SEBI for investigation.

PROCEDURE FOR ACTION IN CASE OF DEFAULT:

Suspension of registration:

Reasons for suspension

- Merchant banker violates the provisions of the act, rules and regulation.
- Merchant banker fails to furnish documents required by SEBI
- Merchant banker fails to maintain capital adequacy requirement.
- Fails to pay the fees
- Violate conditions of registration

Cancellation of registration:

A penalty of cancellations of registration of a merchant banker may be imposed if

- The merchant banker is guilty of fraud.
- The merchant banker indulges in deliberate manipulation or price rigging.

Show – cause notice and order:

- Enquiry officer can issue the show – cause notice, the SEBI also shall consider the notice given by enquiry officer.
- Once the merchant banker received show cause notice, merchant banker should reply to SEBI within 21 days.
- After analyze the reason and explanation SEBI has to send a copy of the order to the merchant banking.

Effect of suspension and cancellation of registration of merchant banker:

Once the merchant banker suspended, he shall cease to carry on any activity as a merchant banker during the period of suspension.

On and from the date of cancellation the merchant banker shall with immediate effect cease to carry on any activity as a merchant banker.

Publication of order of suspension:

SEBI should publish the order of suspension in atleast two daily newspapers.

COMPANIES ACT:

Definition:

A company formed and registered under this act or a existing company. An existing company means a company formed and registered under any of the former companies act.

TYPES OF COMPANY:

1.Private company

2.Public company

1.PRIVATE COMPANY:

Limits the number of members to fifty excluding past and present employees.

Prohibits any invitation to the public to subscribe the shares or debentures.

2.PUBLIC COMPANY:

- This is not a private company
- Does not restrict to transfer of shares
- It does not prohibit invitation to the public to subscribe the shares
- Does not limit the number of its members.

RELEVANT PROVISION OF COMPANIES ACT:

- ❖ Provision of the companies act 1956
- ❖ Security contract act 1957
- ❖ Security contract rules 1957 regarding their capital adequacy.

Security contract regulation act:

Introduced in 1956 by parliament. It is an act undesirable transaction in securities by regulating the business of dealing these in, by providing for certain other matters connected therewith.

- ❖ This acts extends to whole india for security of stock.

Foreign exchange management act:

This act was started on 1999. Then it replaced into foreign exchange regulation act 1973.

This act regulates the foreign exchange transaction.

This FEMA came into effort or effect from January 1 2000. This act was applies to all branches offices and agencies outside india.

FEMA Places:

Head Office – situated in New Delhi

Zonal Office – Delhi, Bombay, Calcutta, Madras, Jalandhar.

Under that each zone there are seven Sub – Zonal india.

Objectives of FEMA:

To facilitate external trade and payment

To promote foreign exchange

Scope of FEMA:

- ✓ Free transaction in current account.
- ✓ RBI controls over capital account transaction.
- ✓ Control over realization of export proceeds.
- ✓ Adjudication of offences
- ✓ Promote external transaction

FEMA – New issue subscription by Non - Residents:

Under the FEMA act Non – resident Indian are permitted to subscribe upto 51% of the equity capital proposed to be issued in companies.

STOCK EXCHANGE IN INDIA:

- **Famous and popular capital market in india such as**
- **National Stock Exchange (NSE)**
- **Bombay Stock Exchange (BSE)**
- **Over The Counter Exchange of India (OTCEI)**

NATIONAL STOCK EXCHANGE:

- Larges security exchange
- Automated electronic trade
- NSE index indicator is Nifty
- NIFTY- National top fifty companies were listed under the NSE
- 1000 companies were listed in National Stock Exchange
- NSE specialize in three market segment they are

Capital market

Whole sale department

Future / option (call/put)

- NSE produced by IDBI, ICICI, IFCI, GIC, LIC, SIB capital markets limited.

TRADING PROCEDURE IN NSE:

- Placing the order
- Conveying the message to computer
- Starting of matching process
- Accepting order
- Delivery and payment

Placing the order:

- Placing the name of company
- What are the listed securities in market
- In this person tells the name of the company whose security is ready to buy.

BOMBAY STOCK EXCHANGE:

Introduction:

- It is started in 1875. It is one of the premier and oldest stock exchange in asia.
- Price indicator 'sensex' sensitivity index.
- There are 6000 stocks were listed in Bombay stock exchange.
- It is also recognized and controlled by government of india under security contract act 1956.
- World fifth largest stock exchange in world.

Trading Procedure:

BOLT

Bombay Online Trade

In 1995 BSE introduced BOLT system. Through that BOLT system the brokers, agencies, members can purchase and sell securities through online.

Transaction:

There are two transaction followed by the BSE

Interday:

Buying and selling securities with in a day.

Intraday:

Buy stocks at one day sell stock at anytime in future.

The stock classified into different groups and named as such as

A – Nil

B1 – Nil

B2 – Nil

T – Trade to trade security transaction

Ts –

F – Fixed Income security

G – Government Security

Z – Companies defaulting

The exchange also provides for online trading of odd lot securities in physical form. Small investors can sell upto 500 shares in physical form with regard to scrips of companies where trades are required compulsory settled by investors. This will be called as compulsory rolling settlement segment.

The Bombay Stock Exchange having some other strategy also such as

7+5 (Trading within five days)

7+4 (Trading within five days)

7+2 (Trading within five days)

Only listed shares in security market will permitted to trade in capital market.

OVER THE COUNTER MARKET (OR) OVER THE COUNTER EXCHANGE OF INDIA:

- OTC incorporated in 1990
- It became corporated in 1992
- Companies listed on the OTC market or exchange. Enjoy the same status as companies in listed on any other stock exchanges in country.
- OTC market has picked from the NASDAQ system (National Associated of Security Dealers Automated Quotation) prevalent in the united states of America.

Objectives of OTC market:
To provides quicker liquidity
To make available the security at fixed price and fair price.
To simplify the process of buying and selling.
To make available the easy and cheaper means of making public sale of new issues.
Features of OTC market:
@ Ringless trading
@ Trading in across the country
@ Totally computerized
@ Exclusive list of companies
@ Faster transfers

@Trading mechanism followed in OTC market.

PLAYERS IN OTC MARKET:

INVESTORS:

FFI, IDBI, ICICI, IFC, LIC, GIC, MFS, UTI, SBI, CAN bank

Issue companies:

Those who are listed in other stock exchange cannot listed and traded in OTC market. But other market listed securities can listed in OTCEI.

Members:

The function of members and dealers are almost the same. But the status of member is superior. The member can do the following function in OTCEI

= Appraisal and evaluation
= Valuation of shares
= Investor services
= Offer for sales
= Bought out deal
= Stock broking activity.

UNIT-II
Issue management

Meaning:

Issue management involves marketing of corporate securities by offering the securities to the public procuring private subscription to the securities and offering securities to existing share holder of the company.

Role of merchant banker in issue management:

- Appraisal of projects
- Designing of capital structure

1. **Appraisal of projects:**

   Appraisal of project mean evaluation of project. It is necessary to identify the risk of project. Project appraisal is an important merchant banking service which includes:

   - Process of investigation
   - Process of review
   - Evaluation of alternative
   - Deciding upon the financial pattern to finance the cost of the project
   - Appraising the project with financial institution and banks

2. **Purpose of project appraisal:**
   - To get or obtain government approval
   - To get financial assistance from financial institution and banks.
   - Planning for public issues.

Consideration of project appraisal:

Merchant banker has to decide or frame the financial mix according to the rule and regulation of the government and followed by bank. The merchant banker has to appraise the project considering the various aspects such as

- Type of project
- Location
- Technical
- Commercial
- Financial visibility of project

Designing of capital structure:

Merchant banking manage the new issue companies also they give services in designing of the capital structure. The main function of merchant banker to frame the capital structure for raising of capital.

Capital structure of a company refers to the composition or makeup of its capitalization and its include all long term capital resources, loan, reserves, shares and debentures. Merchant banker provide customized solution for financial problem by framing efficient capital structure.

Types of capital instrument :

- Equity shares
- Preference share
- Retained earning
- Debenture
- Sweat equity
- warrant

1. **Equity share:**

   Equity shares or otherwise known as ordinary and common shares. Equity shareholder are the real owners of the company. They have voting rights and enjoy decision making authority.

   The shareholder also has the rights to get dividend from their investment. Profit and dividend will depend upon the capital gain/loss. So only this equity capital called as variable income security. They enjoy higher return if the company perform well. Company and board of director do not recommend giving dividend if they are not performing well.

2. **Preference share:**

   Preference shares usually give their holder preference over ordinary shareholder to payment of dividend. There are different kinds of preference shares which different rights. The preference shareholder will participate in surplus profit of the company and then a responsible rate of dividend is paid on equity shares.

3. **Retained earnings:**

   Retained earnings are the last source of internal financing. Retained earnings means the re- investment concern of its surplus earning or divivend in its business. This internal source of finance only suitable for established firm for its expansion, modernization and replacement of the company.

4. **Debenture:**

A type of debt instrument that is not secured by physical assets or collateral. Debentures are backed only by the general creditworthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture.

Meaning of Convertible Debentures

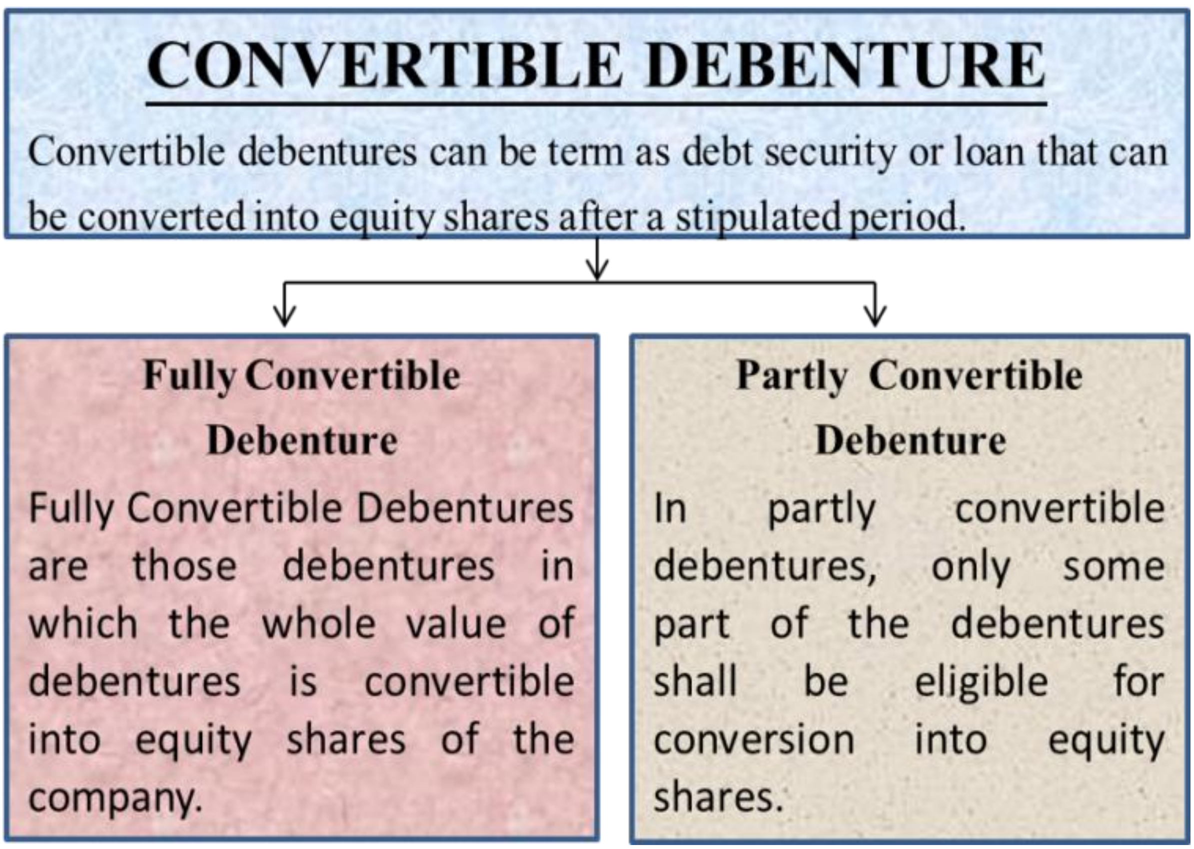
Convertible debentures can be term as debt security or loan that can be converted into equity shares after a stipulated period. The conversion of debentures into equity shares is at the option of the holder. However, in special circumstances, the issuer holds such conversion rights.

About Convertible Debentures

Business firms issue convertible debentures to avail tax benefit. The company can get the advantage of tax deduction on the interest paid to the investors. This reduces the cost of capital of the company. However, at the time of conversion when a company issues additional shares, the value of the equity shareholders decline due to stock dilution. There are many types of debentures which a company can issue. Two popular types among them are:

Convertible Debentures

Debentures in which the company issues an interest bearing loan that can be converted into equity shares after the stipulated time. The interest on these debentures is generally low. The debenture holders can opt for receiving the interest and principal amount at the time of maturity.



Non-Convertible Debentures

Unlike, these debentures, non-convertible debentures cannot be converted into equity shares. The interest rate on these debentures is usually high. The companies issuing non-convertible debentures have to make an arrangement with the bank by depositing a fixed amount and part of profits regularly.

The business organizations can issue debenture of any type depending on its suitability. When the firm issues convertible debentures, it has to select which type of convertible debenture it wants to issue. The following are the two types of convertible debentures:

Types of Convertible Debentures

Fully Convertible Debentures

Fully Convertible Debentures are those debentures in which the whole value of debentures is convertible into equity shares of the company. The holder of this debentures gets equity shares of the company in the ratio determined by the company during the time of issue.

Partly Convertible Debentures

Partly convertible debentures differ from fully convertible debentures. In partly convertible debentures, only some part of the debentures shall be eligible for conversion into equity shares. The ratio of conversion is determined at the time of issue of convertible debentures. The part of convertible debentures can be converted into equity shares only after the approval of debenture holders.

5. **Sweat equity**
   Sweat equity shares are equity shares issued by a company to its employees or directors at a discount, or as a consideration for providing know-how or a similar value to the company.
6. **Warrant:**
   A warrant is a bearer document of title to buy specified number of equity shares at specified price. The life periods of warrants are long. It has low interest rate.

Classification of issue management:

1.Pre issue management
2.Post issue management

1. **Pre issue management:**

   As a merchant banker before the public issue has to obtain consent of stock exchange to appoint managers, bankers, underwriters, brokers and he has to advice the company to appointment the auditors, board of directors, prospectus and obtain consent from the companies legal advices. Pre issue management involves

   - Approval from SEBI
   - Preparing prospectus
   - Selection of registrar, advertising issues, underwriter, banker, brokers
   - Fixing price for their issues

2. **Post issue management:**

A merchant bankers post issue activities include final allotment of amount, dividend and subscription of amount / shares.

PRE ISSUE MANAGEMENT ACTIVITIES

PROSPECTUS:

A public issue involves sale of securities to the public at large under company act 1956 and SEBI guidelines. Public issue of equity shares can be classified as:-

- Public issue
- Right issue
- Preferential issue (private placement)

Public issue are open to the general public wide publicity about the offer is given through the media. So the company should appoint the merchant banker to start the process.

Preparation of prospectus:

A large number of new companies flout public issue while a large number of these companies are genuine, quite a few may want to exploit the investors they need to issue prospectus by SEBI guidelines. Therefore it is important to investor before investing their investment on new companies.

Generally the public issue handled by merchant banker who are responsible for getting the project appraised and finalize the cost of project, profitability estimation and for preparing the prospectus. The prospectus is submitted to SEBI for its approval.

The following information to be included in the prospectus such as:-

- Date / country of incorporation
- Company principal activities
- Profit and loss a/c balance sheet and cash flow statement for the past three years.
- Statement of accounting principle
- Auditors reports with name and address.
- Material relates to financial position
- Analysis of sales by geographical area etc…
- Detail regarding issues of shares / deposit agreement.

Type of prospectus:

1. **offer document:**

prospectus in case of public issue and right issue is field with registrar of companies and stock exchanges. This offer document covers all the information of company and it helps an investor to make his/her investment decisions.

2. **Draft offer document:**

   It means the offer document in draft state. The draft offer document are field with SEBI atleast 21 days. Prior to the filing of the offer document with ROC. Draft offer document should be in SEBI website for public comments.

3. **Red herring prospectus:**

   It is a prospectus which does not have details of exact price and number of shares being offered. It contain information regarding upper price/ lower price.

4. **Abridged prospectus:**

   This prospectus accompanies the application form of the public issues.

5. **Shelf prospectus:**

   The companies act 1956 permit any financial institution or bank to file the shelf prospectus covering one or more issue of securities or class of securities. Specified in the prospectus with registrar of company.

   The advantage shelf prospectus is that the issuing institution need not file a fresh prospectus. The validity of shelf prospectus is one year.

Selection of banker:

Merchant bankers assist in selecting the appropriate bankers based on the proposals of project. As a commercial banker are merely financing and their activities are

- Credit proposal
- Credit appraisal
- Loan sanction

Merchant banker service are:

- Project counselling
- Corporate counselling
- Amalgamation
- Merger
- Take over etc..

As a new company if they want to do new issues means the banker has to assist the following intermediary for new issue work.

SELECTION OF BANKER OR TYPES OF INTERMEDIARIES

- Registrars to the issue
- Banker to the issue
- Underwriter
- Broker
- Advertising
- Printers

1. Registrars to issue:

Registrar to the issue is play important role in post issue management. Registrar task as follows:

- Getting application
- Shorting application
- Arranging
-

Role of registrar:

- According to SEBI guidelines the merchant banker should assist the registrar. The registrar also registered with SEBI. They should maintain proper books of accounts and records.
- Every registrar also shall maintain all the applicants received from the investors. Every registrar shall intimate to SEBI where the books of account maintained.
- Every registrar an issue after close of each financial year shall furnish financial report to SEBI. If so required financial report, balance sheet, p/l act furnish and submit to SEBI.
- Registrar to an issue shall maintain books of accounts, records, documents, maintained atleast for three years.
- Registrar an issue shall appoint a compliance officers who is responsible for monitoring the all complaints.

2. Bankers to the issue:

Banker to the issue business is a part of merchant banking business. It is the one of good source of low cost deposits. The merchant banker can automatically become the bank to the issue in the following cases:

- The bank is a broker to the company.
- It act as manager to an issue
- The function of merchant banker is to accept application forms from the public together subscription money and transfer the account.

RESPONSIBILITY OF BANKER TO AN ISSUE:

a) **Furnish information:**
    i. The number of issue engaged by banker
    ii. Number of application and application money received
    iii. The dates / amount of refund to the investors.

b) **Maintenance of accounts:**
    i. Banker to an issue shall maintain the following records
    b. Number of application reward, applicants full details, amount were received.
    c. Dates and amount of interest and payment issued to the banker.

c) **Furnishing of information to the board:**
    i. The banker to an issue shall furnish the information to board which is mentioned its under the heading of furnishing information, maintenance of accounts.

d) **Agreement with issuing companies:**
    i. Every banker to an issue enters into an agreement with issuing company.

e) **Action taken by RBI:**
    i. If the RBI taken action against banker in relation to payment that should be furnish to SEBI. If the SEBI accept the action of RBI they can cancel the process of bank.

3. Underwriter:

Underwriter is an agreement between the issuing company and person or an institution in which the later gives the guarantee to form that If the share is not fully subscribed. That person known as underwriter.

Subscription is thus guarantee undertaken even if the public does not purchase from issuing company. These are

- LIC
- Unit trust of India
- Brokers
- GIC
- Commercial banks.

Forms and types of underwriting:

- **Full underwriting:**

  Full subscription taken by underwriter called full underwriter.

- **Partial underwriting:**

  Partial share subscription by underwriter called partial underwriter.

- **Joint underwriter:**

  Subscribed by more than two underwriter.

- **Sub underwriter:**

  One underwrite may appoint another underwriter regarding for share subscription.

- **Firm underwriting:**

  When an underwriter undertakes to buy or subscribe certain number of share from public called firm underwriting.

4. Broker:

Broker is a person who behaving as intermediary between buyer and seller to by securities and subscribe the securities.

5. Advertising consultant:

Advertising agency means any person engaged in providing services with making, preparation, display of advertisement regarding issues.

Merchant banker arrange a meeting with company representatives and advertising agentaq to finalize the arrangement regarding date of opening and closing of issuer. The merchant banker can finalize the media for publication.

6. Printers:

Printer is a person who print the

- Application form
- Prospectus
- Other issue material

PLACEMENT OF ISSUE:or VARIOUS TYPES OF PUBLIC ISSUES

- IPO
- FPO
- Right issue
- Offer for sale
- EIPO
- Bought out deal
- Placement with FIs, MFs, FIIs

i. Initial public offer:

At first time shares issued by the new company called as initial public offer or first sale of stock by private company to the stock. Mostly ipo issued by Younger companies seeking capital to expand. IPO the issues may obtain the assistance of an underwriting firm.

Advantage:

- Increase in the capital.
- easy to liquidity
- Valuation:

This public trading of the shares determines a value for the company.

Disadvantage:

- Rules and regulation involved in setup of initial public offering.
- Loss of confidentiality and flexibility and control.
- It does not always lead to an improvement in the economic performance of the company.

ii. Follow on public offer:

Follow on public shared issued by company that already gone public issues through IPO. Any company that is made after the initial public offer is an FPO.

Eligibility norms for IPO And FPO:

There are three eligibility norms for IPO and FPO

Entry norms-I

- Not tangible assets of atleast 3 crore.
- Distributable profit in atleast 3 years.
- Net worth of atleast 1 crore in three years.

Entry norms-II

- Issue through book building.
- Minimum capital requirement for issues 10 crore.

Entry norms-III

- Project should be appraised.
- Minimum post issue capital for IPO, FPO is 10 crore.

iii. Right issue:

A right issue involves selling securities in the primary market by issuing rights to be the existing shareholder.

According to company act 1956, issuing company prefer to issue the securities to existing shareholders on a pro rata basis.

Rules:

- only that company can make right issue whose shares are already in the market.
- It should be issued on the basis of shareholder data base.
- The time gives to accept the right issue should not be less than 15 days.
- Shareholder given an option to subscribe or resurrender the shares.

iv. Offer for sale:

There are two ways for a company to list new shares.

- By an offer sale which is an public invitation by intermediary.
- By an offer for sale which is an public invitation by company.

The offer can be made at a price that is fixed in advance.

- Offer for sale by fixed price.
- Offer for sale by tender.

Green shoe option:

Green shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post listing price stabilizing mechanism for a period not exceeding in 30 days. The term green shoe came from the manufacturing company founded in 1919. It was the first company to implement the green show clause into their under writing agreement.

- Full green shoe
- Partial green shoe
- Reverse green shoe
-

v. E-IPO:

A company processing to issue security to public through online system of the stock exchange for offer of securities.

Highlights of E-IPO:

- It offers a centralized platform for primary market.
- E-IPO can be comfortably managed.
- Online generation of NSE/BSE bulk files on a single platform.
- It is user friendly for primary market.
- Provide immediate status regarding confirmation of shares received.
- Reports are provided which can be shorted by users.

Features of E-IPO:

1. **E-IPO administrator:**

It facilitates user creation. The rights for the users created can be assigned here, the rights assigned to the user activities carried by the user. If the user create are administrator they are permitted to insert, modify or delete data.

2. **E-IPO branch:**

They are the users which are created by the administrator who can long in and place bid for the duntfi mapped under that branch.

3. **Reports:**

E-IPO facilitates the users to view reports for the details entered by various person. It shows reports based on criteria.

- Branch wise
- Data wise report
- Exchange wise reports etc..

4. **Export NSE/BSE entries:**

E-IPO export the NSE/BSE entries for client purpose. E-IPO facilitate the user to view the uploaded file of NSE/BSE. BID number assigned by the respective exchange against the client entry made the file exported.

5. **Import DP file:**

This features facilitate users to import the DP file in the BSE IPO system. IPO means deposit account no, deposit type, deposit name etc…

6. **Optimal database management:**

DP facilitate to manage all import and file regarding transaction.

7. **Other features:**

E-IPO facilitate other features such as

- Date for entry
- Modification
- User login time

` All the data entry easy to understand.

vi. Private placement/ placement with FIs, MFs etc:

Private placement and preferential allotment involves sale of securities to only sophistificated investors such as financial institution, material fund, venture capital fund etc..

In a preferential allotment the identify of investors is known when the issuing company seeks the approval of its shareholder. Whereas in a private placement refers, the identify of investors is not known when the offer document is prepared.

SEBI- PRIVATE PLACEMENT WITH FII'S:

- SEBI registered FII have been permitted to purchase shares and convertible debentures of an Indian company through private placement.

Indian company is permitted to issue such as shares provided that:-

In the cash of public offer the price of share to be issues is not less than the price.

In case of private placement the price is not less than the price arrived in terms of SEBI guidelines.

Advantage of private placement:

a) **Cost effective:**

Private placement is a cost effective method of raising funds. In a public issue 8 to 10 issue cost for underwriting, brokerage, printing, mailing, etc… but in case of private placement statutory and non statutory expenses are avoided.

b) **Time effective:**

In case of public issue it take some time to complete the formulation but private placement means mostly it will take 2 to 30 months.

c) **Structure effectiveness:**

FII will frame effective structure of capital than public issue.

d) **Access effective:**

Through private placement a public limited company listed and unlisted can mobilize capital and all size of issue accommodation through private placement.

Disadvantage of private placement:

- Intermediary may cheat the people
- Does not create or generate any confidence.

vii. Bought out deal:

Bought out deal is a process of investment by a sponsor such direct investment is being made with understanding between the company and the sponsor to go for public offering in mutually agree time.

A company will allots shares in full to sponsor. After certain period of agreed upon between sponsor and the company. The shares are issued to the public by the sponsor with premium. The sponsor may absorb the profit in part or full as per the agreement.

Advantage of BOD:

- The company can use capital without waiting and any delay.
- Cost from the preliminary expenses is another advantage for company.
- It is that innovative method of financing the companies.
- This BOD method will help to avoid the time. It does not take like ordinary issue. It will take maximum 6 month to raise up of capital.
- It is a big help to unlisted companies and projects.

Disadvantage:

- There is a fear of loss of control of management because of the sponsor is holder of large chunk of equities at one time.
- The sponsor has to bear the loss in terms of price because the price may scare away the common investors.
- If the company does not co-operate with expectation of sponsor, if the promoter does not co-operate with common sponsor may find that its entire investment has been eroded.
- If a merchant banker does not make proper analysis of the company. It may face a lot of problem with BOD.

Off- share issue:

Off-share issue means issuing share to other country.

EX: American off share issue

British off share issue.

- **Export finance:**

Giving assistance in formulation of the application. Arranging various types of guarantees, pre shipment credit, post shipment credit, bridge loan, other credit faculty. Assistance in opening and operating bank account abroad.

- **Import finance:**

Arranging foreign currency loans under buyers credit. Arranging deferred payment guarantees under supplier credit scheme.

- **Foreign currency loans:**

Foreign banks operating in India through their merchant banking department are rendering services in respect of foreign currency loans. EX: grind lays bank (merchant banking).

- **Foreign collaboration and joint venture abroad:**

Merchant banker rendering service in relation to foreign collaboration and help to make joint venture abroad. Merchant dealing and seek to advice on local laws, product risk, government regulation regarding shareholding, exchange relation, taxation, dividends, incentives, subsidies etc…

Issue pricing:

Pricing is the one of the most important challenge for a merchant banker in a public offering. Appropriate price cannot only ensure the success of the issue but provide good return to the prospective well. According to the return and offer only we should fix the price for products.

- **What is pricing:**

The value of particular or per stock known as pricing. An issuer may determine the price of specified securities in consultant with the lead merchant banker through the book building process.

- **Parameters of issue pricing:**
  - price to earning ratio
  - price to book value ratio etc.

Pricing strategies for an issue:

- Differential pricing
- Price band
- Payment of discounts/ commission
- Denomination of shares.

a. Differential pricing:

Listed / unlisted companies may issue shares securities to applicants in the firm allotment category at a price different from the price at which the net offer to the public is made.

b. Price band:

The issuer or issuing companies can mention a price band of 20% document field with the SEBI. Actual price can be determined later.

c. Payment of discounts/ commissions:

Any direct/ indirect payment in the nature of discount/ commission / allowance or otherwise cannot be made by the issuer company/ promoters to any firm allotted in a public issue.

d. **Denomination of shares:**

Public/ Right issue of equity shares can be made in any denomination.

Book building:

Book building is actually price discovery method. In this method company does not fix up a particular price for share but instead of that gives a price range. EX: 80-100

Based on the demand and supply of share the final price is fixed. Minimum price is known as floor price. High price known as cup price. 80- floor price, 100- cup price

Process of book building:

According to the SEBI there are two option available to a company.

- 75% book building process
- 100% book building process

1) 75% book building process:

75% of book building option based on firm basis where remaining 25% of book building option offered to the public.

- **Eligibility:**

All the corporate eligible to issue public issues through book building process.

- **Ear marking securities:**

when the taken decision to issue shares through book building, the security should be separately ear marked as the " placement portion category" in the prospectus.

- **Draft prospectus:**

A draft prospectus containing all the information except price of the issue must be field with the SEBI.

- **Appointment of book runner:**

The issuing company appoints a merchant banker as the book runner which should be mentions in the prospectus. The book runner information about the subscription received from underwriters and other intermediaries.

- **Price setting:**

Based on the data collected from intermediaries relating to total orders received the issuer and book runner set an appropriate price of the issue for offer to the public.

- **Underwriting:**

The member of security may underwrite the security through book building it is not promoters. It is for unsold or unsubscribed securities.

- **Bank account:**

The issue company opens two accounts

I. One for collection of the application money received from the person.
II. Offer for 25% of the total issue made to the public.

- **Listing:**

The next step after allotment they can or eligible to listing the securities.

- **Inspection:**

SEBI can regulate or inspect the book building process and proper books also should be maintained.

2) 100% book building:

100% of the securities is offered on a firm basis or is reserved for promotion, permanent employees of the issuer company. It may be offered to share holder either on a competitive basis or on a firm allotment basis.

Procedure for 100% book building:

Condition:

It is possible for an issuer to make a public issue through the 100% book building process by fulfilling the following condition.

- Minimum capital to be raised must be 25 crore
- Firm allotment to promotion can be made only through guidelines of SEBI.
- Allotment made either on a competitive basis.
- Eligible merchant banker shall be appoint as lead book runners.

Lead Book runner:

For 100% book building lead merchant banker for getting or fixing essential price for shares. Lead merchant banker or lead book runner should registered with SEBI.

Draft prospectus:

The lead book runner files a draft prospectus with SEBI. This document contains all the information related issue of size.

Essential disclosure:

- Details of syndicate.
- Details of registrar / banker to an issue
- Details of per share value
- Details of accounting ratio.

Advertisement:

The issue after revised the prospectus from SEBI, advertise in leading newspaper. The advertisement contains all the request features of the final offer document.

Stock broker:

Stock brokers appointed for placing order with the company by stock exchange that would act as collection for the application issuing applicant.

`Allotment process:

- Minimum 15% should be allotted to each investors.
- Minimum 10% should be allotted to each investors those who are not participated in book building process.
- Book runner only decide the allotment process.
- Allotment shall be made within 15 days from the date of final closure of the issue.

ISSUE MARKETING:

In case of public issue company is required to take certain steps by which the potential investing community is appraised of the feature of the fourth coming issue. The need for marketing the public issue arises because of highly competitive nature of capital market. They evaluate analyze the market on the basis of demand and supply.

Steps for marketing of issue:

1. **Target market:**
   First step identification of target market for public issue.
2. **Target concentration:**
   After having chosen the target market for selling the securities. The next step are to be taken to assess the maximum number of subscription that can be expected from the market.
3. **Pricing:**
   After finalizing the market need to find the level of marketing.
4. **Mobilizing intermediaries:**
   For successful marketing of public issues. It is important that efforts are made to enter into contract with financial intermediaries.
5. **Launching advertisement campaign:**

In order to push the public issue, the leading manager should undertake high voltage advertisement campaign. The advertising agency must carefully selected for this purpose.

6. **Broker and investor conference:**

   Lead merchant banker should arrange conference between broker investor.

7. **Timing of issue:**

   Lead merchant banker should fix the time to issue. The time must be favourable to market condition.

MARKETING STRATEGY:

a. Direct placement
b. Investment intermediaries
c. Underwriting

a. Direct placement:

In case of direct placement the application forms are mailed to prospective investors directly. If they had good amount of branch network, they can go through branch network.

b. Investment intermediaries:

The institution such as financial institutions, foreign institution investors, mutual fund can be approached with the objectives of tying up of firm allotments. This kind of broker, sub broker only attract the small investors.

c. Underwriting:

Proper collection of underwriting is another step towards effective marketing. The distribution of underwriting is to done on the basis of performance and network of each other. By guarantee they can go for issue.

ADVERTISING AGENCIES:

SEBI issued guidelines in1993 to ensure that the advertisement are truthful fair and clear and do not contain statement to mislead the investors to imitate their judgement. Expression of advertisement can be done in following manner.

- Brochures
- Pamphlets
- Circular
- Picture
- Catalogues
- Film
- Boarding
- Posters

- Radio/ television
- Newspaper
- Electrical media etc..

Code of advertisement:

An issue advertisement shall be truthful and fair there should not be any misleading and untrue information. An issue advertisement should not contain information regarding promise, guarantees, profit etc…

An issue advertisement shall not contain any information which is in offer documents. All issue advertisement in newspaper, magazines, brochures, pamphlets containing highlights relating to any issue should also contain risk factors with the same print size.

No slogans, non factual titles in the issue advertisement. No advertisement shall be issued starting that the issue is open for subscription or oversubscribed during the period the issue is open for subscription except to the effect that the issue is opened or closed.

No model, celebrities, landmarks the like shall be displayed in issue advertisement. If any advertisement carries any financial data, it should also contain data for last three years and shall include particular relating to sales, gross profit, net profit, earning per share etc…

NRI- marketing:

Non resident Indian means a "person resident outside Indian" who is a citizen of India or is a person of Indian origin. The term NRI includes the following categories of persons.

Person of Indian origin, foreign national of Indian origin, living in foreign countries include such person of Indian origin.

Investment potential of NRI:

It is estimated that currently about 25 million Indians living abroad would fall into the definition of NRI. Among 20 millions have taken up foreign nationality and remaining 5 million are still Indian passport holder.

Assuming that India succeed in persuading NRI to invest 10% of their total saving into investment in Indian. It estimates of possible inflow is about us 1.5 billion per year

POST ISSUE MANAGEMENT:

- Collection of application form
- Screening of application
- Deciding allotment procedure
- Mailing of allotment letters.
- Share certificate / refund orders.

SEBI GUIDELINES FOR POST ISSUE MANAGEMENT:

- **Post issue monitoring reports:**

Irrespective of the level of subscription, the post issue lead merchant banker must ensure the submission of post issue monitoring reports.

- **Public issue:**

3-day post issue monitoring report (The due date for this report would be third day from the day of closure of subscription of the issue).

Final post issue monitoring report (The due date for this report would be 78th day from the date of closure of subscription.

- **Right issue:**
  - 3 day post issue monitoring
  - 50 day post issue monitor

Redressal of investors grievances:

The post issue lead merchant banker should actively associate himself with post issue activities namely, allotment, refund, and regularly monitor. The Redressal of investors grievances arising there form

Co-ordination with intermediaries:

The most issue lead merchant banker should maintain close relationship with registrar to an issue, underwriter, stock invest, banker to an issue etc.. Merchant banker need to contact regular interval and submit report to the SEBI.

Finalization of basis of allotment:

If the public issue is over subscribed to the extent of greater five times a SEBI nominated the public representative is required to participate in the finalization of basis of allotment.

Dispatch of share certificate:

After finalizing the basis of allotment share certificate are dispatched to the eligible allotters and refund made to unsuccessful applicants

UNIT III OTHER FEE BASED SERVICES

Mergers and Acquisitions – Portfolio Management Services – Credit Syndication – Credit Rating – Mutual Funds - Business Valuation.

Merger

A combination of two companies is known as merger - Edward

Merging is a process of two companies joint together and implement a new company

- Companies act 1956

Forms of merger

Amalagamation - Two existing companies together and form a new company A+B=C

Absorption- Combination of two or more companies is known as absorption

Types of Merger

Horizontal

When two or more concern dealing in some product and service joint together and do business is known as horizontal merger.

Ex. Bank of Madura Merger With Bank of ICICI

Vertical (Google + Face book) : These companies they are in the same industry but two different stages merge and do the business.

Conglomerate merger

When two companies dealing with totally different activities joint an is known as conglomerate merger

-Walmart – American Broad Costing

Congeneric Merger (Bank + Mutual Fund)

It occurs where two merging firms are in the same general industry, but they don't have mutual buyer and supplier.

Reverse Merger

Profit making company merge with loss Company

MERGER PROCESS

Defining the corporate strategy

↓

Implementation of corporate strategy

↓

Target identification

↓

Valuation of merger

↓

Post merger

Defining of corporate strategy

First clearly define corporate strategy - what business the firms is currently in?

What business it intends to be in? how does it wish to grow?

Implementation of corporate strategy

Next define corporate strategy - whether it intends to use merger, acquisition, joint venture etc. because various alternative strategy available for company.

Target identification

Company has to identify its target firm for its merger and acquisition process and various parameter to analyze the company strength, weakness, structure, strategies and processes and merger firm also will integrate their structure, strategies and culture.

Valuation of the Merger

Here cost of merger is analyzed. The specific cost and the premium that the firm would like to pay for acquiring shares.

Merger Implementation

It is the important stages of merger. Now both merging companies enter into implementation process based on rules and regulation and both companies has to follow the conditions.

Post Merger Integration

Post merger activities include

- Selling of assets
- Setting up new managerial system
- Establishing corporate culture and providing the rights, management direction, leadership and ensuring the competitiveness of the combined firms.

ACQUISITION

"Acquisition means one company acquiring another company is known as Acquisition".

Types of Acquisition

Hostile Take over

One company acquire another company. It is not for personal purpose.

The main purpose to overcome competition in market..

Ex Microsoft – Nokia

Friendly Takeover:

Both company enter into process in friendly manner

Ex: Johnson and Johnson – crucialell

Reverse Takeover

Public company acquiring private company is known as reverse takeover

Ex: Us airway – American west airway

Back flip Takeover

One company acquiring its subsidy company is known as back flip takeover.

Ex dull co - hotshot

Bailout takeover

Profit company acquiring non profitable company. NPNC with national city corporation

PROCESS

Manage the Pre-phase

A good starting point of a merger and acquisition programme is to analysis of company strength, weakness, financial position of acquiring company.

Screen candidates

Invite suggestion and perception of target company from its merchant banker.

Company screened based on following aspects

- Market share
- Revenue
- Exports account not less than 20%

Evaluate Remaining Candidates

The screening criteria in step 2 will narrow down the list of candidate to a fairly small number. Each of them thoroughly analyzed.

Determine Mode of Acquisition

Company has to desire various modes of acquisition such as

- Merger
- Purchase of asset
- Take over etc

Negotiation of Deal

Successful mode of merger and acquisition is negotiation deal.

Manage the Post Acquisition Integration

Post acquisition include various activities such as

- Setting objectives
- Strategies
- Values
- Practices

And also framing new managerial structure for new business environment

Advantage/Importance/Reasons for Merger and Acquisition

- Expansion and growth strategy
- Risk Reduction
- New Product Entry
- High Profit
- Business Diversification
- Low Cost
- Removal of Inefficient Management
- Superior Management

Expansion and Growth Strategy

Merger and acquisition is one of the strategy to expand their business to different country. By this expansion company will get reputation among the competitors.

Risk Reduction

Risk can be reduced through merger and acquisition

New Product Entry

New product entry is done through merger and acquisition. When company joint together they can produce or implement new product.

High Profit

When company joint together they will invest their money in bulk manner. Hence company can increase level of profit through merger and acquisition

Business Diversification

Two or more companies operating in different line can diversify their activities through amalgamation. Different companies already dealing in their respective lines there will be less risk in diversification.

Low Cost

Merger and acquisition is low cost method than other strategy.

Removal of Inefficient Management

Merger and acquisition is a quick remedy to replace inefficient management from an organization which has say high product strength.

Superior Management

By combining together the managerial skills are also pooled together. It will increase the growth rate of both company and increase managerial effectiveness of both firm.

Portfolio management Services

Portfolio:

Portfolio means combination of securities

Portfolio Management:

Portfolio Management refers analysis and maintaining the individual securities and combination of securities

Portfolio Manager:

Portfolio manager who engaged in the portfolio management services either administrating of a portfolio of securities and undertake advisory services

Responsibility of Portfolio Manager

- The portfolio manager shall before taking up or management of client fund. He has to define the interrelationship, mutual rights, liabilities and obligation of clients in portfolio services
- The portfolio manager shall enclose certificate and files with SEBI at six months once
- The portfolio manager shall charge an agreed price fee from clients
- The portfolio manager shall enclose the certificates and document which received from clients.
- The portfolio manager shall individually and independently manage the each client funds,
- A portfolio manager shall do fair dealings with client
- Money should be deployed to client as soon as possible

Credit Syndication

Meaning

Otherwise known as loan syndication. A agreement between two lending or more lending institution to arrange loan to borrower

Participants in Credit Syndication

Managing Bank : This bank selected by borrower for credit purpose

Lead Bank : It is the bank which provides major loan

Agent Bank

Agent bank is the bank appointed by lender of institutions. The main role is to look after their interest once the loan is sanctioned.

Participant Bank

The participating in loan arrangements process is known as participant bank. Such as commercial bank

Features of Credit Syndications

- Access to Euro currency
- Recycling of Euro deposits from surplus
- Convert short term deposits to medium term deposit
- Arranging credits

Types of Syndications

Term Loan Facility

- One type of loan syndication
- The Main function to provide periodical loan to borrower

Resolving Loan Facility

- It is loan circle process
- If the borrowers paid their first loan the banking institution ready to give second loan
- It is depends upon the borrower loyalty and their capacity

Under written Transaction

Issuing loan through intermediary is known as underwriter transaction

Club Deals

With the recommendation of club getting loan from lending institution is known as club deal. If the borrower paid loan without any delay he can recommend others to get loan

Arranged Best Efforts Transactions

Here the arrange provides a commitment for the amount it will lend and agrees to arrange and syndicate the balance of the loan on a best efforts bash.

This type of loan suitable to borrower who able to pay full loan amount and who have confident.

Charges of Credit Syndication

- Managing Fee
- Participation Fee
- Commitment Fee
- Agency Fee

Managing Fee: Management is the fee payable to managing bank for this credit arrangements.

Participation Fee

Participant fee payable to wholesale and Retail bank for taking shares and giving loan.

Commitment Fee: Commitment fee is the charge paid on undrawn balances of credit

Agency Fee

This fee payable to the agent bank to disbursement of the credit, recovery of loan, opening account.

Documentation of Credit Syndication

Mandate Letter

- This letter framed by borrower to appoint the arranger. This mandate letter contains the following information.
- Agreement to underwrite
- Title of arranger
- Commitment amount
- Lenders obligations

Term Sheet

This sheet attached with mandate letter

This letter contains the following information as

- Commercial terms
- Types of loan
- Interest of Loan
- Amount Details

Information Memorandum

This form prepared by both arranger and borrower. The arranger assist the borrower in writing the form

This form contains following information such as

- Borrower business
- Accounts details
- Financial positions
- Details of loan
- Registration details

Syndicate Credit Agreement

It is the credit agreement between borrower and lender.

This form fully contains borrower terms and conditions

Fee Letters

Fee letters contains the following information

- Interest details
- Borrower pay fees to bank expenses
- Installment details
- Remedies of default incase of non payment
- Loan process

Meaning of Credit Rating

According to Poors

Credit rating help investors by providing easily recognizable simple tool on

Credit rating is the process of assigning a symbol with specific reference to the instrument being rated is known as credit rating

Ratings are usually expressed in alphabetical symbol.

Objectives

- To provide confidence on the capital market
- To provide credit worthiness of instruments
- They also provide information about credit worthiness of corporate
- To provide sound basis for proper risk return structure

Types of Credit Rating

Financial Instrument rating | Customer Rating | Borrower Rating

Bond Rating | Commercial Paper Rating

Financial Instrument Rating

Bond Rating

Rating bond issued by government

Commercial Paper Rating

Rating commercial paper issued by companies

Customer Rating

Assessment of creditworthiness of a customer

Borrower Rating

Assessing the ability of a borrower to repay to which loan or credit facility is sanctioned.

Process of Credit Rating

Receipt of the Request

- Credit rating process begins with formal process
- In this first step both rating agency and issuer company enter into agreement under this agreement rating agency gives right to the issuer company to accept or not to accept the credit rating

Assignment to Analytical Team

Credit rating agency assigning team. This analytical team comprises of two members who expertise in the relevant business area.

Obtaining Information

The analytical team obtains the information about company and its client company. This analytical information collecting various information such as

- Financial Statements
- Cash flow Analysis

Plant Visit and Meeting with Management

In this team interact with company and its company's executive and they visiting the production process main facilities and evaluate quality of variables.

Presentation of Findings

After completing this plant analysis. Internal committee make discussion with credit rating agency. This internal committee comprising senion analysts. Finally internal committee has to present finding with rating committee

Rating Committee Meeting

Here credit rating agency conducting meeting with rating committee. In that meeting committee members discussing regarding grade and they planned to assign the grade.

Communication of Decision

Finally the grade is communicated to the company and they may reject the previous grade incase of default.

Dissemination to the Public

Once the issuer accepts the rating credit rating agency publish through reports and medias.

Monitoring for Possible Changes

CRA continuously monitor the instruments and corporate and it can do possible changes incase of need.

Credit Rating Agencies in India

- CRISIL
- ICRA
- CARE
- ONICRA
- DPCR
- FITCH Rating

CRISIL

- Credit rating information services of india limited
- It started in 1987 and its promoted by ICICI and UTI

- Other shareholders include HDFC, UTI, GIC, chartered bank, BOI, BOB, UCO bank, bank of Tokyo, Hong Kong, IOB, BOM, CBI, Canara Bank, Allahabad Bank.
- It is market leader in india.
- CRISIL rating debenture fixed deposite and short term instruments such as preference share, commercial paper.
- Till march 2003 it has rated around 4438 debt instrument for 2000 companies.

ICRA

- Investment information credit rating agency promoted by IFCI. It is started in 1991.
- ICRA rating fixed deposits, preference shares, short term instrument and commercial paper. Till march 1995 it has rated around 485 debt instruments.
- ICRA presently offers its services under three banners namely
  - Rating services
  - Information services
  - Advisory services

DEBT Rating Symbols of ICRA

Remark	Long term Instruments	Medium term Dept Instruments	Short term Dept (commercial paper)
Highest Safety	LAAA	MAAA	A1
High Safety	LAA	MAA	A2
Default	LD	MD	A5

CARE

- It is credit analysis and research limited
- Sponsored by IDBI, canara Bank, UTI
- Incorporated in april 1993
- Corporate in October 1993.
- It also rating all types of instruments.
- Till now it has rated 249 instruments.

ONICRA

- Onida individual credit rating agency
- Promoted by onida finance
- It is rating credit cards, leasing, hire finance, housing finance, bank finance.
- Primary objectives to provide confidence.

DPCR

- Duff phelps credit rating
- Started in 1996.
- It also rating capital market institutions

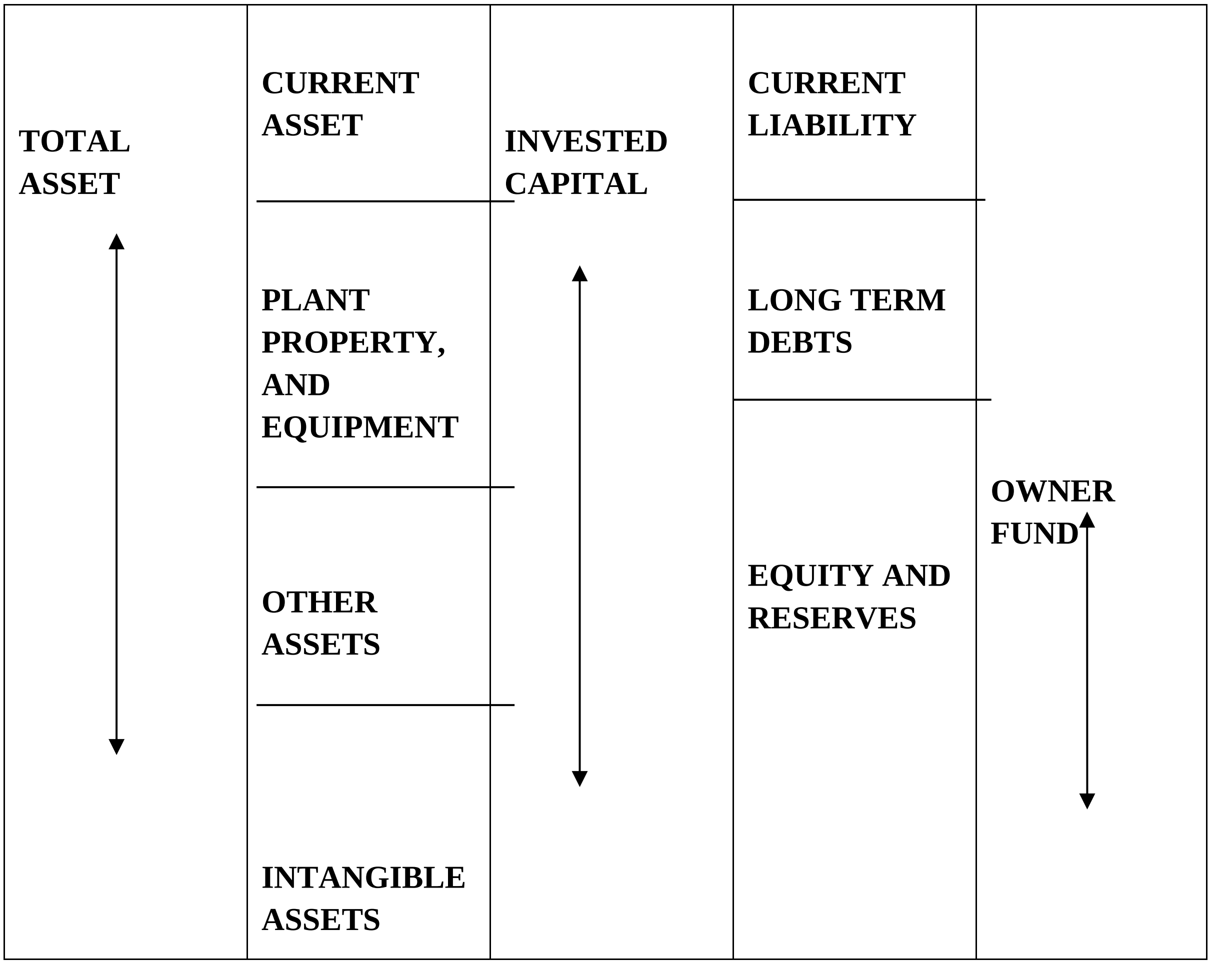
FITCH Rating

- It is latest agency in india to rate all types of instruments.
- It was subsidiary parent company in abroad and operating in india.

BUSINESS VALUATION

Business valuation is the process and valuation set of procedure used to evaluate the business process and estimate the economic value.

APPROACHES FOR VALUATION



APPROACHES FOR VALUATION

- Asset based approaches
- Earning value approaches
- Market value approaches

Asset Based Approaches

- Here company has to analyze the business company must analyze the net balance sheet value.
- This analysis done by subtracting value of liabilities from value of assets
- And also it is evaluating income received from assets and paid expenses.

Earning Value Approaches

- Company valuating expected level of cash flow for the company using a companies record of past earnings.
- By analyzing past earnings company can estimate earning value of future cash flow
- Earning value approach valuating company cash inflow and cash outflow

Market Value Approach

Analyze the market value of business by comparing your business to similar business and market value approach analyzing the prices of market also.

Reason For Business Valuation

- Buy / Sell agreements
- Merger and acquisition
- Addition / retirement of partner
- Investment decision
- Financial reporting
- Wealth / tax planning
- Re-structuring business
- Re structuring of capital
- Goodwill

Consumer Credit:

It is otherwise known as consumer depts. (**ex**: loan). There a different kind of loans provided to consumer from banking institution Short- and intermediate-term loans used to finance the purchase of commodities or services for personal CONSUMPTIOn and non-banking financial institution.

Such as:

1. **Housing loan:**

Housing loan are primarily taken for the save of building new houses, purchase of old houses or for repairing an existing house. Home loans consist of an adjustable or fixed interest rate and payment terms. Home loans may also be referred to as mortgageloans

Vijaya Bank Home Loan

Royal Bank of Scotland Home Loan

HDFC Home Loan

ICICI Bank Home Loan

2. **Personal loan:**

Personal loan absolutely for any purpose of consumer. Consumer loan granted for personal(medical), family (education,vacation),or household (extension, repairs, purchase of air conditioner, computer, refrigerator, etc.) use, as opposed to business or commercial use. Such loans are either unsecured, or secured by the asset purchased or by a co-signor (guarantor). Unsecured loans (called signature loans) are advanced on the basis of the borrower's credit and ability to repay the loan from personal income. Repayment is usually through fixed amount installments over a fixed term. Also called consumer loan.

EX:

ALL NATIONALIZED AND PRIVATE BANK CAN OFFER PERSONAL LOAN

3. **Consumer durable loans :**

Consumer durable loans be claimed for the purpose of consumer durable such as

- TV
- Music system

4. **Vehicle loan:**

Vehicle loan for the purpose of purchasing the vehicle. It is other wise known as hire purchase. Through dealers consumer can arrange the loan on fixed installment basis.

EX VEHICLE LOAN GIVEN BY

ICICI Car Loan

PNB Car Loa

[Canara Bank Car Loan]

[Federal Bank Car Loan]

5. **Educational loan:**

   Educational loan for the purpose of higher studies. The amount will differ from courses to courses. Money borrowed to finance education or school related expenses. Payments are often deferred while in school and for a six-month grace period after graduation

   Ex: SBI, IOB, ICICI ETC (LOAN ISSUER)

6. **Travel loan:**

   Travel loan can be claimed as the name suggest for the purpose of meeting travel expenditure. The all loan will be derived from formal sector

   Ex bank of baroda

Loan From Informal Sector:

- Hourly interest
- Daily interest
- Kandhu interest
- Meter interest
- Thandal interest

Hourly interest:

Interest will be changed based on hour.

Daily interest:

Interest will be charged based on daily basis.

Kandhu interest:

Loan is for longer period of time but interest payment in periodic. Default in interest payment will add to principal amount.

Meter interest:

Where the loan is similar to the kandhu vatti but payment of interest will be daily basis.

Thandal interest:

It is a short term loan it may be daily basis or it may be fixed period of time. Collected by contractor.

Leasing And Hire Purchasing:

Meaning for leasing:-

A lease is a contract between lessor (owner) and leasee (user of the assets) that transfers the right to possess specific property for certain specific period.

Hire purchase:-

Hire purchase is the process of hiring or purchasing the goods in an installment.

Such as:

- Purchasing vehicles
- White goods etc.,(Home Appliances)

It is also contract between seller and buyer

Different Between Lease and Hire Purchase

LEASE	HIRE PURCHASE
MEANING: it is the agreement between lessor and lessee to possess the property for certain specific period	Purchasing product in installment manner is know as hire purchase
AGREEMENT: Buy party agreement buy party means agreement between lessor and lessee	It is try party agreement. Try party agreement means agreement between seller and purchaser and banker.
PARTIES: Two parties involved in process like lessor lessee	Three parties involved in process such as ➢ Seller ➢ Financial institution ➢ purchaser
PERIOD: lease is long period maximum 99 years	Hire purchase is short period.
DEPRECIATION: Depreciation claimed by lesser	Depreciation claimed by purchaser
OWNERSHIP: ownership will transfer when lessor collect entire amount from lessee	Ownership transfer to buyer at last installment period

SALES TAX: paid by the merger on the total value of goods.	Sales tax depends on the actual value of assets.
REPAIRS AND MAINTENANCE: Repairs and maintenance beared by lessee	Repairs and maintenance beared by hirer.
RIGHTS: lessor does not have rights to get his/her assets during lease period.	Suppliers has the right to get hire purchase goods incase any default in payment/installment

Types of lease:

- Leverage lease
- Financial lease
- Operating lease

LEVERAGE LEASE:

There are three parties involved in lease transaction such as:

- Lessor
- Lessee
- Finance (intermediary) these intermediary grand loan to lessor to purchase of an assets to be leased..

Financial lease:

- The payment of lease amount is equal or exceeds of fair value of the leased asset is called as financial lease.
- Financial lease will get expired before one year of maturity date.
- **Ex:** financial lease ten years, expired or ownership transfer at the end of 9^{th}year, maturity date 10 years

In financial lease that the lessor will expect the cost of investment play. The expected return on capital during the term of the lease these kind of lease is a longer period.

In India most of the financial lease used for leasing land, building, machinery and fixed equipment…,

Operating lease:

According to the international According Standard an operating lease in one which is not a finance lease.

In this operating lease the lessor does not transfer all the risks.

The lessor providing some financial service to lessee such as:

- Maintenance
- Repair
- Technical advices

For this reason operating lease is also called service lease

Other types of leasing:

1. Sale and lease
2. Direct lease
3. Single investor lease
4. Domestic lease
5. International lease

1. Sales and lease back:

Under sale and lease back type of lease. A firm may sell an asset which it already owns to another party and lease it back from the buyer / the lessee received immediate cash for this assets and repays the lease rental over a stipulated period.

2. Direct lease:

Direct lease can be divided into two different types:

Bipartite lease:

There are two parties in lease transaction:

- Equipment supplier-lessor
- Lessee

Tripartite lease:

Three different kinds of parties involved in lease transaction

- Lessor (equipment supplier)
- Intermediary
- Lessee

3. **Single investor lease:**

   There are only two parties to the lease transaction:

   - The lessor
   - The lessee

Lessor funds the entire investment by investing in property with mix of dept with help of lessee amount they can paid their dept to Investment Company if in case they build the building in loan

4. **Domestic lease:**

   Lease transaction will be in within a country all the parties will be in same country.

5. **International lease:**

   - Lease transaction between two (or) more countries.
   - If the parties of lease transaction are located in different countries called as international leasor.

This international lease can be divided into 2 sub category:

(i) Import lease:

Lesser and lessee will be in same country but equipment supplier in another country the equipment supplier import the asset to lessee.

(ii) **Gross lease**:

When lesser and lessee located in different countries that will be known as cross border lease.

Advantages of leasing:

To the lessee:

- Investment or financing on capital goods such as land, building, plant, machinery.
- It is that additional source of finance.
- Less costly method when compare with other method.
- Risk will be bearded by lesser so there is risk benefits
- Ownership preferred.
- Lessee can avoid some of condition.
- Lease financing is the simple free form agreement.

To the lessor:

- Asset will be fully secured.
- The greatest advantage for the lesser is the tax relief by way of depreciation.
- It is that high profitability business.
- If you trading on equity and also considered as investment.
- Leasing has high growth potential.

Disadvantages of leasing:

To the lessee:

- High cost for lessee.
- Sometime lessee has to bear the risks.
- Lessee has to pay certain penalty.
- Lessee cannot realize the salvage value.

To the lessor:

- High risk for lessor.
- Due to inflation the price will increase.
- Success of lease finance will depends upon the management of cash flow.
- Cost increase such as sales tax due to lease benefits.
- It is long term investment.

TAX BENEFITS UNDER LEASING AGREEMENT IN INDIA:

- Leasing is the process of giving authority to another party to use their equipment. Lessor will hand over to lessee. But the ownership is retained by the lesser but the possession is given to the lessee

Benefits for lessor:

- The lesser has the option to claim their (depreciation) under the income tax act. The depreciation can claim under the act.
- Sales tax will be paid by the lessor but later on they can claim from lessee under financial act.
- But the lessee paid will pay only lesser amount.

Benefits for lessee:

- The lessee gets certain benefits in the payment of rent maintenance of equipment and other expenses incurred by him in keeping the equipment operational. For these expenses he can claimed under income tax act.
- If we invested on small scale industry the importance of leasing company has gone up.
- If you take small scale industry for lease means you should pay 1 lakh as fixed capital by this 1 lakhs the small scale industries going for modernization. Hence the lesser can for change their industry.
- Some of leasing intermediary finance company provides enough opportunity for both lesser and lessee to gain in both income tax and sales tax. So there is big scope this kind of business in future and India.

HIRE PURCHASE

Hire purchase is to the agreement between hirer and seller. The hirer will purchase the asset from seller in an installment payment period manner over the period of time.

Parties in hire purchase:

There are two parties were involved in hire purchase transaction.

- Seller of the assets.
- Buyer of the assets.

If it is tripartite agreement means there are three parties were involves in hire purchase agreement

SELLER → FINANCIER → BUYER

Content or basis of hire purchase agreement:

- It is that agreement between two parties.
- Hirer or buyer can by the good in investment manner.
- Purchasers have rights to inspect the good before purchase.
- They can pay price in an installment manner. Incase delay in installment they should pay penalty.
- If there is continues delay in installment they can terminate the contract by getting goods.

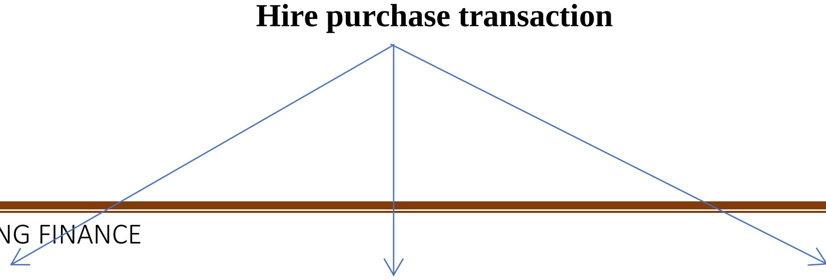
There are **three** kinds of tax benefits in hire purchase such as:

- Income tax
- Sales tax
- Interest tax

- The purchase or buyer should bear cost of repair. The hirer or buyer should create insurance policy from finance company and hand over to the seller. After the last installment only they have the rights to get insurance policy.

Tax benefit for hire purchase

Hire purchase transaction



income tax	Sales tax	Interest tax

Income tax:

- There is also deduction in finance charge. According to new regulation of income tax the interest will difference in finance charge.

Sales tax:

- According to sales tax rules the hire purchase transaction regarded as sale.
- Hence sales tax is payable once the goods are delivered to the hirer. So the state is also benefited when there are more sales under hire purchase transaction as they get more revenue. The quantum of sales tax is related to the sales price.

Interest tax:

- The hire purchase finance companies have to pay interest tax under the interest tax act 1974. It will be also considered is income under income tax

SEBI:

- The Securities and Exchange Board of India was established on April 1988, in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.
- SEBI became autonomous body in 1992.

Objectives:

1. To regulate the activities of stock exchange.
2. To protect the interest of investors.
3. To regulate the development of the security market.
4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

Board of SEBI:

1. The chairman who is nominated by **Union Government** of India **MR.AJAY TYAGI**.
2. Two members, i.e., Officers from **Union Finance Ministry** and **law ministry**.
3. One member from the **Reserve Bank of India**.
4. The remaining two members are nominated by **Union Government of India**.

FUNCTIONS OF SEBI:

- To register and regulate the stock brokers.
- To register and regulate bankers.
- To control security market.
- To regulate working of mutual funds.
- To control investment business
- To regulate issue of securities.
- To regulate and control unfair practice related to capital market.
- To provide license and permission

POWERS OF SEBI:

Power to seek information:

As per sebi act 1992 sebi has power to seek information and has power to get information from state government, central government and local body. When they ask information all the government must enclose the information.

Power to inspection:

The new section 11(2) sebi conduct inspection of books, registers, documents and records of any listed and public company. If sebi is not satisfies with inspection, ccompany will send cause notice to the respective company.

Power to cease:

According to security exchange board of india act 2000 SEBI can take give cease order to the company who violate the rules of company. After sending cease order to the company a big inquiry will be made by SEBI. If there is no proper answer in inquiry, SEBI may cancel the license.

Power of inquiry:

Sebi can investigate due to following causes:

- Suspend the trading of any security in recognized stock exchange.

- When company prohibit issue of prospectus.
- When company do fraud.
- When company making delay in giving dividend.

Power of SEBI under SCRA:

Under security contract regulation act 1956 the following power enjoyed by SEBI:

- To grand recognition to stock exchange.
- To withdraw recognition in case of fraud.
- To compel listing of securities by public companies.
- To require periodical return from affairs.

ROLES OF SEBI AND CONTROL OF SEBI:

1. Power to make rules for controlling stock exchange :

SEBI has power to make new rules for controlling stock exchange in India. For example, SEBI fixed the time of trading 9 AM and 5 PM in stock market.

2. To provide license to dealers and brokers :

SEBI has power to provide license to dealers and brokers of capital market. If SEBI sees that any financial product is of capital nature, then SEBI can also control to that product and its dealers. One of main example is ULIPs case. SEBI said, " It is just like mutual funds and all banks and financial and insurance companies who want to issue it, must take permission from SEBI."

3. To audit the performance of stock market :

SEBI uses his powers to audit the performance of different Indian stock exchange for bringing transparency in the working of stock exchanges.

4. To educate the investors :

Time to time, SEBI arranges scheduled workshops to educate the investors. On 22 may 2010 SEBI imposed workshop. If you are investor, you can get education through SEBI leaders by getting update information on this page.

5. To Control the Merger, Acquisition and Takeover the companies:

Many big companies in India want to create monopoly in capital market. So, these companies buy all other companies or deal of merging. SEBI sees whether this merger or acquisition is for development of business or to harm capital market.

6. To require report:

SEBI integrates the securities market at the national level, so that is an increase in number of traders including banks, financial companies, insurance companies and mutual funds.

Recent growth and development of capital market

1. Establishment of Creditors Rating Agencies

Three creditors rating agencies viz. The Credit Rating Information Services of India Limited (CRISIL -1988), the Investment Information and Credit Rating Agency of India Limited (ICRA -1991) and Credit Analysis and Research Limited (CARE) were set up in order to assess the financial health of different financial institutions and agencies related to the stock market activities. It is a guide for the investors also in evaluating the risk of Their investments.

2. INCREASING OF MERCHANT BANKING ACTIVITIES

Many Indian and foreign commercial banks have set up their merchant banking divisions in the last few years. These divisions provide financial services such as underwriting facilities, issue organising, consultancy services, etc. It has proved as a helping hand to factors related to the capital market.

4. RISING ELECTRONIC TRANSACTIONS

Due to technological development in the last few years. The physical transaction with more paper work is reduced. Now paperless transactions are increasing at a rapid rate. It saves money, time and energy of investors. Thus it has made investing safer and hassle free encouraging more people to join the capital market.

5. GROWING MUTUAL FUND INDUSTRY :

The growing of mutual funds in India has certainly helped the capital market to grow. Public sector banks, foreign banks, financial institutions and joint mutual funds between the Indian and foreign firms have launched many new funds. A big diversification in terms of schemes, maturity, etc. has taken place in mutual funds in India. It has given a wide choice for the common investors to enter the capital market.

6. GROWING STOCK EXCHANGES:

The numbers of various Stock Exchanges in India are increasing. Initially the BSE was the main exchange, but now after the setting up of the NSE and the OTCEI, stock exchanges have spread across the country. Recently a new Inter-connected Stock Exchange of India has joined the existing stock exchanges.

7. INVESTOR'S PROTECTION:

Under the purview of the SEBI the Central Government of India has set up the Investors Education and Protection Fund (IEPF) in 2001. It works in educating and guiding investors. It tries to protect the interest of thesmall investors from frauds and malpractices in the capital market.

8. GROWTH OF DERIVATIVE TRANSACTIONS

Since June 2000, the NSE has introduced the derivatives trading in the equities. In November 2001 it also introduced the future and options transactions. These innovative products have *g*iven variety for the investment leading to the expansion of the capital market.

Basis for Comparison	Money Market	Capital Market
Meaning	A segment of the financial market where lending and borrowing of short term securities are done.	A section of financial market where long term securities are issued and traded.
Control	Controlled by RBI.	Controlled by SEBI.
Financial instruments	Treasury Bills, Commercial Papers, Certificate of Deposit, Trade Credit etc.	Shares, Debentures, Bonds, Retained Earnings, Asset Securitization, Euro Issues etc.
Institutions	Central bank, Commercial bank, non-financial institutions, bill brokers, acceptance houses, and so on.	BSE, NSE and OTCEI.
Risk *Factor*	Low	Comparatively High
Liquidity	High	Low

Basis for Comparison	Money Market	Capital Market
Time Horizon	Within a year	More than a year
Return on Investment	Less	Comparatively High

UNIT 4 & UNIT 5

ORIGIN OF MUTUAL FUND

In the Beginning

Historians are uncertain of the origins of investment funds. Some cite the closed-end investment companies launched in the Netherlands in 1822 by King William I as the first mutual funds, while others point to a Dutch merchant named Adriaan van Ketwich whose earlier investment trust created in 1774 may have given the king the idea. Van Ketwich probably theorized that diversification would increase the appeal of investments to smaller investors with minimal capital. The name of van Ketwich's fund, Eendragt Maakt Magt, translates to "unity creates strength." The next wave of near-mutual funds included an investment trust launched in Switzerland in 1849, followed by similar vehicles created in Scotland in the 1880s.

The idea of pooling resources and spreading risk using closed-end investments soon took root in Great Britain and France, making its way to the United States in the 1890s. The Boston Personal Property Trust, formed in 1893, was the first closed-end fund in the U.S. The creation of the Alexander Fund in Philadelphia in 1907 was an important step in the evolution toward what we know as the modern mutual fund. The Alexander Fund featured semiannual issues and allowed investors to make withdrawals on demand.

The Arrival of the Modern Fund

The creation of the Massachusetts Investors' Trust in Boston, heralded the arrival of the modern mutual fund in 1924. The fund was opened to investors in 1928, eventually spawning the mutual fund firm known today as MFS Investment Management. State Street Investors' Trust was the custodian of the Massachusetts Investors' Trust. Later, State Street started its own fund in 1924 with Richard Paine, Richard Saltonstall and Paul Cabot at the helm. Saltonstall was also affiliated with Scudder, Stevens and Clark, an outfit that would launch the first no-load fund in 1928. A momentous year in the history of the mutual fund, 1928 also saw the launch of the Wellington Fund, which was the first mutual fund to include stocks and bonds, as opposed to direct merchant-bank style of investments in business and trade.

Regulation and Expansion

By 1929, there were 19 open-ended mutual funds competing with nearly 700 closed-end funds. With the stock market crash of 1929, the dynamic began to change as highly leveraged closed-end funds were wiped out and small open-end funds managed to survive.

Government regulators also began to take notice of the fledgling mutual fund industry. The creation of the Securities and Exchange Commission (SEC), the passage of the Securities Act of 1933 and the enactment of the Securities Exchange Act of 1934 put in place safeguards to protect investors: Mutual funds were required to register with the SEC and to provide disclosure in the form of a prospectus. The Investment Company Act of 1940 put in place additional regulations that required more disclosures and sought to minimize conflicts of interest. (See also: Policing the Securities Market: An Overview of the SEC.)

The mutual fund industry continued to expand. At the beginning of the 1950s, the number of open-end funds topped 100. In 1954, the financial markets overcame their pre-1929 crash peak, and the mutual fund industry began to grow in earnest, adding some 50 new funds over the course of the decade. The 1960s saw the rise of aggressive growth funds, with more than 100 new funds established and billions of dollars in new asset inflows. Hundreds of new funds were launched throughout the 1960s until the bear market of 1969 cooled the public appetite for mutual funds. Money flowed out of mutual funds as quickly as investors could redeem their shares, but the industry's growth later resumed.

Recent Developments

In 1971, William Fouse and John McQuown of Wells Fargo established the first index fund, a concept that John Bogle would use as a foundation on which to build The Vanguard Group, a mutual fund powerhouse renowned for low-cost index funds. The 1970s also saw the rise of the no-load fund. This new way of doing business had an enormous impact on the way mutual funds were sold and would make a major contribution to the industry's success. With the 1980s and '90s came bull market mania and previously obscure fund managers became superstars. Max Heine, Michael Price and Peter Lynch, the mutual fund industry's top gunslingers, became household names and money poured into the retail investment industry at a stunning pace. The burst of the tech bubble in 1997 and a spate of scandals involving big names in the industry took much of the shine off of the industry's reputation. Then the Great Recession of 2007 scared a lot of people out of mutual funds once again. For part of this period, the entire world was in a financial crisis. Shady dealings at major fund companies demonstrated that mutual funds aren't always benign investments managed by folks who have their shareholders' best interests in mind.

EVOLUTION AND MUTUAL FUND INDUSTRY IN INDIA

THE MUTUAL FUND INDUSTRY IN INDIA:

The mutual fund industry in India started in 1963 with the formation of Unit Trust of India (UTI) at the initiative of the Reserve Bank of India (RBI) and the Government of India. The objective then was to attract small investors and introduce them to market investments. Since then, the history of mutual funds in India can be broadly divided into six distinct phases.

Phase I (1964-87): Growth Of UTI:

In 1963, UTI was established by an Act of Parliament. As it was the only entity offering mutual funds in India, it had a monopoly. Operationally, UTI was set up by the Reserve Bank of India (RBI), but was later delinked from the RBI. The first scheme, and for long one of the largest launched by UTI, was Unit Scheme 1964.

Later in the 1970s and 80s, UTI started innovating and offering different schemes to suit the needs of different classes of investors. Unit Linked Insurance Plan (ULIP) was launched in 1971. The first Indian offshore fund, India Fund was launched in August 1986. In absolute terms, the investible funds corpus of UTI was about Rs 600 crores in 1984. By 1987-88, the assets under management (AUM) of UTI had grown 10 times to Rs 6,700 crores.

Phase II (1987-93): Entry of Public Sector Funds:

The year 1987 marked the entry of other public sector mutual funds. With the opening up of the economy, many public sector banks and institutions were allowed to establish mutual funds. The State Bank of India established the first non-UTI Mutual Fund, SBI Mutual Fund in November 1987. This was followed by Canbank Mutual Fund,LIC Mutual Fund, Indian Bank Mutual Fund, Bank of India Mutual Fund, GIC Mutual Fund and PNB Mutual Fund. From 1987-88 to 1992-93, the AUM increased from Rs 6,700 crores to Rs 47,004 crores, nearly seven times. During this period, investors showed a marked interest in mutual funds, allocating a larger part of their savings to investments in the funds.

Phase III (1993-96): Emergence of Private Funds:

A new era in the mutual fund industry began in 1993 with the permission granted for the entry of private sector funds. This gave the Indian investors a broader choice of 'fund families' and increasing competition to the existing public sector funds. Quite significantly foreign fund management companies were also allowed to operate mutual funds, most of them coming into India through their joint ventures with Indian promoters.

The private funds have brought in with them latest product innovations, investment management techniques and investor-servicing technologies. During the year 1993-94, five private sector fund houses launched their schemes followed by six others in 1994-95.

Phase IV (1996-99): Growth And SEBI Regulation:

Since 1996, the mutual fund industry scaled newer heights in terms of mobilization of funds and number of players. Deregulation and liberalization of the Indian economy had introduced competition and provided impetus to the growth of the industry.

A comprehensive set of regulations for all mutual funds operating in India was introduced with SEBI (Mutual Fund) Regulations, 1996. These regulations set uniform standards for all funds. Erstwhile UTI voluntarily adopted SEBI guidelines for its new schemes. Similarly, the budget of the Union government in 1999 took a big step in exempting all mutual fund dividends from income tax in the hands of the investors. During this phase, both SEBI and Association of Mutual Funds of India (AMFI) launched Investor Awareness Programme aimed at educating the investors about investing through MFs.

Phase V (1999-2004): Emergence of a Large and Uniform Industry:

The year 1999 marked the beginning of a new phase in the history of the mutual fund industry in India, a phase of significant growth in terms of both amount mobilized from investors and assets under management. In February 2003, the UTI Act was repealed. UTI no longer has a special legal status as a trust established by an act of Parliament. Instead it has adopted the same structure as any other fund in India - a trust and an AMC.

UTI Mutual Fund is the present name of the erstwhile Unit Trust of India (UTI). While UTI functioned under a separate law of the Indian Parliament earlier, UTI Mutual Fund is now under the SEBI's (Mutual Funds) Regulations, 1996 like all other mutual funds in India.

The emergence of a uniform industry with the same structure, operations and regulations make it easier for distributors and investors to deal with any fund house. Between 1999 and 2005 the size of the industry has doubled in terms of AUM which have gone from above Rs 68,000 crores to over Rs 1,50,000 crores.

Phase VI (From 2004 Onwards): Consolidation and Growth:

The industry has lately witnessed a spate of mergers and acquisitions, most recent ones being the acquisition of schemes of Allianz Mutual Fund by Birla Sun Life, PNB Mutual Fund by Principal, among others. At the same time, more international players continue to enter India including Fidelity, one of the largest funds in the world.

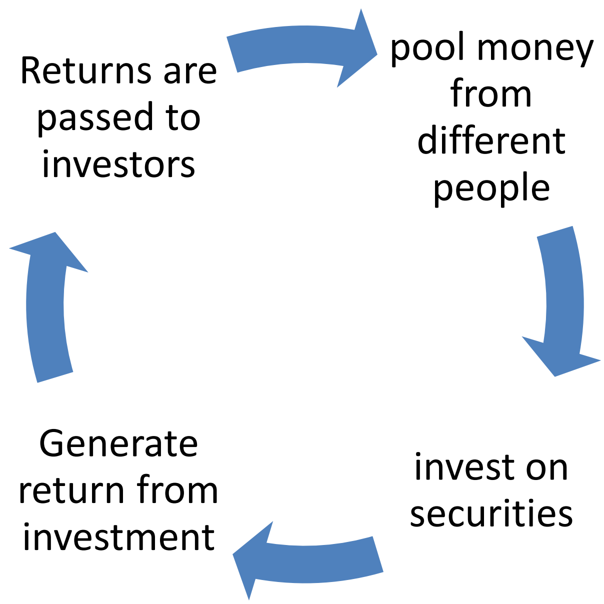
Importance of Mutual fund

- It helps to reduce risk through the collection of fund from different securities and invest in different stocks.
- It provides the benefit of diversification to the investor because it can make investment in different securities diversifying the investment.
- It helps to maximize the return of the portfolio because mutual fund is managed by professional and expert team.
- It provides opportunity about to reinvest the return.
- It has the feature of marketing and liquidity on the shares.
- It cultivates saving and investment habits among the investors through the generation of enough return to investors.
- It is useful for the purpose of saving tax to the investor because the government of the country permitted tax exemption.
- The investor feel safety because mutual funds operation and management are closely observed by stock exchange center.

MUTUAL FUND

According to VISHVA "Pool money from different securities and invests it in stocks".

MUTUAL FUND CYCLE



Classification of Mutual Funds

General Classification

- Open - Ended Schemes
- Close – Ended Schemes
- Interval Scheme
- Load Funds
- No Load Funds
- Tax Exempt Funds
- Non – tax Exempt funds

Broad Classification

Equity Fund

Debt Fund

Money Market Fund

Exchange Trade Fund

Commodity Fund

Fund of Funds

Gilt Funds

- Real Estate funds

Open Ended Schemes

Under this scheme investors can purchase and sell securities at any time. There is no time limit for investors. According to investors convenient can buy and sell shares.

Close – Ended Schemes

Under this scheme investors can purchase at any time but there is time limit for selling shares.

- Time limit for selling share is 3 to 5 years.
- Mostly all investor debt instrument will comes under here.
- Investors can purchase when it is launched.

Interval Scheme

It is the combination of open ended and close ended scheme,

Load Funds

Mutual funds incur various expenses such as, Marketing, Advertising, Distribution.

These Expenses Company can recover from investors in the form of load.

Tax Exempt Funds

Under this scheme there is no tax for investors. Investors exempted from tax.

Example:- Gilt and Equity Schemes

Non – tax Exempt Funds

Here investors invest their amount on taxable securities are known as non-tax exempt

Broad Classification

Equity Funds

- It is more risk fund. When compared with other fund. And it is highly return
- It is long term fund period is 3 years.

Debt / Income Funds

- Funds are that invested in debt instruments issued by bank, government, financial institutions.
- It has low risk but fixed income and regular income to investors.

Money Market Fund

Invest securities on short term instruments. These securities highly liquid and provide safety of investments.

Example :Treasury Bills, Commercial Papers.

Hybrid Fund

Combination of various shares such as equity and debt money market securities

Exchange Trade Funds

Exchange trade funds has individual price for each and every stock. It is also known as offer diversification. It provides combined benefits of a close end and open end.

Commodity Fund

Investing amount on different stocks commodities like Metals, Food, Grains, Crude oil, Gold etc. It is also called as future contracts.

Fund of Funds

- Also known as multi manager investment
- Allocating funds to different shares and it holding a portfolio stock.

Gilt Funds

Gilt funds Means investing money on government securities is known as Gilt funds.

Real Estate Funds: Investing money on real estate shares such as securities assets.

Advantages of Mutual Fund

Transparency

Mutual fund transparently declare their portfolio every month. This an investor knows where his/her money is being deployed and in care they are not happy with they can withdraw at a short notice.

Diversification In India we have many mutual fund institution hence investor can diversify its risk.

Information service

Mutual fund institution provides enough information services and also it provides clear cut ideas about mutual funds.

Convenience: Investing in mutual fund reduces paperwork and saver time

Tax benefit: Mutual fund investors now enjoy tax benefit under income tax hcl sol.

Liquidity: Under open ended scheme people can easily sell the share and can easily convert the shares.

Flexibility: Mutual fund offering various schemes hence it is flexible to investors

DISADVANTAGE

- Not willing to invest in mutual fund
- Mutual funds do not have a strong distribution network.
- Mutual funds does not have proper structure.

Other major mutual fund industry in India:

State Bank of India Mutual Fund

State Bank of India Mutual Fund is the first Bank sponsored Mutual Fund to launch offshore fund, the India Magnum Fund with a corpus of ` 225 cr. approximately. Today it is the largest Bank sponsored Mutual Fund in India. They have already launched 35 Schemes out of which 15 have already yielded handsome returns to investors.

Prudential ICICI Mutual Fund

The mutual fund of ICICI is a joint venture with Prudential Plc. of America, one of the largest life insurance companies in the US of A. Prudential ICICI Mutual Fund was setup on 13th of October, 1993 with two sponsorers, Prudential Plc. and ICICI Ltd.

HDFC Mutual Fund

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

HSBC Mutual Fund

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

ING Vysya Mutual Fund

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

Importance of Mutual fund

- It helps to reduce risk through the collection of fund from different securities and invest in different stocks.
- It provides the benefit of diversification to the investor because it can make investment in different securities diversifying the investment.
- It helps to maximize the return of the portfolio because mutual fund is managed by professional and expert team.
- It provides opportunity about to reinvest the return.
- It has the feature of marketing and liquidity on the shares.
- It cultivates saving and investment habits among the investors through the generation of enough return to investors.
- It is useful for the purpose of saving tax to the investor because the government of the country permitted tax exemption.
- The investor feel safety because mutual funds operation and management are closely observed by stock exchange center.

Asset Management Company (AMC)

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

SEBI Regulations

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

- Mutual fund shall be established in the form of trusts under the Indian Trust Act and managed by separately formed Asset Management Company.
- In the Board of directors of AMC must be 50% members are independent without the influence of sponsoring organization and they should have at least 10 years experience in the field of portfolio management.
- A minimum of ` 10 crores must have AMC as net worth
- An AMC can function for only one mutual fund and it is prohibited to work for another.
- AMCs are also allowed to do other fund based businesses such as providing investment management services to offshore funds, venture capital funds and insurance companies.
- Minimum issue of fund for closed-end scheme and open end scheme should be ` 20 crores and ` 50 crores respectively.

UNIT TRUST OF INDIA(UTI) AND MONEY MARKET MUTUAL FUNDS

Unit Trust of India

ESTABLISHMENT

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

STRUCTURE

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

OBJECTIVES

There are two primary objectives of UTI,

- To promote and pool the small savings from the lower and middle income people who cannot have direct access to the stock exchange, and

- To give them an opportunity to share the benefits and fruits of prosperity resulting from rapid industrialization in India.

Functions

The main functions of UTI are as follows:

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

Types of Funds in UTI

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

- Maturity period
- Investment objective

BASED ON MATURITY

1. Open Ended Schemes

Under this scheme investors can purchase and sell securities at any time. There is no time limit for investors. According to investors convenient can buy and sell shares.

2. Close – Ended Schemes

Under this scheme investors can purchase at any time but there is time limit for selling shares.

- Time limit for selling share is 3 to 5 years.
- Mostly all investor debt instrument will comes under here.
- Investors can purchase when it is launched.

BASED ON INVESTMENT OBJECTIVE

a. Liquid Funds Category

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

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

b. Equity Funds

- It is more risk fund. When compared with other fund. And it is highly return
- It is long term fund period is 3 years.

c. Debt / Income Funds

- Funds are that invested in debt instruments issued by bank, government, financial institutions.
- It has low risk but fixed income and regular income to investors.

d. Balanced Funds Category

UTI - Balanced Fund – It is an open-ended balance fund investing between 40% to 60% in equality related securities and the balance in debt (fixed income securities) with a view to generate regular income together with capital appreciation.

Money Market Mutual Funds

- In April 1991, Money Market Mutual Funds (MMMFs) were introduced in India.
- They provide an additional short term investment avenue to investors and bring money market instruments within the reach of individuals.

A money market mutual fund is a fund that invests solely in money market instruments. Money market instruments are forms of debt that mature in less than one year and have high liquidity. Treasury bills make up the bulk of the money market instruments. Securities in the money market are relatively risk-free and most secure mutual fund investments. Its aim is to preserve principal while yielding a modest return. It is similar to a high-yield bank account but is not entirely risk free. Investor should concentrate on the rate of interest.

Types of Money Market Mutual Funds

a) Institutional Money Market Mutual Funds

These funds are held by governments, institutional investors and businesses etc. Huge sum of money is parked in institutional money funds.

b) Retail Money Market Mutual Funds

Retail money market funds are used for parking money temporarily. The investment portfolio of money market funds comprises of treasury bills, short term debts, tax free bonds etc.

Special Features of Money Market Mutual Funds

- Money market mutual funds are one of the safest instruments of investment for the retail low income investors. The assets in a money market fund are invested in safe and stable instruments of investment issued by **governments, banks, corporations etc**.

- Generally, money market instruments require huge amount of investments and it is beyond the capacity of an ordinary retail investor to invest such large sums. Money market funds allow retail investors the opportunity of investing in money market instrument and benefit from the price advantage.

- Money market mutual funds are usually rated by the rating agencies.

RBI Guidelines

RBI Guidelines on MMMFs

The setting up of MMMFs would require the prior authorization of the Reserve Bank. Furthermore, the MMMFs to be set up by banks, their subsidiaries and public financial institutions would be required to comply with the guidelines and directives that may be issued by the RBI from time to time. Although the guidelines were issued in 1992-93, yet no institutions has so far come forward to establish a MMMF. The major hurdle has been the stringent limits for investments prescribed by the RBI. Moreover, the relative quietness on the money market front led to the absence of the "necessity" factor to establish MMMFs.

The important relaxations were

1. Ceiling for raising resources and minimum size of ` 500 million withdrawn.
2. Minimum limit 25% while investing in T-bills and the Government of India papers of residual maturity upto 1 year withdrawn
3. Maximum limit of 30% while investing in call/notice money withdrawn
4. Maximum limit of 15% while investing in CPs withdrawn
5. Maximum limit of 20% while investing in Commercial bills withdrawn
6. Dividend / income on subscriptions by individual NRI in MMMFs can be repatriated, but not principal
7. Private sector MMMF should need the RBI and SEBI approval

Venture Capital

Introduction

Venture Capital is a form of "risk capital" which is invested in a project or a business where there is a substantial element of risk relating to the future creation of profits and cash flows. Risk capital is invested as shares (equity) rather than as a loan and the investor requires a higher "rate of return" to compensate him for his risk.

Venture capital:

Venture capital otherwise called as risk capital.

Venture capital defined as a temporary investment in a growth oriented small or medium enterprises or business managed by highly motivated entrepreneur.It the medium and small business wants to adopt new technology means they should approach venture capital companies.

Origin

Venture capital funding is first originated in the UK in the late 18th century, when European entrepreneurs and merchant bankers were helping the growth of industry in USA, South Africa and India. This informal method of financing became an industry in the late 1970s and early 1980s when a number of venture capital firms were founded.

Types and Stages involved in venture capital finance:

☺ Early stage

☺ Later stage

☺ Turn around

Early stage:

- Seed capital
- Start up
- Second round

Later stage:

- Mezzanine capital
- Bridge capital
- Buy out

Turn around:

- Financial turn around
- Management turn around

VARIOUS STAGES OF VENTURE CAPITAL FINANCING:

Early Stage Financing:

1. **Seed capital:**

The venture capital institution provide seed capital for testing the product. This seed capital provides an earlier stage of finance.

2. **Start-up capital**:

   Once the product is tested in the market and satisfied with testing. Funds provided for further development.

Start-up capital given for following purpose:

- New high technology introduced by entrepreneur.
- New business started by entrepreneur.
- New project started by existing companies.
- New company promoted by existing company.

3. **Second round capital:**

   The concern has successfully laundered product in the market but has not become commercially successfully for that want of some more finance at this stage. Venture capital institution provider more finance than initial stage.

LATER STAGE FINANCING:

1. **Mezzanine capital:**

   Venture capital institution provided for purchase of plant, and machinery, repayment of past debts and entering new business.

2. **Bridge capital:**

   This is a medium term finance ranging from 1to3 years and used for growth of business.

3. **Buyout :**

   Buyout can be divided into two:

   a. Buyout→this capital used to control the external problem on the management.

   b. Buying→it for management purpose.

TURN AROUND:

1. **Finance turn around:**

   When the company is able to improve its condition financially it is called financial turn around, which is due to the financial assistance by venture capital finance.

2. **Management turn around**:

This finance /capital provided to becoming self-dependent companies and able to face the challenges of business called management turn around.

VENTURE CAPITAL IN INDIA

Different types of financial institution in India:

1. Venture capital companies promoted by development bank.
2. State level venture capital companies.
3. Commercial banks promote vc.
4. Private venture capital companies.
5. Foreign venture capital fund.

1. Venture Capital Institution Promoted By Bank:

- IDBI- promoted in 1986.
- TDICI-(technology development and Information Company of India) Started by ICICI and UTI in 1988.
- IFCI started in 1988 in the name of "risk capital and technology finance corporation limited.

2. State Level Venture Capital:

There are 2 state level venture capital companies in India:

- Gujarat venture capital.
- Andhra Pradesh venture capital.

GVC:

Gujarat industries Investment Corporation limited along with Gujarat lease finance corporation Gujarat Alkalies & chemical ltd, and Gujarat state fertilizer ltd, promoted Gujarat venture finance in 1990 with 24 crores.

APVC:

This was promoted by Andhra Pradesh industrial development corporation, IDBI, Andhra bank and IOB.

3. Venture Capital Companies Promoted By Commercial Bank:

- Canara bank venture capital fund.
- SBI venture capital fund.
- Grind Lay bank promoted India investment fund.

4. **Private Sector Venture Capital Companies:**
    - Indus venture capital management.
    - Larazd credit capital venture fund.
5. **Foreign Venture Capital Companies:**
    - Hong Kong bank promoted venture fund.
    - Alliance capital of USA promoted venture capital fund.

Venture Leasing

A leasing arrangement in which the 'lessor' provides both the assets and the equity capital to the lessee is called venture leasing