



**MEASI INSTITUTE OF MANAGEMENT  
CHENNAI-14**

**Approved by All India Council of Technical Education and  
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute**

## **MERCHANT BANKING AND FINANCIAL SERVICES COURSE MATERIAL**



## VISION & MISSION STATEMENTS

### VISION;

- To emerge as the most preferred Business School with Global recognition by producing most competent ethical managers, entrepreneurs and researchers through quality education.

### MISSION;

- **Knowledge through quality teaching learning process;** To enable the students to meet the challenges of the fast challenging global business environment through quality teaching learning process.
- **Managerial Competencies with Industry institute interface;** To impart conceptual and practical skills for meeting managerial competencies required in competitive environment with the help of effective industry institute interface.
- **Continuous Improvement with the state of art infrastructure facilities;** To aid the students in achieving their full potential by enhancing their learning experience with the state of art infrastructure and facilities.
- **Values and Ethics;** To inculcate value based education through professional ethics, human values and societal responsibilities.

## PROGRAMME EDUCATIONAL OBJECTIVES (PEOs)

**PEO 1; Placement;** To equip the students with requisite knowledge skills and right attitude necessary to get placed as efficient managers in corporate companies.

**PEO 2; Entrepreneur;** To create effective entrepreneurs by enhancing their critical thinking, problem solving and decision-making skill.

**PEO 3; Research and Development;** To make sustained efforts for holistic development of the students by encouraging them towards research and development.

**PEO4; Contribution to Society;** To produce proficient professionals with strong integrity to contribute to society.



### **Program Outcome;**

**PO1; Problem Solving Skill;** Apply knowledge of management theories and practices to solve business problems.

**PO2; Decision Making Skill;** Foster analytical and critical thinking abilities for data-based decision making.

**PO3; Ethical Value;** Ability to develop value based leadership ability.

**PO4; Communication Skill;** Ability to understand, analyze and communicate global, economic, legal and ethical aspects of business.

**PO5; Individual and Leadership Skill;** Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment.

**PO6; Employability Skill;** Foster and enhance employability skills through subject knowledge.

**PO7; Entrepreneurial Skill;** Equipped with skills and competencies to become an entrepreneur.

**PO8; Contribution to community;** Succeed in career endeavors and contribute significantly to the community.



**ELECTIVE COURSE – XIV**

Subject Code	Subject Name	L	T	P	S	C
PMF14	MERCHANT BANKING AND FINANCIAL SERVICES	3	0	0	1	3
<b>Course Objectives</b>						
C1	To enable a better understanding of the financial structure in India and various regulations in the Merchant Banking domain and also throw light on the rules and regulations governing the Indian securities market.					
C2	To familiarize the students with public issue management mechanism, role of issue manager, SEBI guidelines and marketing of securities.					
C3	To create an understanding on the trends in financial services, merger and acquisition, portfolio management services and credit rating.					
C4	Provide exposure to fund based financial services such as leasing and hire purchasing, financial evaluation.					
C5	Students can understand other fund based financial services such as consumer credit, real estate financing, bill discounting, factoring and venture capital.					
<b>SYLLABUS</b>						
Unit. No.	Details					Hours
Unit I	<b>MERCHANT BANKING</b> <b>Introduction</b> – An Over view of Indian Financial System – Merchant Banking in India – Recent Developments and Challenges ahead – Institutional Structure – Functions of Merchant Bank -Legal and Regulatory Framework – Relevant Provisions of Companies Act- SERA-SEBIGuidelines - FEMA, etc. - Relation with Stock Exchanges and OTCEL.					9
Unit II	<b>ISSUE MANAGEMENT</b> Role of Merchant Banker in Appraisal of Projects, Designing Capital Structure and Instruments –Issue Pricing – Book Building – Preparation of Prospectus Selection of Bankers, Advertising Consultants, etc. - Role of Registrars –Bankers to the Issue, Underwriters, and Brokers. – Offer for Sale – Green Shoe Option – E-IPO, Private Placement – Bought out Deals – Placement with FIs, MFs, FIIs, etc. Off - Shore Issues. – Issue Marketing – Advertising Strategies – NRI Marketing –Post Issue Activities.					9
Unit III	<b>OTHER FEE BASED SERVICES</b> Mergers and Acquisitions – Portfolio Management Services – Credit Syndication – Credit Rating – Business Valuation.					9
Unit IV	<b>FUND BASED FINANCIAL SERVICES</b> Leasing and Hire Purchasing – Basics of Leasing and Hire purchasing – Financial Evaluation.					9
Unit V	<b>OTHER FUND BASED FINANCIAL SERVICES</b>					9



	Consumer Credit – Credit Cards – Real Estate Financing – Bills Discounting – factoring and Forfeiting – Venture Capital.		
	<b>TOTAL HOURS</b>		<b>45</b>
<b>Reference Books</b>			
1.	M.Y.Khan, Financial Services, Tata McGraw-Hill, 12th Edition, 2012		
	NaliniPravaTripathy, Financial Services, PHI Learning, 2011.		
2.	Machiraju, Indian Financial System, Vikas Publishing House, 2nd Edition, 2010.		
3.	J.C.Verma, A Manual of Merchant Banking, Bharath Publishing House, New Delhi,		
4.	Varshney P.N. & Mittal D.K., Indian Financial System, Sultan Chand & Sons, New Delhi.		
5.	Sasidharan, Financial Services and System, Tata Mcgraw Hill, New Delhi,		
<b>E-Sources</b>			
1.	<a href="https://businessjargons.com">https://businessjargons.com</a>		
2.	<a href="https://www.wallstreetmojo.com">https://www.wallstreetmojo.com</a>		
3.	<a href="http://indianmoney.com">http://indianmoney.com</a>		
4.	<a href="http://www.businessmanagementideas.com">www.businessmanagementideas.com</a>		
5.	<a href="http://www.shodhganga.inflibnet.ac.in">www.shodhganga.inflibnet.ac.in</a>		
<b>Assessment Tools Used</b>			
1.	Assignments	6.	Group Discussions
2.	Internal Assessment Tests	7.	Role play
3.	Model Exam	8.	Quiz
4.	Seminar	9.	Management games
5.	Case Studies	10.	Simulation
<b>Content Beyond Syllabus</b>			
1.	Wealth management services-components-financial planning		
2.	Risk management services-techniques-area-action plan		
3.	E-commerce-credit card mechanism-credit card frauds		
<b>Additional Reference Books</b>			
1.	World Wealth Report by Capgemini and Merrill Lynch, 2007		
2.	Dun & Bradstreet, Wealth Management, Tata McGraw-Hill education 2009		
3.	Robert D Manning, Credit card Nation, Basic Books,2000		
4.	SEBI Regulations and guidelines		
<b>Course Outcomes</b>			
<b>CO. No.</b>	On completion of this course successfully the students will;		<b>Program Outcomes (PO)</b>
<b>C314.1</b>	Possess better understanding of the financial structure in India and various regulations in the Merchant Banking Domain. Understand the rules and regulations governing the Indian securities market.		PO4, PO6
<b>C314.2</b>	Possess knowledge on public issue management mechanism, various forms of issues, role of issue manager, SEBI guidelines and		PO2, PO6



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	marketing of securities.	
<b>C314.3</b>	Possess insights on recent trends in financial services, merger and acquisition, portfolio management services and credit rating.	PO2, PO4, PO6
<b>C314.4</b>	Have exposure on fund based financial services such as leasing and hire purchasing, financial evaluation.	PO2, PO6
<b>C314.5</b>	Have better understanding on other fund based financial services such as consumer credit, real estate financing, bill discounting, factoring and venture capital.	PO4, PO6



**UNIT- I  
INTRODUCTION TO MERCHANT BANKING**

**Structure:**

1. Introduction
2. Scope of Merchant Banker
3. Institutional structure of Merchant Banker
4. Recent Development in Merchant Banking
5. Function and Services of Merchant Banker

**PART-A (One Marks)**

**Who is Merchant Banker?**

- ☐ He is one who makes a critical link between a company raising funds and the investor.
- ☐ It refers to an organization that underwriters corporate securities and advice clients on the issue.
- ☐ Merchant Banker may be in the form of Bank, company and Proprietary.

**What is Merchant Banking?**

- ☐ A set of function and services rendered by Merchant Banker is termed as “Merchant Banking”
- ☐ It is a Non –Banking financial activity resembles banking function.

**Scope of Merchant Banker?**

- ☐ Growth of New issue market
- ☐ Entry of foreign investors
- ☐ Development of Debt Markets
- ☐ Innovations in financial instruments
- ☐ Corporate restructuring

**Nature/ Characteristic/Qualities of Merchant Banker?**

1. Information and Knowledge oriented
2. Emphasis on fee
3. Skill based activity
4. Good organizational structure
5. Contact based activity
6. Integrity and high professional standard

**Examples of Merchant Banker?**

1. IDBI BANK
2. SBI CAPS

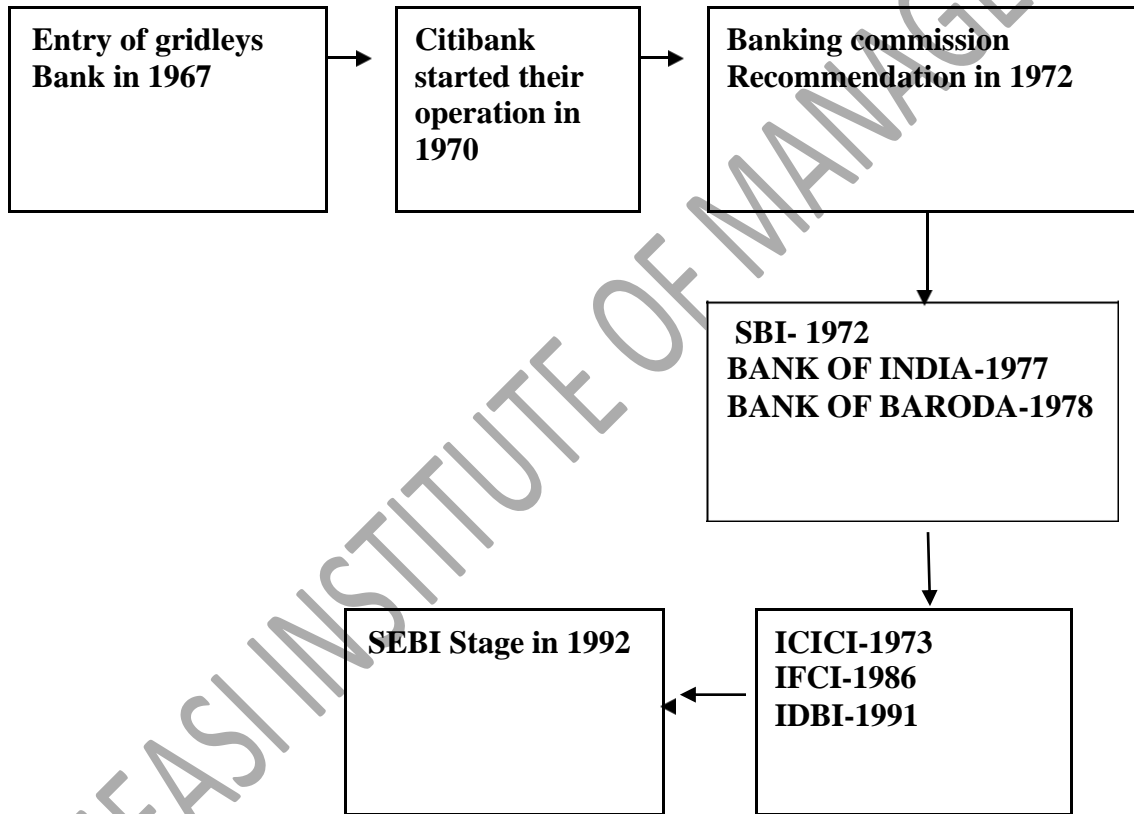


- 3. ALPARI INDIA
- 4. PNB CAPS
- 5. J.P.MORGAN PVT LTD
- 6. ICICI SECURITIES

**PART-B (5 Marks)**

**1. Describe the origin, growth and history of Merchant Banker in India?**

**MERCHANT BANK IN INDIA:**



**2. Distinguish between Commercial Bank and Merchant Bank?**

COMMERCIAL BANK	MERCHANT BANK
1. It deals with Debt & debt related finance	It deals with Equity & equity related finance
2.They are Asset oriented	Management oriented





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3. They avoid Risk of business.	Accept risk of business.
4.It is both fee & fund based services	It is purely fee based services.
5.It is regulated & controlled by RBI	Controlled by SEB
6. The activities of Commercial banks are financiers	The activities of of Merchant Banker are Adviser, underwriter and Lead manager

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3. Give the Institutional structure / Division / Category/ Classification of Merchant Banker? \_\_\_\_\_

**A. CATEGORY**

S.NO	CATEGORY	FUNCTION
1	CATEGORY I	To act as Adviser, Consultant, Manager, Underwriter & Portfolio Manager.
2	CATEGORY II	To act as Adviser, Consultant, Co-Manager, Underwriter & Portfolio Manager.
3	CATEGORY III	To act as Adviser, Consultant & underwriter to an issue.
4	CATEGORY IV	To only Adviser & Consultant

**B. CAPITAL ADEQUACY REQUIREMENTS:**

S.NO	CATEGORY	MINIMUM NETWORTH AMOUNT
1	CATEGORY I	Rs 5 crores
2	CATEGORY II	Rs 50 Lakhs
3	CATEGORY III	Rs 20 Lakhs
4	CATEGORY IV	Nil

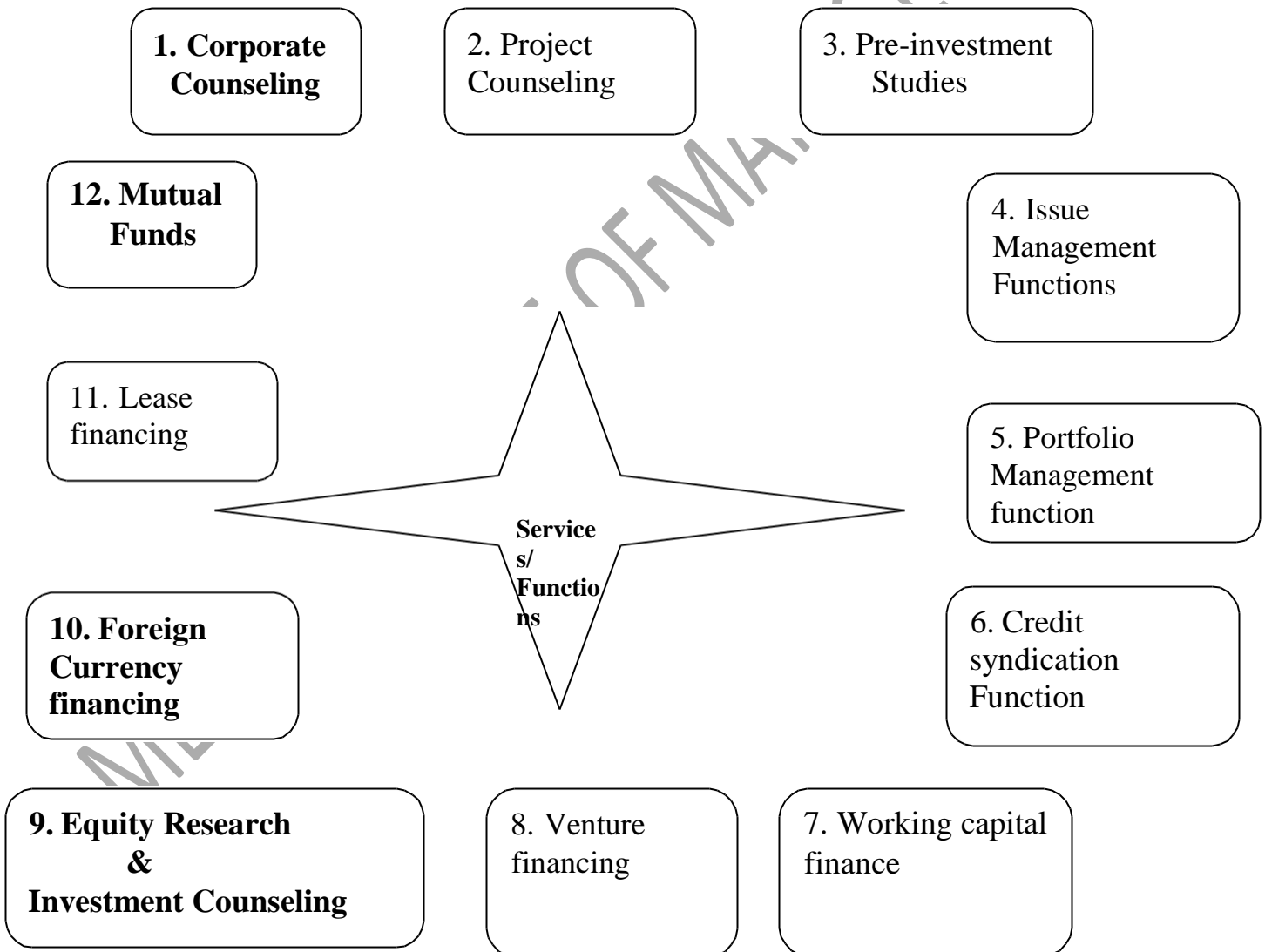
**C. RESTRICTION OF LEAD MANAGER / MERCHANT BANKER:**

S.NO	COMPANY SIZE OF ISSUE	NO :OF: MERCHANT BANKER
1	Less than 50 crores	2
2	50- 100 crores	3
3	100-200 crores	4
4	200-400 crores	5
5	Above 400 crores	More than 5



**PART-C (10 Marks)**

**I. Explain the Services, Activities and Function of Merchant Bankers?**





### **1. Corporate Counseling:**

- ☐ It refers to set of activities that is undertaken to ensure efficient running of a corporate enterprise at its maximum potential through effective management of finance.
- ☐ Merchant Banker guide the client in the areas such as
  - } Organizational goals
  - } Location factor
  - } Choice of product & Market survey
  - } Operational scale
  - } Forecasting for a product
  - } Cost reduction

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- } Allocation of resources

## **2. Project Counseling:**

- ☐ It is a part of corporate counseling and relates to project finance, project reports and appraising report with financial institutions.
- ☐ Merchant Banker guide the client in the areas such as
  - } Project ideas
  - } Project profile
  - } Licenses permission
  - } Arranging funds
  - } Identification of Investment Avenues

## **3. Pre-investment studies:**

- ☐ It is connected with capital investment in terms of growth and profit aspects called as “Pre investment studies”
- ☐ Merchant Banker guide the client in the areas such as
  - } Environmental factor
  - } Regulatory factor
  - } Raw material supplies
  - } Demand projections

## **4. Issue Management Functions:**

- ☐ The management of issue for raising funds through various types of instruments by companies is known as “Issue management ”
- ☐ It involves two function such as
  - } Pre issue management-Mechanism, Underwriting, marketing, Pricing & co-ordination.
  - } Post issue management – Allotment of securities, dispatch share certificate & Publish in Newspapers

## **5. Portfolio Management functions:**

- ☐ It refers to investment in different kinds of securities such as shares, debentures and money market instruments.
- ☐ Merchant Banker guide the client in the areas such as
  - } Investment objectives
  - } Choice of an asset mix
  - } Formulation of portfolio strategy
  - } Selection of securities
  - } Portfolio Execution
  - } Portfolio Revision and Evaluation



- } Risk diversification
- } Efficient portfolio
- } Beta estimation
- } Rebalancing portfolios

#### **6. Credit Syndication Functions:**

- ☐ It refers to obtaining of loans from single development institution for
- ☐ projects. Merchant Banker guide the client in the areas such as
  - } Estimation of total cost of project
  - } Drawing up financial plan
  - } Preparing loan application
  - } Selection of institution

#### **7. Working capital finance:**

- ☐ The finance required for meeting the days to day's expenses of an enterprise is known as working capital finance.

#### **8. Venture financing:**

- ☐ A form of equity financing specially for funding high risk and high reward projects is known as "Venture capital".

#### **9. Equity Research and Investment Counseling:**

- ☐ Equity research is a study of equity or stocks for the purpose of investment
- ☐ Investment counseling relates to various aspects such investor risk return analysis, investment avenues and selection of portfolios.

#### **10. Foreign currency financing:**

- ☐ The finance provided to fund foreign trade transactions is called as "Foreign currency finance".
- ☐ Merchant Banker guide the client in the areas such as
  - } Letter of credit
  - } Pre shipment credit and Post shipment credit
  - } Bridge loans

#### **11. Leasing financing:**

- ☐ It is a contract by which one party conveys land, property and services to another for a specified time.
- ☐ It involves two parties such as Lessor (Seller) and Lessee(Buyer)

#### **12. Mutual funds:**

- ☐



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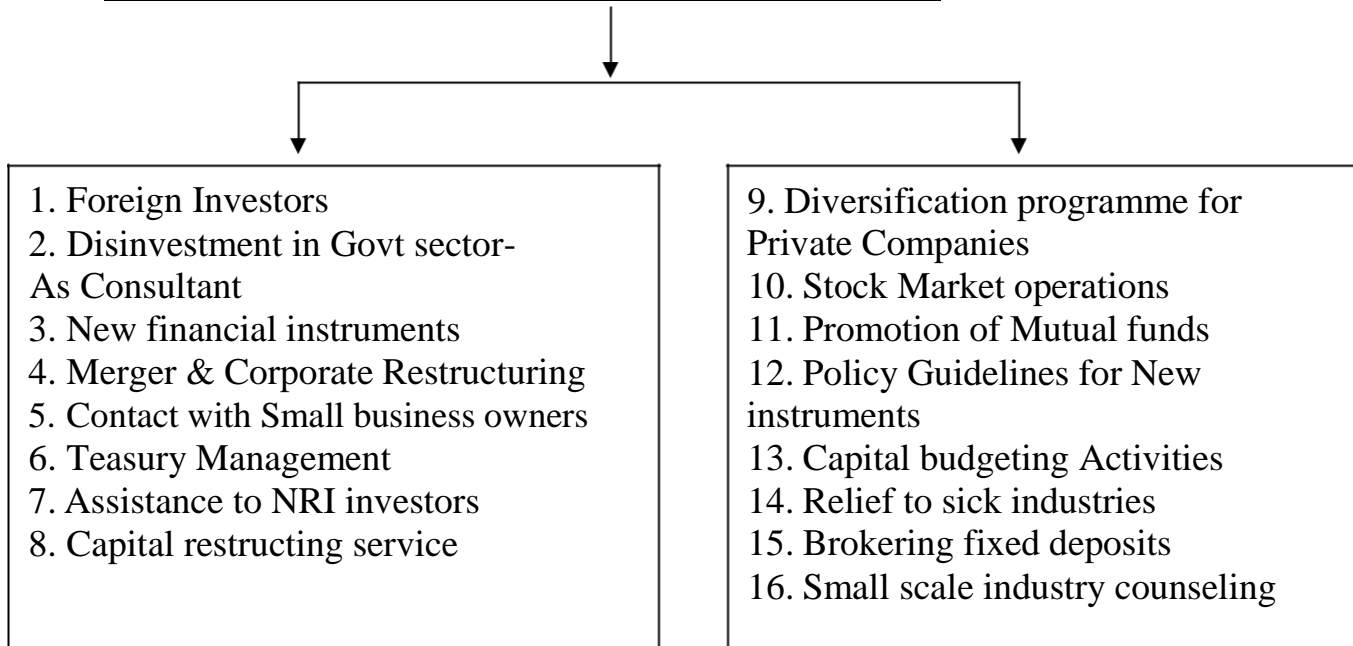
It is a corporate body that attracts saving which are then invested in money market, debt market and capital market instruments such as shares, Debentures.

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**II. Outline the Recent Development and challenges/Problems/Ahead by Merchant Banker?**

**A.RECENT DEVELOPMENT IN MERCHANT BANKING:**



**B. PROBLEMS/CHALLENGES/AHEAD BY MERCHANT BANKER:**

1. Networth Requirement is very high
2. Slow new issue market Activities
3. SEBI guidelines has restricted their operation
4. Small & specialized Merchant bankers Shut down their business.
5. Non-Coperation of the issuing companies
6. Small savers suffer in rural & urban Areas
7. Rehabilitating Sick Industries
8. Manage Surplus Money
9. Indian counterparts to sharpen their skills
10. To Tap latest technology

**Reference Books:**

1. Manual of Merchant Banking, Bharat Publishing house, Dr.J.C.Verma
2. Merchant Banking Principle and practice, New Age International Publisher, Machiraju.H.R





**3. Merchant Banking and Financial services, Tata McGraw hill Education private limited, Dr.S.Guruswamy**

**4. Guide to SEBI Guidelines – Bharat Publishing House, K. SEKHAR**

## **UNIT-2**

### **LEGAL FRAMEWORK OF MERCHANT BANKER**

#### **Structure:**

1. Introduction
2. Merchant Banker Regulatory Framework
3. Concept of Stock Exchange, NSE, OTCEI
4. Securities Exchange Board of India (SEBI)
5. SERA, FEMA Act

#### **PART-A (One Marks)**

##### **BSE:**

- ? **It stands for Bombay Stock Exchange.**
- ? It is the oldest stock exchanges in Asia & 12<sup>th</sup> largest in the world.
- ? It was established by “Native Share & Stock brokers Association” in 1875.
- ? It is located in Dolal Street, Mumbai.

##### **NSE:**

- ? It stands for **National stock exchange**
- ? It is a Mumbai-based stock exchange.
- ?



It is the largest stock exchange in India in terms of daily turnover and number of trades, for both equities and derivative trading.

**BOLT:**

- It stands for **Bombay Online Trading System**.
- It enabled the oldest stock exchange in India to expand trading activities to 118 cities across the country.

**NEAT:**

- It stands for **National Exchange for Automated Trading**.
- It is a fully automated screen based trading system, which adopts the principle of an order driven market.
- NSE is the first exchange in the world to use satellite communication technology for trading.

**OTCEI:**

- It stands for **Over the Counter Exchange of India**.
- It is a floorless and ring less trading system, equipped with electronic and communication network for transacting business nationally and internationally.

**SENSEX:**

- It is the popular name for the Bombay Stock Exchange Sensitive Index.
- It is the oldest stock market index /indicator currently in use.
- Sensex is the index of market capitalisation.
- Sensex consists of only 30 representative stocks.

$$\text{Sensex} = \text{Prevoius day sensex points} * \frac{\text{Current Market capitalization}}{\text{Previous day Market capitalization}}$$

**NSCCL:**

- It stands for **National Securities Clearing Corporation Ltd in India**.

**NSDL:**

- It stands for **National Securities Depository Limited**

**Badla Trading:**

- The process of buying stock with borrowed money is called badla trading.

**Stock market indicator\ index**

- It is a method of measuring a section of the stock market.
- The movement of the market is measured by indices representing entire market.



**Security:**

- ☐ According to the securities contracts regulation act 1956, securities include shares, scrip's, stocks, bonds, debentures or fixed income securities or other marketable like securities of any incorporate company.

**Market maker:**

- ☐ It is a company that quotes both a buy and sells prices in a financial instrument hoping to make profit on the bid offer.

**Authorized capital:**

- ☐ The maximum value of shares as specified in the memorandum of association of the company is called the authorized\ registered\ nominal capital.

**Subscribed capital:**

- ☐ In cases shares offered for public subscription is not taken up, the portion of capital subscribed is called subscribed capital. This is less than the issued capital.

**Paid –up capital:**

- ☐ The part of the capital that has been subscribed to by the investors is called the paid up capital.

**Issued capital:**

- ☐ The amount offered by the company to the investors is called issued capital.

**Screen based system:**

- ☐ It is a transparent electronic trading in securities through the mechanism of OTCEI and NSE, where by quotations for securities and volume of those transactions is made publicly available after each quotation.

**Dematerialization Process:**

It is the process of converting securities from physical form so as to facilitate faster trading and settlement of transactions

**Listing:**

- ☐ It is the process of taking a privately-owned organization and making the transition to a publicly-owned entity whose shares can be traded on a stock exchange.

**Stock Market\stock Exchange:**

- ☐ It is a private or public market for the trading of company stock and derivatives of company stock at an agreed price; these are securities listed on a stock exchange.



**Jobber:**

- ☐ He is a person who buys and sells securities in his own name.
- ☐ He gives two Quotations as a dealer in securities, lower quotation for buying and higher quotation for selling.

**Arbitrage:**

- ☐ It is the difference between price common in two different markets.
- ☐ It may be buying in one market at lower price and selling at higher price in different market.

**Settlement period:**

- ☐ It is the time period between the settlement date and transaction date.
- ☐ The settlement period for
  - } For commercial paper- same day
  - } For U.S treasury - T +1
  - } For FOREX transaction – T+2
  - } For Stock transaction – T+3

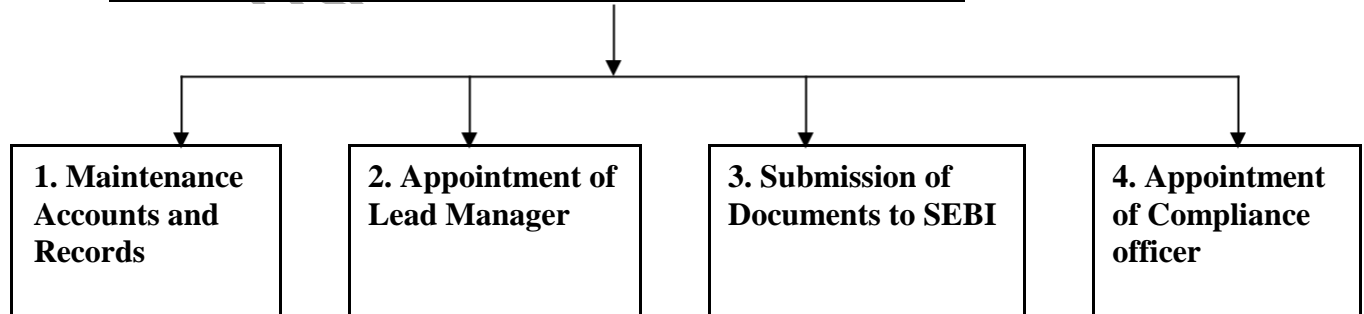
**Brokerage:**

- ☐ The maximum brokerage that can be charged by the broker is 2.5 % of the trade value.
- ☐ The maximum brokerage that can be charged by the sub- broker is 1.5%.
- ☐ Any additional charges that member can charge are service tax @5%
- ☐ Any penalties arising on behalf of the investor.

**PART-B (5 Marks)**

**1. Describe the Obligation (Duties) and Responsibilities of Merchant Banker/Lead Manager?**

**A. DUTIES OF MERCHANT BANKER / LEAD MANAGER:**



**1. Maintenance of Book of Accounts:**

- ☐ Every Merchant banker shall maintain the following documents for 5 years



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- } Copy of Profit & Loss account
- } Copy of Auditors report
- } Statement of Financial position
- ☐ Every Merchant Banker shall furnish ½ yearly unaudited result
- ☐ Every Merchant Banker rectify the deficiency in Auditors report within 2 months.

**2. Appointment of Lead Manager:**

S.NO	COMPANY SIZE OF ISSUE	NO :OF: MERCHANT BANKER
1	Less than 50 crores	2
2	50- 100 crores	3
3	100-200 crores	4
4	200-400 crores	5
5	Above 400 crores	More than 5

**3. Submission of Documents to SEBI:**

- ☐ Every Merchant Banker should submit the DRAFT PROSPECTUS along with Documentation fees

S.NO	SIZE OF ISSUE	DOCUMENTATION FEES
1	Upto 5 crores	10,000
2	5-10 crores	15,000
3	10-50 crores	25,000
4	50-100 crores	50,000
5	100-500 crores	2,50,000
6	Above 500 crores	5,00,000

**4. Appointment of Compliance officer:**

- ☐ Every Merchant shall appoint Compliance officer relate to the company
- ☐ issue. The Compliance officer shall be responsible for
  - } Acts, Rules, guidelines issued by the SEBI
  - } For redressal of investors grievances

**B. RESPONSIBILITIES OF MERCHANT BANKER / LEAD MANAGER:**

1. He is Responsibilities of appointing various intermediaries such as
  - } Advisor to the issue
  - } Banker to issue
  - } Broker to issue



- } Registrars to issue
- } Underwriter
- } Advertising consultant
- } Printer
- } Compliance officer
- 2. He is responsible to advice the company to appoint
  - } Auditors
  - } Advocates and legal advisor
  - } Board of directors.
- 3. He is responsible for Publicity of the issue
  - } Advertisement or Hoardings
  - } Brokers conference
  - } Investor conference
  - } Traders conference
  - } Dealers conference
- 4. He is responsible for the following activities as
  - } Listing of securities in the sock Exchange.
  - } Drafting of prospectus.
  - } Filling with ROC.
  - } Open subscription list
  - } Submit Due diligence certificate to SEBI.

**2. Describe SEBI Provision regarding CODE OF CONDUCT /RULES/Condition/  
Pre requirement for Merchant Banker?**

**CODE OF CONDUCT FOR MERCHANT BANKER:**

**A. The Merchant Banker should follow INTERNATIONAL CODE**

1. High standard of honesty
2. Dignity
3. Fairness
4. Ethical Manner
5. Professional manner
6. Prompt
7. Proper care
8. Objectivity
9. Avoidance of conflicts
10. Disclosure of shareholdings
11. High standard of service
12. Independent professional judgment.



**B. The merchant Banker TO BE INVOLVED IN**

1. Fair allotment of securities
2. True information to investor
3. Copies of prospectus to investor
4. Dealing with investor inquiries
5. Grievance of investor are redressed
6. Maintain length relationship
7. Refund of application money

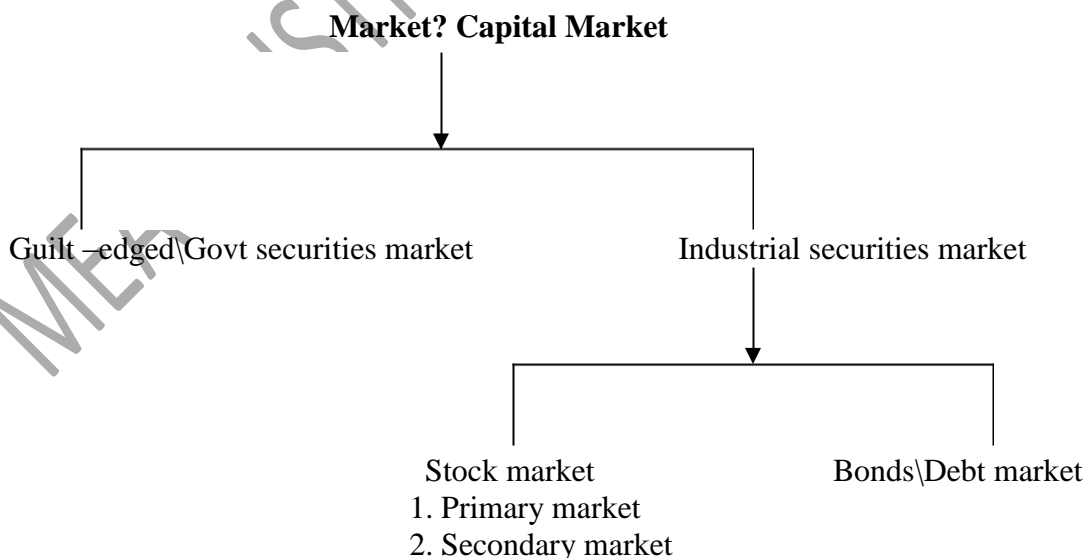
**C. The merchant Banker NOT TO BE INVOLVED IN**

1. Creation of false Market
2. Price rigging
3. Passing of price sensitivities information
4. Unfair competition
5. Confidential information
6. Fraudulent operations
7. Manipulation activities

**D. The Merchant Banker should MAINTAIN**

1. To protect the interest of investors.
2. Freedom and power to Compliance officer.
3. Good corporate policies and corporate governance.
4. Develop its own internal code of conduct for its internal operations
5. Responsible for the omission of employee and agent in their business.
6. Appropriate level of knowledge and proficiency and abide by the SEBI.

**3. Distinguish between Primary and Secondary**





**Primary Market\ New issue Market:**

- ❑ It is one in which new securities are offered to the investing public for the first time. Hence it is called “new issue market”.
- ❑ The new issue market deals with the new securities which were not previously available to the investing public.
- ❑ The new issue market encompasses all institutions dealing in fresh claim.
- ❑ The form in which these claims created are equity shares, preference shares, debentures.
- ❑ It provides opportunity for investors to start new enterprises.
- ❑ It helps existing companies to expand their operation and activities.

<b>Primary Market</b>	<b>Secondary Market</b>
1. It deals with only fresh issue of securities.	It deals in existing securities.
2. Securities are created and transferred from corporate to investors for the first time.	Securities are transferred from one investors to other investors through the stock exchange mechanism.
3. All companies can enter NIM and make fresh issue of securities.	For the securities to enter the portals of stock exchange for the purposes of trading,

	listing is mandatory.
4.it creating long term instrument for borrowings	It provides liquidity through marketability of that instrument.
5. No fixed place geographical location needed.	Needs a fixed place to house the secondary market activities.
6. Depth depends on number and volume of issue.	Depth depends upon the activities of the primary market as it brings into fore more corporate entities.

**4. Explain the procedure for listing of shares by company in the stock Exchange?**





### **CONDITION FOR LISTING:**

Before listing securities, a company has to fulfill the following conditions:

- ❑ Shares of the company must be offered to the public through a prospectus and 25 % of each class of securities must be offered.
- ❑ The prospectus should clearly mention opening of subscription, receipt of application.
- ❑ The capital structure of the company should be broad based and there should be public interest in securities.
- ❑ The minimum issued capital must be Rs 3 crores of which Rs 1.80 crores must be offered to the public.
- ❑ The auditor or secretary of the company applying for listing should declare that the share certificates have been stamped so that shares belonging to the promoters quota cannot be sold or hypothecated or transfer for a period of 5 years.

### **PROCEDURE FOR LISTING REQUIREMENTS:**

For listing the shares in the stock exchanges, the public limited company will have to submit supporting documents. They are:

- ❑ Certified copies of Memorandum, Articles of Association, Prospectus and agreement with the underwriters.
- ❑ All particular regarding capital structure.
- ❑ Copies of advertisements offering securities for sale during the last 5 years.
- ❑ Copies of Balance sheet, audited accounts and auditors report for the last 5 years.
- ❑ Specimen copies of shares and debentures, certificate letter of allotment and letter of regret.
- ❑ A brief history of the company since incorporation with any changes in capital structure, borrowings.
- ❑ Details of shares and debentures issued for consideration other than cash.

Statement showing distribution of shares and particular of commission, brokerage, discounts or special terms towards the issue of shares.

- ❑ Any agreement with financial institutions.
- ❑ Particular of shares forfeited.
- ❑ Details of shares or debentures for which permission to deal with is applied for.
- ❑ Certified Copy of consent from SEBI.

### **PROCEDURE AT THE STOCK EXCHANGE:**



After the application is made the listing committee of the stock exchange will scrutinize the application form of the company. Here, the stock exchange will ensure the following as

- ☐ The financial position of the company is sound
- ☐ Solvency and liquidity are good
- ☐ The issue is large and broad based to generate public interest.

If the application for listing is accepted, the listed company will be called to execute listing agreement with the stock exchange. The company must follow certain obligations which are:

- ☐ The company will treat all the applications with equal fairness.
- ☐ In case of over subscription, the allotment will be decided in consultation with the stock exchanges.
- ☐ The company will notify to the stock exchange any changes in its management, business, capital structure or bonus issue of shares

**5. “Explain the Important\ Function\Services\Features\Role of Stock Exchanges?  
(Or)**

**“Secondary Market is the Economic Barometer of a Country”**

**STOCK EXCHANGE/MARKET:**

- ☐ It is a private or public market for the trading of company stock and derivatives of company stock at an agreed price.
- ☐ these are securities listed on a stock exchange as well as those only traded privately

**FUNCTION OF STOCK EXCHANGES/MARKET:**

1. Ideal meeting place
2. Mobilizing savings for investment
3. Providing safety to the investors
4. Distribution of new securities
5. Ready Market for securities
6. Liquidity
7. True market Mechanism
8. Control on Companies
9. Capital formation
10. Attract Foreign Capital
11. Monetary and Fiscal Policies
12. Continuous market for Securities
13. Seasoning of Securities
14. Optimal Resources Allocation
15. Economic Barometer
16. Facilities Speculation



## **6. Discuss the objectives of Securities Contract Regulation Act (SERA), 1956?**

### **OBJECTIVES OF SERA:**

1. Defining the term “securities” for transacting.
2. Procedure for transacting securities in the stock exchange.
3. Laying down procedure for listing securities of companies.
4. Regulating the operation of brokers with regard to purchase and sale of securities.
5. Protecting the interest of investors.

### **LEGAL FRAMEWORK OF SERA:**

1. Section 2 deals with various definition connected with securities industry
2. Section 3 deals with application that is required to be made for recognition of any stock exchange
3. Section 4 deal with the grant of recognition to the stock exchange by the government
4. Section 5 deals with the withdrawal of any recognition granted to the exchange
5. Section 6 deals with the power of government to call for periodical return
6. Section 7 deals with the annual reports to be furnished by the exchange to the government
7. section 8 deal with the power of government to direct rules to be made
8. Section 9 deals with the power the exchange to make bye laws.
9. Section 10 deals with the power of government to make any bye-laws of the exchange.
10. Section 11 deals with the power of government to supersede the governing board of any recognized stock exchange
11. Section 12 deals with the power to suspend the business of the exchange
12. Section 13 deals with the contract in notified areas, illegal in certain circumstances.
13. Section 17 deals with the licensing of dealers in securities.
14. Section 21 deals with the power to compel listing of securities by public companies.
15. Section 22 deals with the right of appeal against the refusal of stock exchange for listing
16. Section 23 deals with the penalties that can be imposed.

## **7. Discuss the objectives of FERA (Foreign Exchange Regulation act) and FEMA (Foreign Exchange Management act) 1973?**

### **FERA OBJECTIVES:**

- To help RBI in maintain exchange rate stability.
- To regulate foreign business in India.
- To protect precious of foreign exchange.

### **FEMA OBJECTIVES:**

- To improve foreign exchange control and restricts on forign investment.
- To facilitate external trade and payments



- To deal with
  - a. Capital Account Transactions
  - b. Current account Transactions.

**PART-C (10 Marks)**

**I. Explain the Merchant Banking Regulatory Framework / SEBI guidelines for Functioning of Merchant Banker/ SEBI (Provision/Condition/term) For Merchant Banker/SEBI guidelines relating to Filing and Registration Process?**

**MERCHANT BANKING REGULATORY FRAMEWORK**

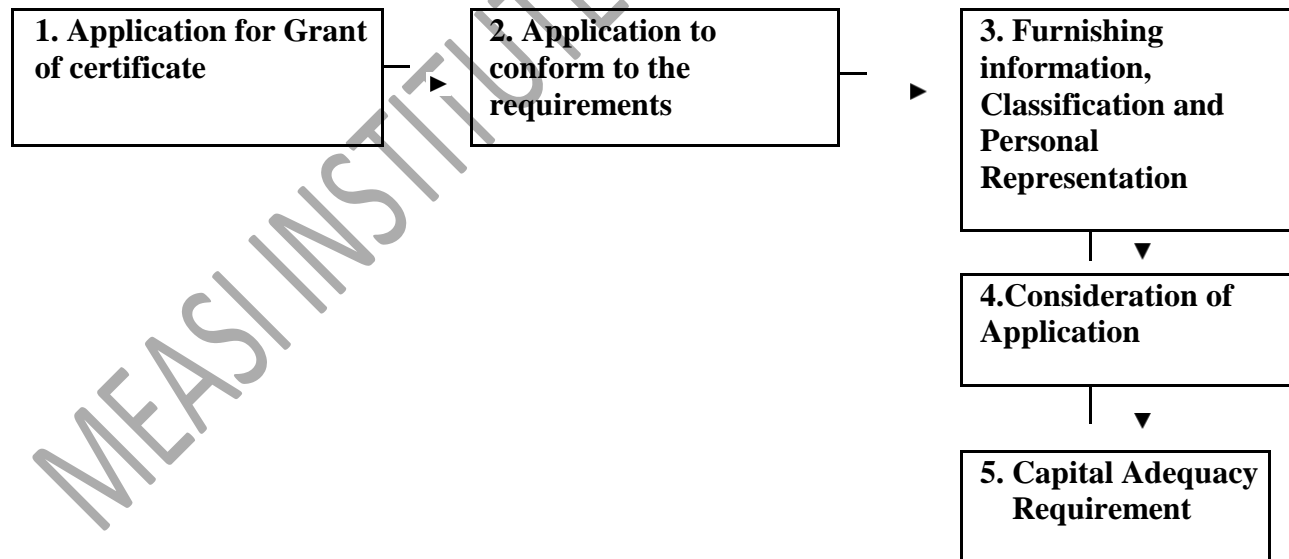
**Step A: Registration of Merchant Banker**

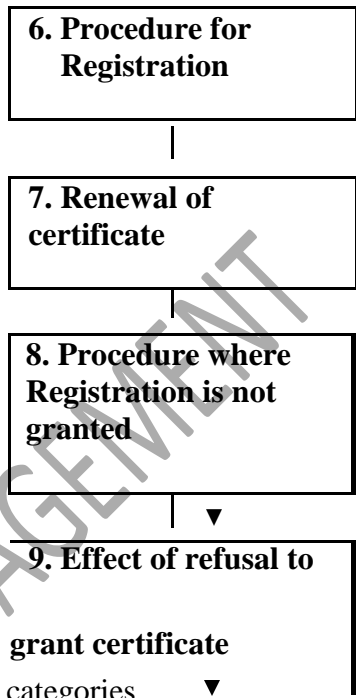
**Step B: Obligation (duties), Responsibilities and Code of conduct for Merchant Banker**

**Step C: Procedure for inspection**

**Step D: Procedure for action in case of default**

**STEP A: REGISTRATION OF MERCHANT BANKER**





**1. Application for Grant of certificate:**

An application by a person for grant of certificate shall be made to the Board in

GRANT/RENEWAL CERTIFICATE”.

The application shall be made for anyone of the following categories

**9. Effect of refusal to grant certificate**

?

?

S.NO	CATEGORY	FUNCTION
1	CATEGORY I	To act as Adviser, Consultant, Manager, Underwriter & Portfolio Manager.
2	CATEGORY II	To act as Adviser, Consultant, Co-Manager, Underwriter & Portfolio Manager.
3	CATEGORY III	To act as Adviser, Consultant & underwriter to an issue.
4	CATEGORY IV	To only Adviser & Consultant

**2. Application to conform to the requirements:**

? Subject to the provision of the regulation, any application which is not complete in all aspects shall be rejected.

?



Before rejecting any application, the applicant will be given an opportunity to remove within the time period by the Board.

### **3. Furnishing of information:**

- ☐ The board may require the applicant to furnish the information regarding matters relevant to the activity of merchant banker
- ☐ The information will contains
  - } Name, Address of the Applicant
  - } Organizational structure, Date of incorporation
    - ☐ Business information, History, Major events
  - } Financial information, capital structure & Source of funds
  - } Banker of the Applicant
  - } Address of the auditors

### **4. Consideration of Application**

Based on the following criteria, the applicant will be considering.

- ☐
  - } Applicant be corporate body
  - } Proper infrastructure
  - } Minimum 2 persons
  - } Professional Qualification from Laws or Business management
  - } Protecting the interest of investor
  - } Sufficient Capital Adequacy requirement

### **5. Capital Adequacy Requirement:**

- ☐ The applicant should have a minimum net worth based on the category as follows:
  - Category I minimum net worth amount Rs. 5 crores
  - Category II minimum net worth amount Rs. 50 Lakhs
  - Category III minimum net worth amount Rs. 20 Lakhs
  - Category IV minimum net worth NIL amount

S.NO	CATEGORY	MINIMUM NETWORTH AMOUNT
1		Rs 5 crores
2	CATEGORY II	Rs 50 Lakhs
3	CATEGORY III	Rs 20 Lakhs
4	CATEGORY IV	Nil



**6. Procedure for Registration:**

- ❑ The board on being satisfied that the applicant is eligible and issue “CERTIFICATE OF REGRISTRATION”.
- ❑ On the grant of the certificate, the applicant shall liable to pay the fees.
- ❑ **REGRISTRATION FEES:**

S.NO	CATEGORY OF MB	I st & IInd Year (Annual Amount)	IIIrd Year
1	CATEGORY I	2.5 Lakhs	1 Lakh
2	CATEGORY II	1.5 Lakhs	50,000
3	CATEGORY III	1 Lakh	25,000
4	CATEGORY IV	5,000	1000



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**7. Renewal of certificate:**

- ☐ 2 months before expiry of the period, the applicant should go for renewal process. RENEWAL FEES
- ☐



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S.NO	CATEGORY OF MB	I st & IInd Year (Annual Amount)	IIIrd Year
1	CATEGORY I	1 Lakh	20,000
2	CATEGORY II	75,000	10,000
3	CATEGORY III	50,000	5000
4	CATEGORY IV	5000	2500

**8. Procedure where Registration is not granted:**

- ❑ If the applicant does not satisfy the criteria, the board may reject the applicant.
- ❑ The refusal of certificate shall be communicated by the board within 30days.

**9. Effect of refusal to grant certificate:**

- ❑ Any corporate body whose applicant has been refused by the board can stop to carry the activities of Merchant Banker.

**II. Discuss the history and present position of stock Exchanges?**

**INTRODUCTION OF STOCK EXCHANGES:**

- ❑ It is a private or public market for the trading of company stock and derivatives of company stock at an agreed price.
- ❑ The **first stock exchange** was established in **HAMBURG in 1538** which how ere was concerned with bills transactions.
- ❑ It was followed by Amsterdam stock exchanges in the year 1611.
- ❑ The London stock ex change was during 17<sup>th</sup> century followed by Vienna stock exchange in 1771.
- ❑ Milan stock exchange which was created in 1808 in Italy



**PRESENT POSITION OF STOCK EXCHANGES IN INDIA:**

- ❑ In 18<sup>th</sup> century, East Indian Company issues shares and bonds.
- ❑ In 1860, the American civil war broke out, which caused a stoppage of cotton supply from U.S.A and marketing beginning of the “Share Mania in India”. In 1875, “the native share & Stock brokers Association “called as BSE was established.



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- At present there are 24 stock exchanges and more than 6000 stock brokers.
- ❑ The five major stocks exchanges namely Bombay, Calcutta, Madras, Ahmedabad, are responsible for 90 % of the transactions from the stock market.
  - ❑ In 1992, SEBI was passed and it gave enormous power to the board to regulate transactions in stock exchanges in India.
  - ❑ The List of Stock Exchanges in India:
    - Bombay Stock Exchanges
    - National Stock Exchanges
    - Bangalore Stock Exchanges
    - Bhubaneshwar Stock Exchanges
    - Calcutta Stock Exchanges
    - Cochin Stock Exchanges



- Delhi Stock Exchanges
- Coimbatore Stock Exchanges
- Guwathi Stock Exchanges
- Hyderabad Stock Exchanges
- Jaipur Stock Exchanges
- Ludhiana Stock Exchanges
- Madhya Pradesh Stock Exchanges
- Madras Stock Exchanges
- Magadh Stock Exchanges Mangalore
- Meerut Stock Exchanges
- OTC Stock Exchanges
- Pune Stock Exchanges
- Saurashtra Kutch Stock Exchanges
- Uttar Pradesh Stock Exchanges

**Bombay Stock Exchange (BSE):**

Oldest stock exchanges in Asia & 12<sup>th</sup> largest in the world.

It was established by “Native Share & Stock brokers Association” in 1875.

It is located in Dolal Street, Mumbai.

It has greatest number of listed companies in the world with 10, 000 companies and companies are classified according to A, B, S, T, Z Group.

☐ It is 1<sup>st</sup> stock exchanges in the country to get recognition under security contract act 1956.

☐ It is 2<sup>nd</sup> in the world to obtain ISO 9001:2000 Certification.

☐

☐



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- ?
- ?
- ?
- ?

It is 2<sup>nd</sup> in the world to receive information security management system standard certificate for BSE Online Trading System (BOLT).

**BSE INDEX:**

- | BSE30 (SENSEX)
- | BSE 100
- | BSE200
- | BSE500
- | BSE AUTO
- | BSE TECH
- | BSE IT
- | BSE FMCG
- | BSE METAL
- | BSE MID CAP
- BSE SMALLCAP

**BSE SERVICES:**

- ?



- IBSE Broadcast
- ❑ Director Database
  - ❑ Indian Corporate Electronic Reporting System
  - ❑ Launched BSEWEBX.COM
  - ❑ BOLT facilities
  - ❑ Future trading of SENSEX in U.S.

**BSE HOURS OF OPERATIONS:**

- Beginning of the Day Session. .. 8:00 - 9:00 AM
- Login Session. .. 9:00 - 9:30
- Trading Session. .. 9:55 - 3:30
- Position Transfer Session. .. 3:30 - 3:50
- Closing Session. .. 3:50 - 4:05
- Option Exercise Session. .. 4:05 - 4:35
- Margin Session... 4:35 - 4:50
- Query Session. .. 4:50 - 5:35
- End of Day Session. .. 5:35 PM.

**III. Explain the Origin, Objectives, Function and role of National stock exchange (NSE)?**

**NATIONAL STOCK EXCHANGE (NSE):**

1. The establishment of national stock exchanges is a step to overcome the deficiencies of the existing market and to bring Indian financial market in line with International market.





2. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach.
3. The National Stock Exchange of India Limited (NSE) is a Mumbai-based stock exchange.
4. It is the largest stock exchange in India in terms of daily turnover and number of trades, for both equities and derivative trading.
5. NSE of India incorporated in Nov 92, with an equity capital of Rs 25 crores.

**OBJECTIVES /FEATURES OF NSE:**

1. Establishing a nation-wide trading facility for equities, debt instruments and hybrids.
2. Ensuring equal access to investors all over the country through an appropriate communication network.
3. Providing a fair, efficient and transparent securities market to investors using electronic trading systems.
4. It enables shorter settlement cycles and book entry settlements systems.
5. To meet the current international standards of securities markets.



6. NSE exceeds geographical barriers and overcome fragmentation.
7. To brought about unparalleled transparency, speed & efficiency, safety and market integrity.

**PROMOTERS OF NSE:**

1. SBI Capital Market Ltd.
2. IDBI-Industrial development Bank of India
3. LIC-Life Insurance Corporation of India
4. GIC-General Insurance Corporation of India
5. ICICI-Industrial Credit and Investment Corporation of India
6. SBI –State Bank of India.

**COMMITTEES OF NSE:**

1. Executive committee
2. Settlement issue committee
3. Dispute Resolution Committee
4. Trade related issue committee
5. Advisory committee

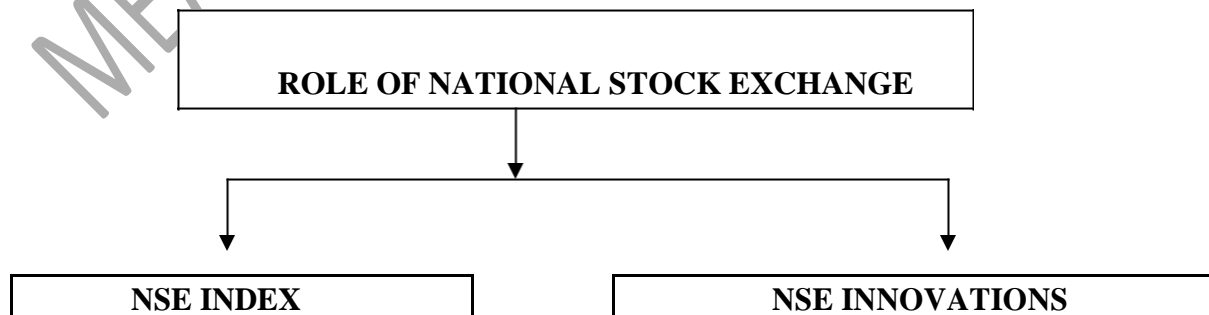
**TRADING STEP IN NSE:**

1. Client registration
2. Order Placing
3. Order confirmation
4. Trade confirmation
5. Contract notes



**SETTLEMENT MECHANISM AT NSE:**

Day 1	Wednesday	Trade cycle commences
Day 7	Tuesday	Trade cycle ends
Day 8	Wednesday	Obligations worked out and communicate to brokers
Day 13	Monday	Seller deliver shares to the clearing house
Day 14	Tuesday	Purchasers pay amounts for purchase
Day 15	Wednesday	Seller gets amounts due and purchasers get their shares





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S&PCNX  
} NIFTY JUNIOR  
} CNX 100  
} CNX 500  
} CNX MIDCAP  
} CNX BANK INDEX  
} CNX MNC INDEX  
} CNX FMCG INDEX  
} CNX ENERGY INDEX  
} CNX AUTO INDEX  
} CNX REALTY INDEX

} Derivatives –future and option  
} Internet based trading facility  
} Computer to computer Link(CTCL)  
} Initial Public offering)(IPO)  
} Mutual funds Service system  
} Exchange Trade funds  
} Direct payout to investors  
} Zero coupon yield curve  
} Constituent SGL Account  
} Var for securities  
} Reference rates

**ACHIEVEMENTS OF NSE:**

- ❑ Being the first national, anonymous, electronic limit order book (LOB) exchange to trade securities in India.
- ❑ Being the first exchange that, in 1996, proposed exchange traded derivatives, particularly on an equity index, in India.
- ❑ Being the first and the only exchange to trade GOLD ETFs (exchange traded funds) in India.
- ❑ Setting up the first clearing corporation "National Securities Clearing Corporation Ltd (NSCCL)" in India.



- ❑ Co-promoting and setting up of National Securities Depository Limited (NSDL), first depository in India.
- ❑ NSE pioneered commencement of Internet Trading in February 2000, which led to the wide popularization of the NSE in the broker community.

### **FUNCTIONS OF NSE:**

- ❑ The NSE employs a fully automated screen based trading system.
- ❑ It has three segments: The capital market segment, sale debt segment and derivatives market.
- ❑ The NSE market is a fully market automated screen based environment.
- ❑ The market operates with all participants stationed at their offices and making use of their computer terminals, to receive market information, to enter orders and to execute trade. Through 1777 satellite, there are 3000 computers terminals connected to NSE.

The trading member in the capital market segment is connected to the central computer in Bombay through a satellites link up using VSATS.

- ❑ The NSE has opted for an order driven system. The system provides enormous flexibility to trading members.
- ❑ When a trade takes, a trade confirmation slip is printed at the trading members work station. It gives details like price, qty, code, number of the party and so on. It is a total transparency in trading operations as the opening and closing prices are available for the investors. They are also able to see their orders being executed.
- ❑ It helps by providing a suitable match with reasonable interest and period of repayment. This exposure is available throughout India for the sale of debt instruments.
- ❑ The automated trade matching system secures the best prices available in the market to the investor. The trading member can transact a high volume of business efficiently.
- ❑ The members are required to deliver securities and cash by the 13<sup>th</sup> and 14<sup>th</sup> day respectively. The 15<sup>th</sup> day is the pay out day.



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**IV. Explain the Origin, Objectives, Function and Role of Over the Counter Exchange of India (OTCEI)?**

**OVER THE COUNTER EXCHANGE OF INDIA (OTCEI):**

- ❑ It was promoted by a group of financial institutions owned by the govt of India consisting of UTI, IDBI, ICICI, SBI, LIC, GIC, & CAN BANK SRVICES.
- ❑ OTCEI was incorporated in October 1990 and is recognized as Stock exchanged under Securities contract Regulation Act, 1956.
- ❑ It is primarily meant for small size, medium size companies and small investors.
- ❑



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It is a way of trading securities otherwise than on organized stock exchange.

- ❑ It is traded out by brokers, dealers, scattered over different locations and regions with the help of telephone, telex, fax and computers.
- ❑ Communication network lines every dealer and allow the investors to select among the Market maker.

**OBJECTIVES /FEATURES OF OTCEI:**

- ❑ National ringless trading
- ❑ Nation wide trading
- ❑ computerized exchange trading
- ❑ Trading through telephone line
- ❑ Compulsory investor registration
- ❑ Closeness to investors
- ❑ Price Display
- ❑ Trading in derivatives
- ❑ Instant Execution of orders
- ❑ Exclusive Listing

**DIFFERENCE BETWEEN OTCEI AND REGULAR STOK EXCHANGE:**

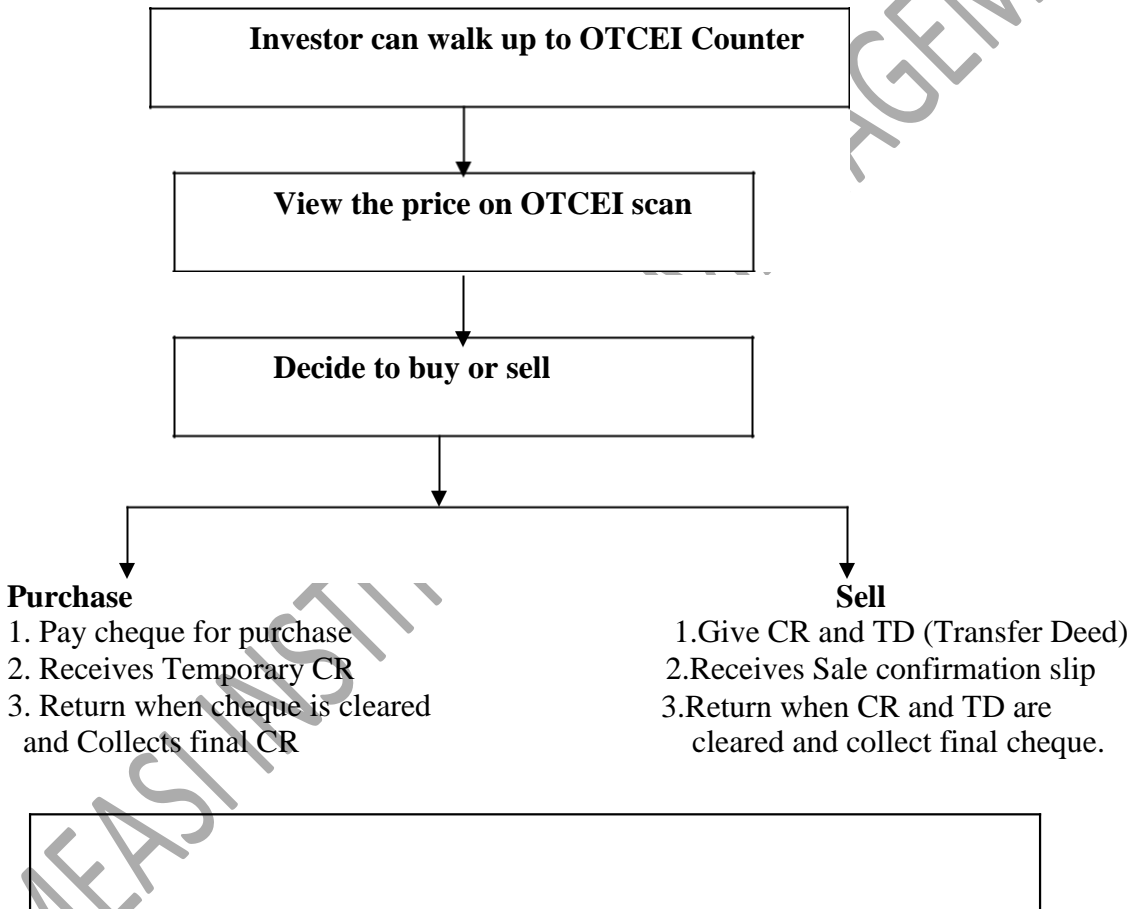
<b>OTCEI</b>	<b>Regular Stock Exchange</b>
1. Trading is done through network or computer system.	Trading is done on floor or hall by ring
2. Daily settlement system	Weekly settlement system
3. Decentralised Exchange	Centralized Exchange
4. Only one Exchange	More than 21 Exchange
5. Securities are transferred through “Counter Receipt”	Securities are transferred through “Share certificate”
6. Market Makers offer 2 way Quotes	Jobber may or may not offer 2 way Quotes
7. Minimum paid up capital is Rs 2 crores	Minimum paid up capital Rs 5 crores.
8. Companies between 25lakhs-30crores are listed	Companies with 3 crores are listed
9. Trading in securities of all companies throughout India.	Trading in securities belonging to that region and also in other permitted securities.
10. The primary object is to help small companies to raise funds.	The primary objective being the improvement of capital market.



**TRADING STEP IN OTCEI:**

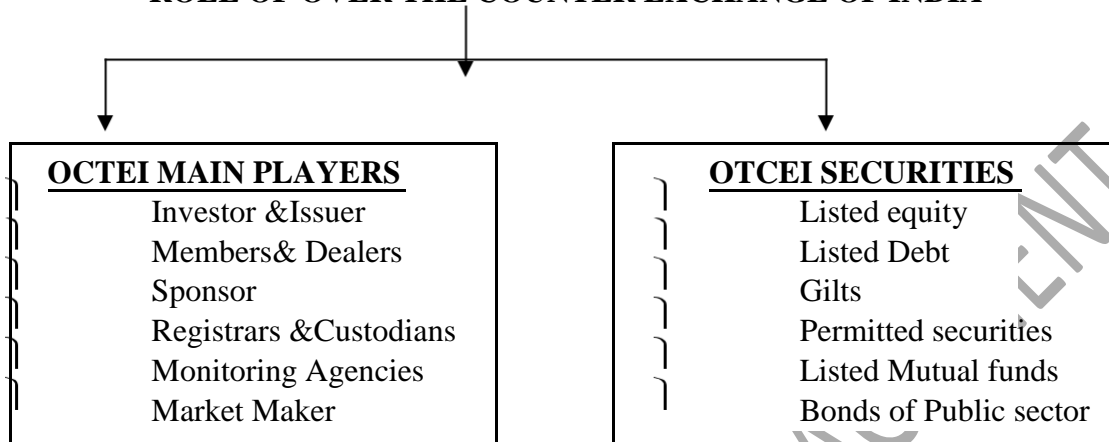
1. Issue of Customer Receipt (CRs)
2. Transfer
3. Compilation
4. Selling securities
5. Counter details
6. Automatic transfer
7. Consolidated statement

**OTCEI SECONDARY MARKET OPERATIONS:**





**ROLE OF OVER THE COUNTER EXCHANGE OF INDIA**



**FUNCTIONS OF OTCEI:**

- ☐ It deals with equity shares, preferences shares, debentures & warrants.
- ☐ Provide a source of valuation for securities traded
- ☐ Provide efficient avenue of capital market investment for small investors
- ☐ Promote organized trading in unlisted securities
- ☐ The trading takes places through telephone lines.

**V. Explain the objectives, function, powers and organization structure of SEBI?**

**INTRODUCTION:**

- ☐ SEBI Stands for SECURITY EXCHANGE BOARD OF INDIA.
- ☐ It was established in the year 1992, in accordance with SEBI Act.
- ☐ The government of India set up the securities and exchange board of India (SEBI) on the basis of the recommendations of the high powered committee on stock exchange reforms headed by G.S.Patel.
- ☐ The Chairman and Board members are appointed by the central government Its
- ☐ headquarters is situated in “Bandra Kurla complex” in Mumbai. Its regional
- ☐ offices are situated in New Delhi, Kolkata, and Chennai.

**Objective of SEBI:**

- ☐ To deal with development and regulation of stock market in India.
- ☐ To promote fair dealings by the issue of securities and ensure a market place where they can raise funds.
- ☐ To regulate and develop a code of conduct for brokers, merchant bankers.
- ☐



To verify listing requirements, listing procedures and ensure compliance of the same by the companies so that only financially sound companies are listed. To provide protection to the investors.

To promote healthy growth of security market for the development of capital market in the country.

### **Features \Functions of SEBI:**

SEBI has two major functions. They are as follows:

#### **(I) Regulatory Function:**

- Registering the brokers and sub-brokers
- Registering of mutual funds
- Regulation of stock exchanges
- Prohibition of fraudulent and unfair trade practice
- Controlling insider trading, take over bids and imposing penalties.

#### **(II) Developmental Function:**

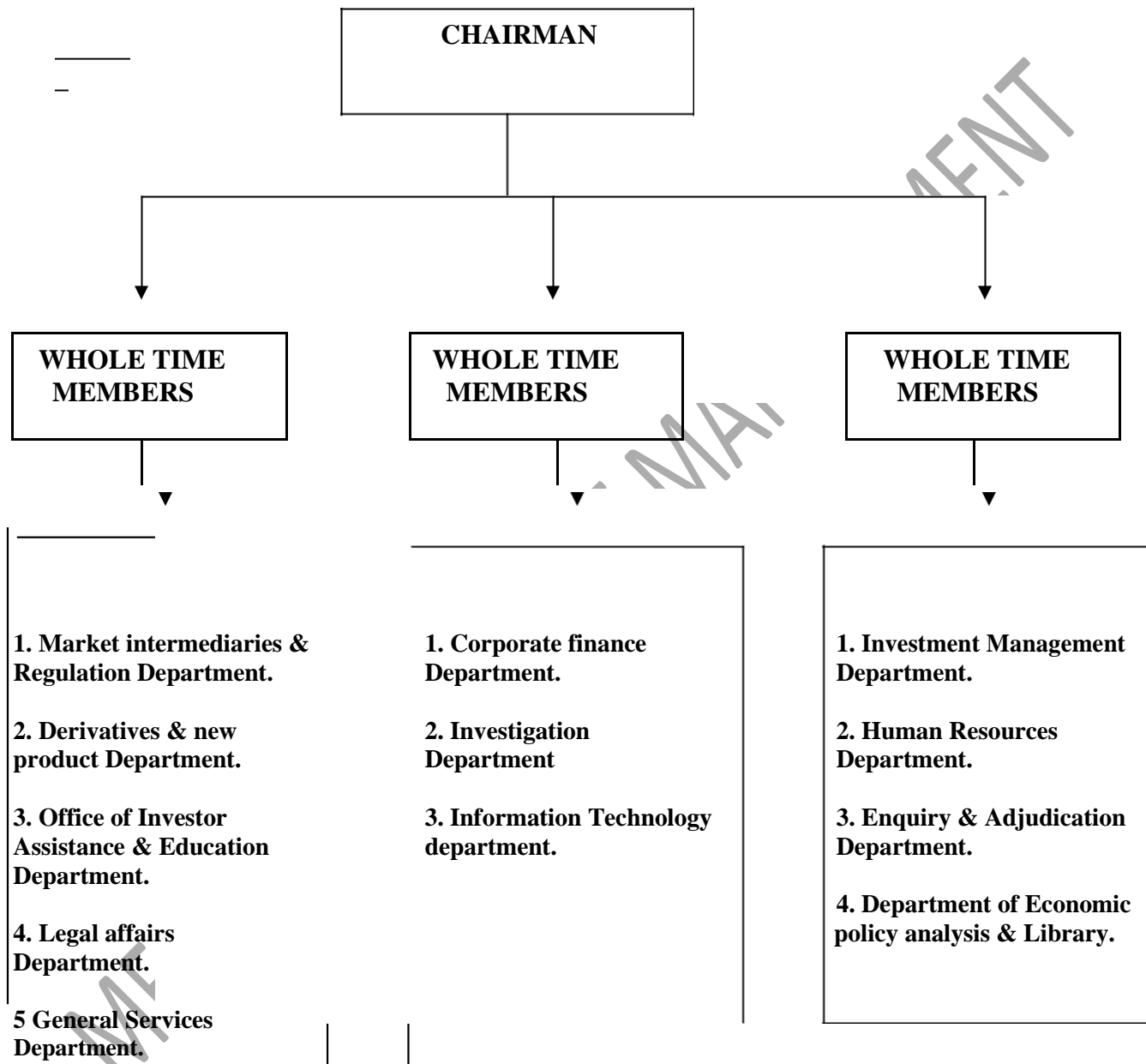
- Educating investors
- Training intermediaries in stock market transactions
- Promoting fair transactions
- Undertaking research and publishing useful information to all.

### **Power of SEBI:**

- ☐ To regulate companies in the issue and transfer of shares including bonus shares and right issues.
- ☐ It can levy penalties on companies and on brokers for violating transactions.
- ☐ It can issue directions to all brokers for protecting the interests of investors.
- ☐ It has power to summon any broker or intermediaries and call for documents.
- ☐ To file complaints in a court.
- ☐ It can call for periodical return from stock exchanges.
- ☐ It can seek any information and enquire into the functioning of stock exchanges.
- ☐ It can compel listing of securities of public company.
- ☐ It promoting investors education and trading of intermediaries in capital market.
- ☐ It regulating purchases of shares and take over of companies.



**Organization Structure of SEBI:**



**VI. Explain the role of SEBI in regulating the Primary & Secondary Market? OR  
Examine the Major activities of SEBI regards regulation of stock Exchange?**



**A. SEBI GUIDELINES FOR ISSUE OF FRESH SHARE CAPITAL:**

- ☐ All applications should be submitted to SEBI in the prescribed.
- ☐ Applications should be accomplished by true copies of industrial license.
- ☐ The cost of the project should be furnished with schemes of finance.  
The company should have the shares be furnished issued to the public and listed in one or more recognized stock exchanges.
- ☐ Where the issues of equity shares capital involves offer for subscription by the public for the first time, the value of equity capital, subscribed capital privately held by promoters shall be not less than 15% of the total issued equity capital.
- ☐ New company cannot issues shares at a premium. The dividend on preference shares should within the prescribed list.
- ☐ All the details of the underwriting agreement.
- ☐ Allotment of shares to NRI is not allowed without the approval of RBI.
- ☐ Declaration by secretary or director of the company.

**B. SEBI GUIDELINES FOR SECONDARY MARKET:**

- ☐ All the companies entering the capital market should give a statement regarding fund utilization of previous issue.
- ☐ Brokers are to satisfy capital adequacy norms so that the members firms maintain adequate capital in relation to outstanding positions.
- ☐ The stock exchange authorities have to alter bye-laws with regard to capital adequacy norms.
- ☐ All the brokers should submit with SEBI their audited accounts.
- ☐ The brokers must also disclose clearly the transactions price of securities and the commission earned by them.
- ☐ The brokers should issue within 24 hours of the transaction contract notes to the clients.
- ☐ The brokers must clearly mention their account details of funds belonging to clients and that of their own.
- ☐ A broker cannot underwrite more than 5% of the public issues.
- ☐ The brokers of Bombay and Calcutta must have a capital adequacy of Rs 5 lakhs.
- ☐ Members who are brokers have to pay security deposit (70 lakhs) deposit and this fixed by SEBI.
- ☐ All transaction in the market must be reported within 24 hours to SEBI.
- ☐ Margin money on certain securities has to be paid by claims so that investment is prevented.
- ☐ Market makers are introduced for certain scrip's by which brokers become responsible for the supply and demand of the securities and the price of the securities is maintained.



### **C. SEBI GUIDELINES FOR REGULATION OF STOCK EXCHANGE:**

#### **1. MAJOR DEPARTMENT IN STOCK EXCHANGE:**

- ❑ Listing Department
- ❑ Operations department Computer and
- ❑ EDP department Inspection and Audit
- ❑ department Investor service Department

#### **2. BASIC GUIDELINES:**

- ❑ Inspection of stock Exchange
- ❑ Disclosure and investors protection
- ❑ Allotment of shares
- ❑ New financial instrument
- ❑ Free pricing for public issue
- ❑ Insider trading norms
- ❑ Penal powers over companies

#### **3. MAJOR RULES AND REGULATION:**

- ❑ SEBI (Stock brokers and Sub-brokers), Regulation 1992
- ❑ SEBI (Insider Trading), Regulation 1992. SEBI(Portfolio
- ❑ Managers), Regulation 1992 SEBI(Merchant
- ❑ Banker),Regulation 1992 SEBI(Mutual funds), Regulation
- ❑ 1993 SEBI(Underwriter), Rules and regulation 1993
- ❑ SEBI(Registrars to Issue), Rules and regulation 1993 SEBI
- ❑ (Bankers to an issue), 1993
- ❑

#### **4. POWER OF SEBI OVERSTOCK EXCHANGE:**

- ❑ Prescribed hour of trading
- ❑ Settlement Days
- ❑ Brokerage commission and fees
- ❑ Limited number of securities for transaction Qualification
- ❑ for membership of stock Exchange Procedure for listing
- ❑ of securities in stock Exchange Submission of Reports by
- ❑ stock Exchange to SEBI.

**VII. Explain SEBI guidelines for protecting the interest of investors? \ what are the recent measures taken by SEBI to protect the investors?**

**SEBI guidelines for protecting the interest of investors:**



SEBI has been encouraging investor education. For this purpose, certain investors associations Like FIE, SIFMA, FINRA have been registered.

- ❑ Companies raising public deposits as well as huge capital must undergo credit rating.
- ❑ SEBI has taken the responsibility of disclosing fair and adequate information for investors for the purpose of investment decisions.
- ❑ For the benefit of the investors, company has to disclose its capacity utilization, adverse events and material changes of key personnel.
- ❑ For the benefits of the individual investors, a new schemes called stock invest account has been introduced in banks.
  - } Cash account
  - } Margin account
  - } Discretionary account
- ❑ Disclose on market prices for listed company.
- ❑ Arrangement for disclosing investor's grievances and redressal system.
- ❑ Compulsory disclosure in the prospectus.
- ❑ Contribution by promoters whose name figure in the prospectus.
- ❑ Setting up of investor's grievances cell for handling complaints of investors.
- ❑ SEBI has right to cancel registration of any underwriter who fails to furnish business details to SEBI.
- ❑ Merchant bankers have to attach diligence certificate with the prospectus for extending their accountability to the investors.
- ❑ There is an advertisement code by SEBI which has to be followed by companies. To
- ❑ avoid any malpractices in allotment process, SEBI appointed its representatives to look into allotment process.
- ❑ Underwriting, registrar to issue and share transfer agent and portfolio managers have been brought under SEBI for the first time.
- ❑ Even the mutual funds have been brought under SEBI and they have to disclose NPV of units every day.

**VIII. Explain the various Recent Development / initiatives \ program\ improvement taken by SEBI?**

**Various Initiatives taken by SEBI:**

- ❑ The process of buying stock with borrowed money is called badla trading. SEBI ban Badla system.
- ❑ PAN was made the identifications number for all transactions in capital market. The
- ❑ company issuing debentures & stock exchanges required to circulate information regarding debentures.
- ❑





Constitution of a centralized monitoring mechanism to examine the flow of funds from the banking system to the stock markets.

- ❑ Formulation of proper norms regarding transactions of overseas corporate bodies in the Indian markets.
- ❑ Evolving a mechanism of sharing information among the surveillance departments of exchanges to have a holistic picture of risk profile and trading by members.

Review of the system of bank guarantees for meeting capital and margin requirements with a view to reduce leverage in trading.

- ❑ Standardization of composition of settlement guarantee funds and trade guarantees to work as a cushion for the successful completion of settlements. Introduction of
- ❑ unique client identity system to help assess the risk profile of the brokers\ clients trading in the market across the exchanges in light of the dynamics requirements of the exchanges.
- ❑ Ensuring the efficient application of the risk management mechanism by way of margins, exposure limits and carries forward limits.
- ❑ Market wide index based circuit breakers have been implemented.
- ❑ The recommendations of the group of Insider trading have been implemented.
- ❑ There will not be any price bands on individual stocks in rolling settlements.

**References Books:**

- 1. Manual of Merchant Banking, Bharat Publishing house, Dr.J.C.Verma**
- 2. Merchant Banking Principle and practice, New Age International Publisher, Machiraju.H.R**
- 3. Merchant Banking and Financial services, Tata McGraw hill Education private limited, Dr.S.Guruswamy.**
- 4. Investment Analysis & portfolio Management, Prasanna Chandra.**
- 5. Security analysis and portfolio management, Preeti Singh, Himalaya publications**



### **UNIT- 3**

#### **PUBLIC ISSUE MANAGEMENT**

##### **Structure:**

1. Introduction
2. Capital structure and Project Appraisal
3. Pre and Post Issue Management
4. Role of Banker, Broker & Registrar to the Issue
5. Global Depository Receipt

##### **PART-A(One Marks)**

##### **Grey Market:**

- ☐ When securities are not sold through prospectus, it is called Grey Market.

##### **Euro notes:**

- ☐ Short term notes issued outside the country of the currency in which it is denominated.

##### **Off shore fund:**

- ☐ It is a collective investment scheme domiciled in an Offshore Financial Centre such as the British Virgin Islands.

##### **Green shoe option:**

- ☐ A provision contained in an underwriting agreement that gives the underwriter the right to sell investors more shares than originally planned by the issuer



**Buy back of shares:**

- ☐ The repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

**IPO:**

- ☐ **It stands for Initial Public Offer.**
- ☐ The public issues made by a corporate entity for the first time in its life are called Initial Public Offer.
- ☐ When a company whose stock is not publicly traded wants to offer that stock to the general public, it takes the form Initial Public Offer.

**FPO:**

- ☐ **It stands for Follow on Public Offer.**
- ☐ It is also called secondary public offering.
- ☐ When the company raises capital after an IPO has already been made and shares of company are held by public and are already listed on the stock exchange.

**Share transfer agent:**

- ☐ Their function is to maintain the records of holders of securities of the company.
- ☐ They handle all matters related to transfer and redemption of securities of the company.

**Debenture Trustees:**

- ☐ Trustees who are appointed to safeguard the interest of debentures holders are called Debenture Trustees.
- ☐ They are to be appointed before issuing of bonds by the company.
- ☐ Insurance company, commercial banks, public financial institutions can act as Debentures trustees.

**Due diligence certificate:**

- ☐ Certificate issued by a lead manager as specified in Schedule III of SEBI regulations, certifying that all the provisions relating to public issue.

**Lock in Period:**

- ☐ It is a period during which a loan cannot be paid-off earlier than scheduled without incurring penalties.

**Preferential Allotment:**

- ☐ A private placement of shares or of convertible securities by a listed company is generally known by name of preferential allotment



**Pricing of Issue:**

- A . Qualitative factors.
- B. Quantitative factors.

**MODE OF FIXING OF PRICE:**

- 1. Net Asset Price
- 2. Profit earning capacity value
- 3. Average market price

**Price Band:**

- ☐ It refers to a range of price level within which an investor is allowed to band a typical book building method of investing an IPO.

**PART-B (5 Marks)**

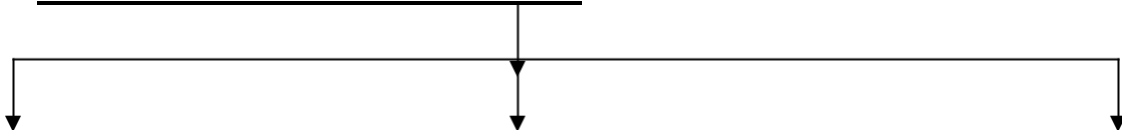
**1. How far the optimum Capital structure will helpful the smooth function of Business?**

S.NO	TERMINOLOGY	DESCRIPTION
1	<b>CAPITAL STRUCTURE</b>	It refers to the kind of securities and proportionate amounts that make up capitalization.
2	<b>OPTIMUM CAPITAL STRUCTURE</b>	The combination of debt and equity that leads to the maximum value of the firm.
3	<b>CAPITALIZATION</b>	It refers to the total amount of securities issued by the company.
4	<b>FINANCIAL STRUCTURE</b>	It means entire liability side of the balance sheet as a finance structure.

**PATTERN OF CAPITAL STRUCTURE:**

- 1. Equity, preference and bonds
- 2. Equity and preference
- 3. Equity and bonds
- 4. Exclusively Equity

**FACTORS AFFECTING /INFLUENCING/DETERMINANTS OF CAPITAL STRUCTURE DECISIONS:**





- A. Economic factors**
1. Nature of business
  2. Stock market
  3. Taxation Rate
  4. Regulations
  5. Credit Policy
  6. Financial institution

- B. Industry factors**
1. Cyclical fluctuations
  2. Level of competition
  3. Industry life cycle
  4. Growth & structure
  5. Research & developments

- C. Company Factors**
1. Size of business
  2. Stability of earning
  3. Asset structure
  4. Financial performance
  5. Legal Restriction

**2. Describe various types of Capital Market Instruments?.**

**A. BONDS:**

It is simply a loan in the form of a security with different terminology.

- ☐ Issuer = borrower
- ☐ Bond holder = lender
- ☐ Coupon = interest

S.NO	TYPES OF BONDS	DESCRIPTION
1	<b>Redeemable bonds</b>	It is a bond which has been issued for a certain period on the expiry of which its holder will be repaid the amount with or without premium
2	<b>Irredeemable bonds</b>	It may be repaid in the event of the winding up of the company.
3	<b>Income bonds</b>	They are bonds on which the payment of interest is mandatory only to the extent of current earnings.
4	<b>Joint bonds</b>	They are loan certificates that are jointly secured by two or more companies
5	<b>Assumed bonds</b>	They are issues in respect of a company that has been acquired by another way of merger
6	<b>Fixed rate bonds</b>	They have a coupon that remains constant throughout the life of the bond
7	<b>Supranational bonds</b>	Represent the debt of international organizations such as the World Bank, the International Monetary Fund
8	<b>Convertible bonds</b>	It gives the bond holder the right option to convert them into equity shares on certain terms.
9	<b>Zero coupon bonds</b>	It is a bond bought at a price lower than its face value, with the face value repaid at the time of maturity.
10	<b>Government bond</b>	It is a bond issued by a national government denominated in the country's own currency.



**B. WARRANTS:**

- ☐ A Security issued by the company, granting its holders the right to purchase a specified number of shares, at a specified price, any time prior to an expiable date is known as “Warrants”.

**C.EQUITY SHARES\ COMMON STOCK \ ORDINARY STOCK:**

- ☐ These are shares which are not preference shares.

S.NO	TYPES OF EQUITY SHARES	DESCRIPTION
1	Blue ships shares	Shares of Large, well established financial strong companies
2	Growth shares	Shares of companies that are position in a growing

		market
3	Income shares	Shares of companies that have stable operations

**D.P REFERENCE SHARES\ HYBRID SECURITY:**

- ☐ They are those which carry the following preferential rights over classes of shares.
  - a. A preferential right in respect of a fixed dividend. It may consist of a fixed amount.
  - b. A preferential right as to repayment of capital in the case of winding up of the company.

S.NO	TYPES OF PREFERECE SHARES	DESCRIPTION
1	Participating preference shares	Additional Dividend will be given to shareholders
2	Non- Participating preference shares	Surplus profits will not given to shareholders
3	Cumulative preference shares	Dividend will be give, when the company earns good profits.
4	Non –Cumulative preference shares	Dividend will not be given
5	Exchangeable preference shares	Option to change into some other Security

**3. What is Project Appraisal? Identify various type of such appraisals carried out by Merchant Banker? Also explain the Stages of Project selection?**

**PROJECT APPRAISAL:**

- ☐ It refers to the process of assessing in a structured way, the case for proceeding with a project or proposal.
- ☐ The Various Aspects /Parameters of Project Appraisal:
  - A. Technical Aspects
  - B. Commercial Aspects



- C. Financial Aspects
- D. Economic Aspects
- E. Managerial Aspects
- F. Social Aspects

**A. Technical Aspects**

- } Size of plant and Machinery
- } Passing on R and D
- } Selection of size
- } Control of Quality
- } Product features
- } Labour saving
- } Foreign collaboration
- } Suppliers reputation
- } Warrantees
- } Training of personnel

**B. Commercial Aspects**

- } Buying procedure of plant and Equipment
- } Selling arrangement
- } Market survey
- } Demand growth rate
- } Forecasting projections
- } Estimates of Revenues

**C. Financial aspects:**

- } Capital Budgeting techniques
- } Break Even point Analysis
- } Cash flow statement
- } Requirement of Working capital
- } Financial Ratios analysis.

**D. Economic Aspects:**

- } Govt Economic and Industrial policy
- } Export promotion
- } Inter firm compassion

**E. Managerial Aspects:**

- } Trace records of promoters performance
- } Qualification of Managing Directors
- } List of Directors
- } Bank Accounts and Reports

**F. Social Aspects:**

- } Adequate provision for workers housing
- } Workers children schooling facilities less than 10% of project cost



**STAGES OF PROJECT SELECTION:**

1. Identification of project ideas
2. Selection of Project
3. Feasibility study
4. Project report

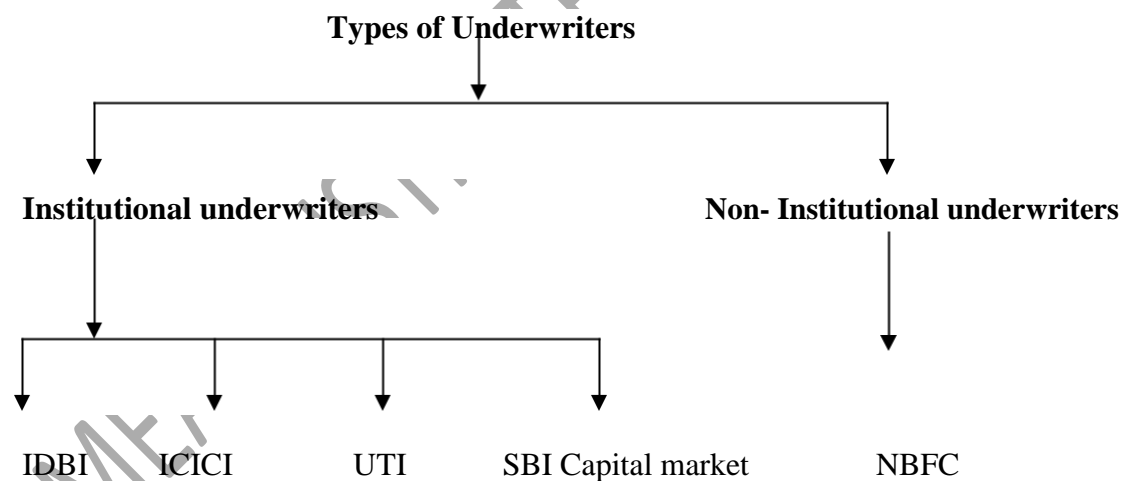
**4. Examine the different types of Underwriter and their commission? Also SEBI GUIDELINES /Code of Conduct for Underwriter?**

**INTRODUCTION:**

- 1. Underwriting:** It is a guarantee given by the underwriters to take up part of the issue of securities not subscribed by the public.
- 2. Underwriter:** The agreement between the issuing company and the financial intermediary is called underwriter.
- 3. Underwriting Commission:** The underwriter works for a commission called underwriting commission.

**TYPES OF UNDERWRITING:**

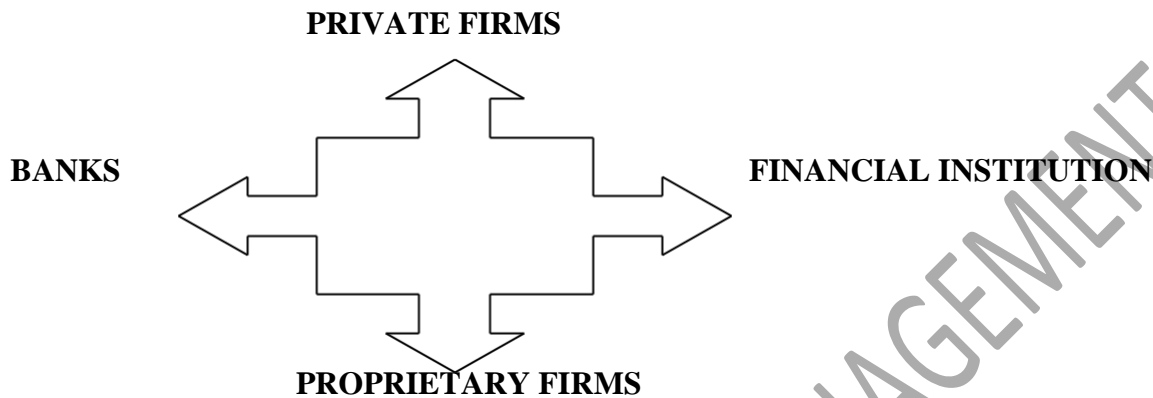
- a. Firm underwriting:** the underwriters agree to take up a specified no of securities Irrespective of the security being offered to the public.
- b. Sub underwriting:** When a large issue of securities is made and underwriters is Contract to other underwriters is called sub underwriting.
- c. Joint underwriting:** When an large issue of securities is underwritten by two or More joint institutions is called joint underwriting.



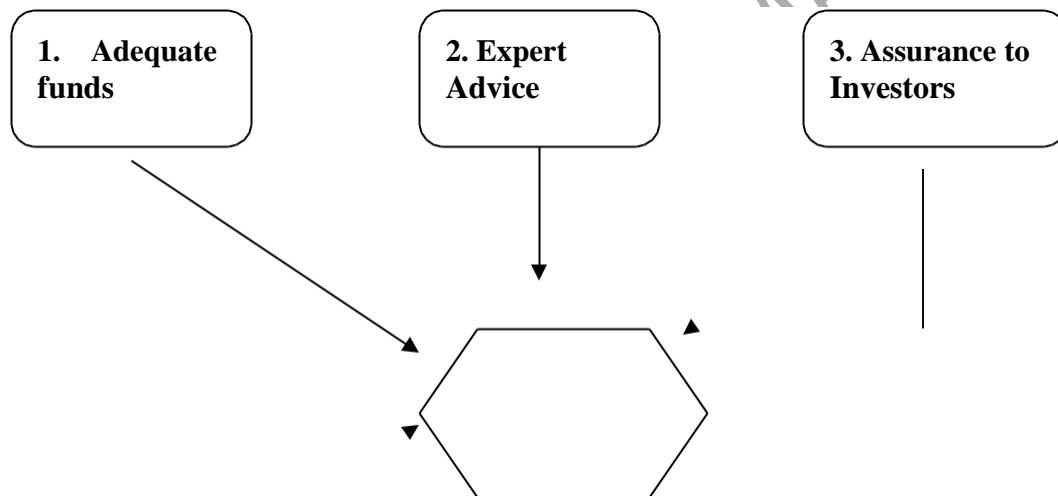


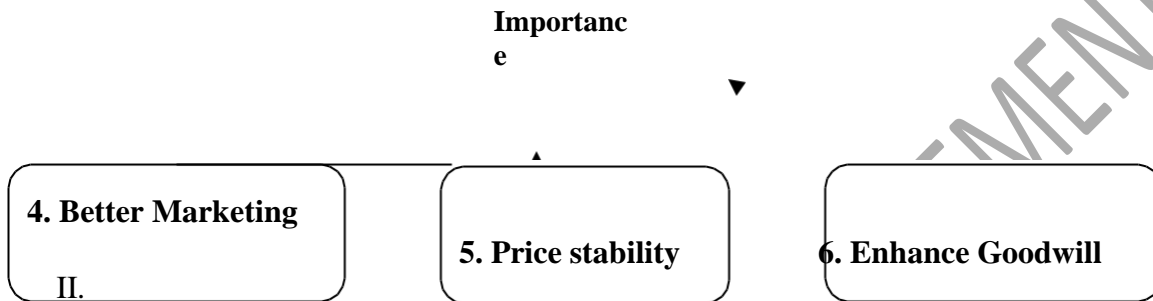


**UNDERWRITER AGENCIES:**



**IMPORTANT OF UNDERWRITING:**





#### UNDERWRITING COMMISSION

S.NO	Category	On Amounts devolving on the underwriters	On Amounts subscribed by the Public
1	Equity shares	2.5%	2.5%
2	Preference share upto Rs 5 Lakhs	2.5%	1.5%
3	Preference share Above Rs 5 Lakhs	2%	1%

#### SEBI GUIDELINES/ CODE OF CONDUCT FOR UNDERWRITERS:

- ☐ Stock brokers and MB should have valid certificate. Underwriters
- ☐ should have minimum networth of Rs 20 lakhs. Minimum
- ☐ underwriting obligation be 5% or 25 Lakhs whichever is less.
- ☐ Total underwriting commitment should no exceed 20 times of their net worth.
- ☐ No underwriter involved in any unfair competition.

No underwriter shall make any statement either oral or written about his commitment.

- ☐ No underwriter shall divulge any confidential information about his issuer company.

#### **5. State the SEBI Guidelines for BROKERS TO THE ISSUE?**



**BROKERS TO AN ISSUE:**

- ❑ Intermediaries who are responsible for procuring the subscription to the issue from the investors are called brokers to the issue.
- ❑ Brokers along with remises market the new issue by their own circulars, sending the application form and follow up recommendations.
- ❑ They act a link between the investor and issuers.

**CODE OF CONDUCT FOR BROKER:**

**A. THE BROKER SHOULD FOLLOW INTERNATIONAL CODE**

1. High standard of honesty
2. Dignity
3. Fairness
4. Ethical Manner
5. Professional manner
6. Prompt
7. Proper care
8. Objectivity
9. Avoidance of conflicts
10. Disclosure of shareholdings
11. High standard of service
12. Independent professional judgment.

**B.T HE BROKER SHOULD MAINTAIN**

1. To protect the interest of investors.
2. Good corporate policies and corporate governance.
3. Develop its own internal code of conduct for its internal operations
4. Responsible for the omission of employee and agent in their business.
5. Appropriate level of knowledge and proficiency and abide by the SEBI.

**C.T HE BROKER NOT TO BE INVOLVED IN**

1. Creation of false Market
2. Price rigging
3. Passing of price sensitivities information
4. Unfair competition
5. Confidential information
6. Fraudulent operations
7. Manipulation activities

**6. Describe the SEBI guidelines for BANKERS TO THE ISSUE? BANKERS TO ISSUES:**

- ❑ Bankers who are engaged in the function of acceptance of application for shares and debentures along with the application money from investors.
- ❑ Bankers who refund the application money to the applicant to whom securities are not be allotted are called banker to the issue.
- ❑ There are two types bankers involved in the issues. They are
  - a. Collecting Bankers



b. Co-coordinating Bankers

- ❑ The collecting bankers collect the subscriptions in cash, cheques, stock invest and coordinating bankers collect the information on subscriptions.
- ❑ The annual registration fees for banker activities are Rs 2.5 lakhs.
- ❑ The banker should maintain book of accounts, records for 3 years.
- ❑ The banker should give daily statement regarding applicant to the company and SEBI.
- ❑ The banker not accepts applications after office hours or on bank holidays.
- ❑ The banker not allows blank applications forms bearing brokers stamps to be kept the bank premises.

**CODE OF CONDUCT FOR BANKER**

**A. THE BANKER SHOULD FOLLOW INTERNATIONAL CODE**

1. High standard of honesty
2. Dignity
3. Fairness
4. Ethical Manner
5. Professional manner
6. Prompt
7. Proper care
8. Objectivity
9. Avoidance of conflicts
10. Disclosure of shareholdings
11. High standard of service
12. Independent professional judgment.

**B. THE BANKER SHOULD MAINTAIN**

1. To protect the interest of investors.
2. Good corporate policies and corporate governance.
3. Develop its own internal code of conduct for its internal operations
4. Responsible for the omission of employee and agent in their business.
5. Appropriate level of knowledge and proficiency and abide by the SEBI.

**C. THE BANKER NOT TO BE INVOLVED IN**

1. Creation of false Market
2. Price rigging
3. Passing of price sensitivities information
4. Unfair competition
5. Confidential information
6. Fraudulent operations

**7. Describe the SEBI guidelines for REGISTRAR TO THE ISSUE?  
REGISTRARS TO THE ISSUE :**



- ❑ They collect the application of new issue, their cheques, stock invests classify and computerize them.
- ❑ They keep a proper record of application and money received from investors.
- ❑ They have to dispatch letter of allotment, refund order, share and debentures certificates.
- ❑ They have to assist the finalization of allotment of securities.
- ❑ The annual registration fees for registrar's activities are Rs 3 lakhs.

**CODE OF CONDUCT FOR REGISTRAR :**

**A. THE REGISTRAR SHOULD FOLLOW INTERNATIONAL CODE**

1. High standard of honesty
2. Dignity
3. Fairness
4. Ethical Manner
5. Professional manner
6. Prompt
7. Proper care
8. Objectivity
9. Avoidance of conflicts
10. Disclosure of shareholdings
11. High standard of service
12. Independent professional judgment.

**B. THE REGISTRAR SHOULD MAINTAIN**

1. To protect the interest of investors.
2. Good corporate policies and corporate governance.
3. Develop its own internal code of conduct for its internal operations.
4. Responsible for the omission of employee and agent in their business.
5. Appropriate level of knowledge and proficiency and abide by the SEBI.

**C. THE REGISTRAR NOT TO BE INVOLVED IN**

1. Creation of false Market
2. Price rigging
3. Passing of price sensitivities information
4. Unfair competition
5. Confidential information
6. Fraudulent operations

**8. Describe the Post issue Activities of a Merchant Banker?**

**POST ISSUE ACTIVITIES OF A MERCHANT**

**BANKER: A. Finalization of basis of allotment:**

- ❑ If the public issue is oversubscribed to the extent of greater than 5times, SEBI nominated public representative is required to participate in the finalization of Basis of Allotment.



- ☐ If it is under-subscribed, information regarding accepted applications is formalized and regional stock Exchange are approached for finalization of BOA.

**B. Despatch of share certificates:**

- ☐ Immediately after finalizing the BOA, share certificate are dispatched to the eligible allottees, refund orders made to the unsuccessful applicants.
- ☐ In addition, 78 Days Monitoring Report are submitted to SEBI.

**FORMAT OF POST ISSUE MONITORING REPORT**

1. Name of the Company	.....
2. Issue opening Date	.....
3. Actual closing date	.....
4. Name of collecting Banks	.....
5. Subscription details	.....
6. Information related to reserved categories	.....
7. Actual date of finalization of basis of allotment	.....
8. Allotment details	.....
a. Number of successful allottees	
b. Number of unsuccessful allottees	
c. % of stock invest allottees in total allottees	
9. Completion of Despatch	.....
a. Refunds orders	
b. Allotment letters and certificate	
c. Cancelled stockinvest	
10. Amount of refund due	.....
11. Refund Banker	.....
12. Name of designated stock exchange	.....
 Signed by Registrar to the Issue	 Signed by Merchant Banker
Signed by Company	Date:   Place:

**3. Advertisement in Newspapers:**

- ☐ An announcement in Newspapers has to be made regarding
  1. Basis of allotment
  2. Number of application received
  3. Date of dispatch of share certificate
  4. Refund orders
- ☐ It should be mention in
  1. English national daily
  2. Hindi national paper
  3. One regional language
- ☐ An advertisement stating that the subscription to the issue has been closed.

**9. Examine the regulations and laws that govern issue management in India?**



## **LAW RELATING TO PUBLIC ISSUE MANAGEMENT:**

### **1. Provision of the companies**

- Act,1956** a. Prospectus (Sec 55 to 68) b.Allotment (sec68 to 75)
- C. Commission and discounts(Sec76 & 77)**
- d.Issue of shares at premium and at discount (Sec78 & 79)
- e.Nature, numbering and certificate of shares (sec82 & 84)

### **2. The securities Contract Regulation Act, 1957**

#### **OBJECTIVES OF SERA:**

1. Defining the term “securities” for transacting.
2. Procedure for transacting securities in the stock exchange.
3. Laying down procedure for listing securities of companies.
4. Regulating the operation of brokers with regard to purchase and sale of securities.
5. Protecting the interest of investors.

#### **LEGAL FRAMEWORK OF SERA:**

1. Section 2 deals with various definition connected with securities industry
2. Section 3 deals with application that is required to be made for recognition of any stock exchange
3. Section 4 deal with the grant of recognition to the stock exchange by the government
4. Section 5 deals with the withdrawal of any recognition granted to the exchange
5. Section 6 deals with the power of government to call for periodical return
6. Section 7 deals with the annual reports to be furnished by the exchange to the government
7. section 8 deal with the power of government to direct rules to be made
8. Section 9 deals with the power the exchange to make bye laws.
9. Section 10 deals with the power of government to make any bye-laws of the exchange.
10. Section 11 deals with the power of government to supersede the governing board of any recognized stock exchange
11. Section 12 deals with the power to suspend the business of the exchange
12. Section 13 deals with the contract in notified areas, illegal in certain circumstances.
13. Section 17 deals with the licensing of dealers in securities.
14. Section 21 deals with the power to compel listing of securities by public companies.
15. Section 22 deals with the right of appeal against the refusal of stock exchange for listing
16. Section 23 deals with the penalties that can be imposed.

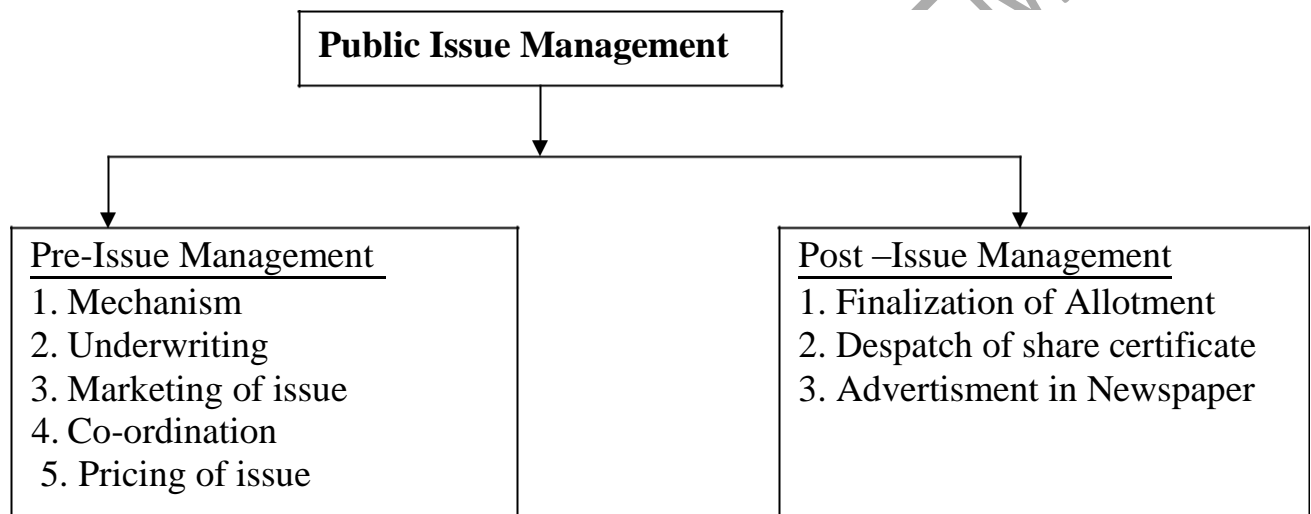


**PART-C(10 Marks)**

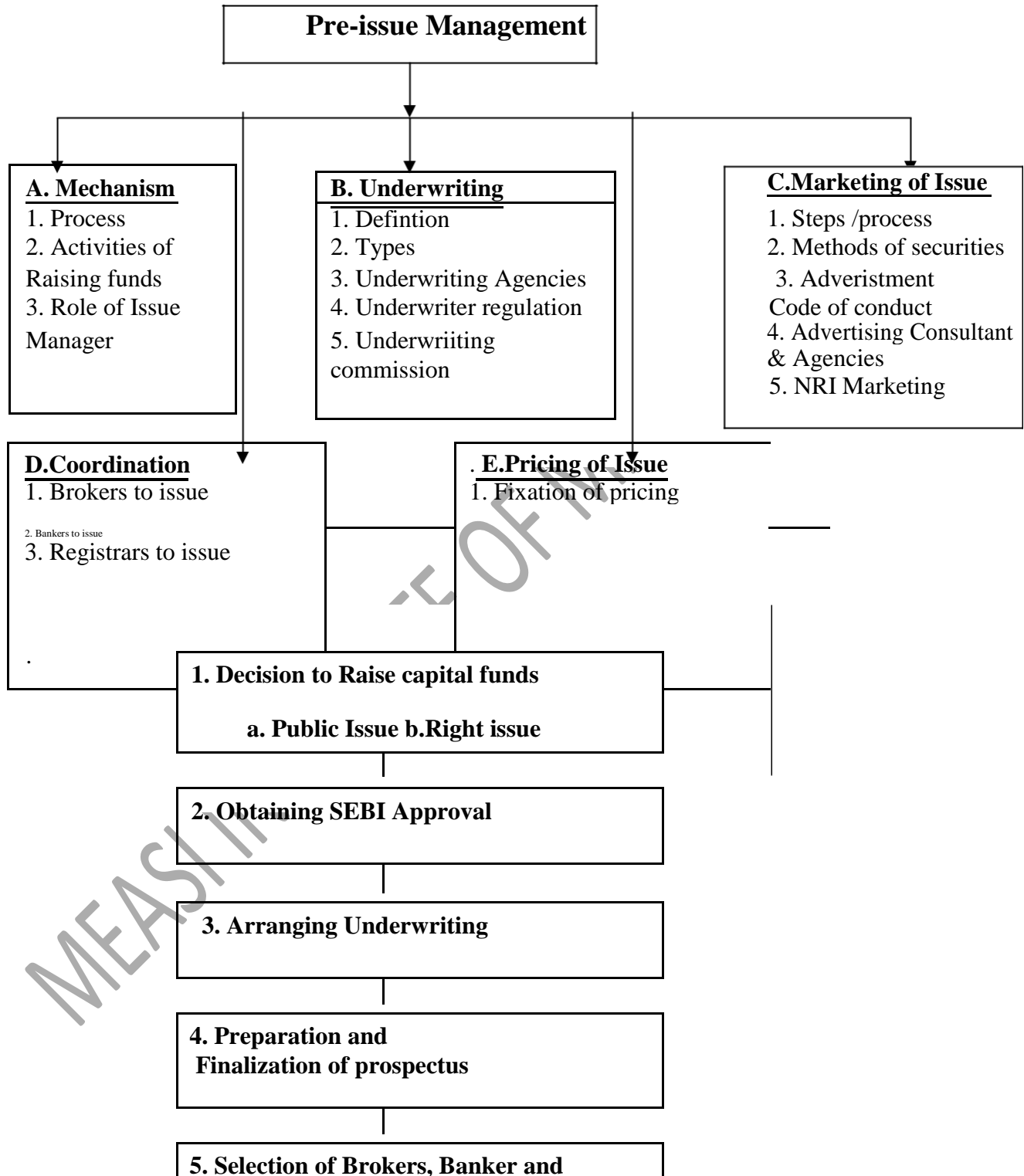
**1. Explain the Mechanism of Public issue Management or Explain the Process/Steps/Function of Public Issue Management /Explain Public issue management services offered by the Merchant Banker?/Explain the Pre-Activities of a Merchant Banker involved in raising funds or Role of Issue Manager?/**

**PUBLIC ISSUE MANAGEMENT:**

- ❓ The management of issue for raising funds through various types of instruments by companies is known as “Issue management”









Registrar

6. Arranging Press and conference

7. Printing and Publicity of Issue Document

8. SEBI Compliance

MEASI INSTITUTE OF MANAGEMENT



**MEASI INSTITUTE OF MANAGEMENT  
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**Approved by All India Council of Technical Education and  
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute**

## **Issue Launch**

MEASI INSTITUTE OF MANAGEMENT



**B.PRE ISSUE ACTIVITIES:**

<b>STEPS</b>	<b>ACTIVITIES</b>	<b>DESCRIPTION</b>
1	Signing of MOU	MOU between Company and Merchant Banker
2	Obtaining approval Note	Proposed Capital outlay of the Project
3	Optimum capital structure	Nature and Size of the Project
4	Convening Meeting	Board of Director mention to decide Issue of securities, application to RBI
5	Appointment of financial intermediary	Underwriter, Broker, Banker and Registrars
6	Preparing Documents	MOU with registrars and Submission to stock exchange should mention in prospectus
7	Due diligence Certificate	Lead manager issue Due diligence certificate to SEBI
8	Submission of offer Document	Submission to SEBI, If any correction within 21 days informed to the issuer.
9	Filing with Register of Companies	After SEBI Observation filled with ROC.
10	Launching the Issue	Process of Marketing the issue
11	Promoters Contribution	Certificate regarding contribution has been given
12	Issue closure	Closure of Issue be in Newspaper



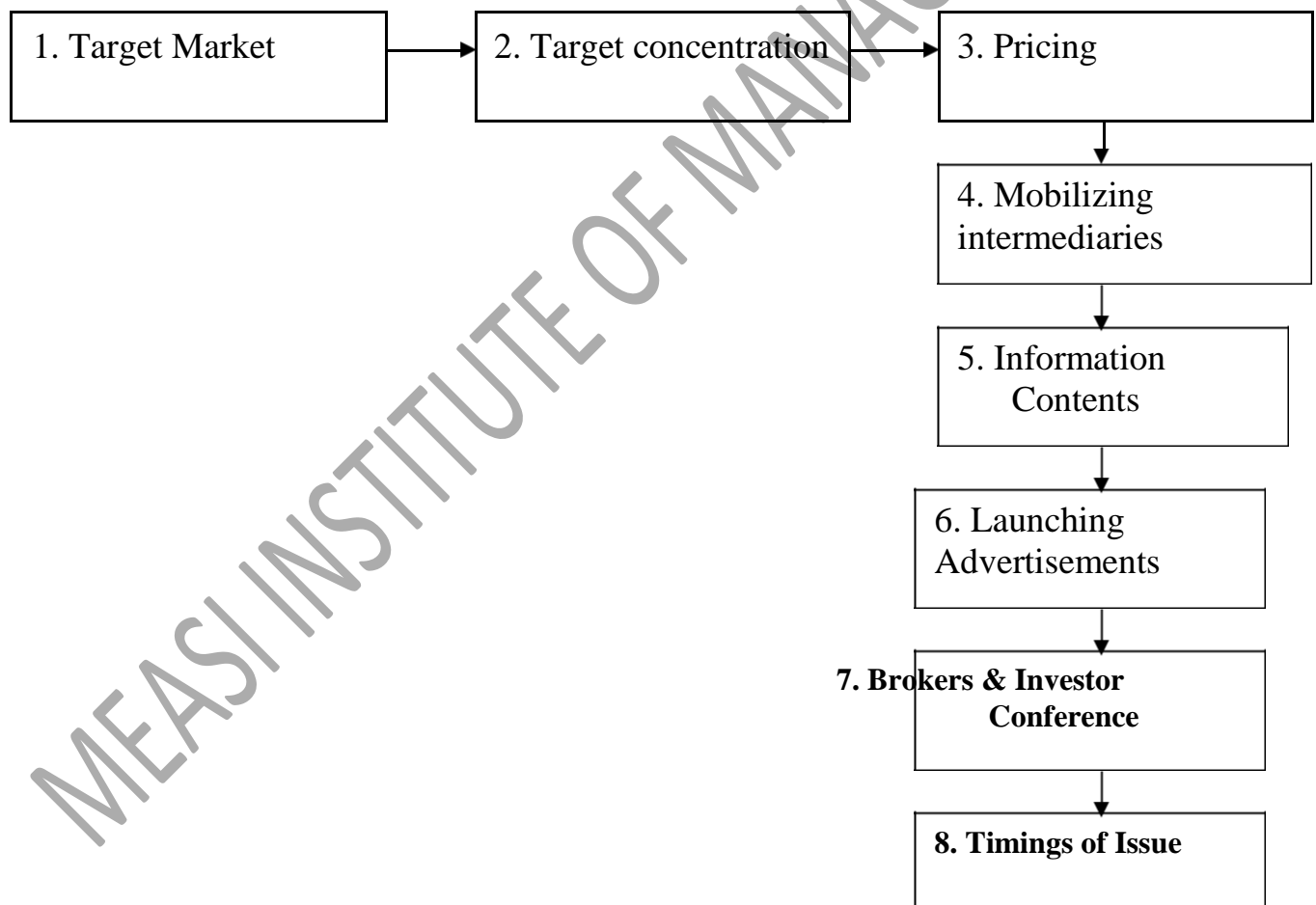
**C. ROLE OF ISSUER MANAGER:**

1. Easy floatation
2. Financial consultant
3. Market makers
4. Co-operation with
5. Co-ordination
6. Filling with ROC

**II. Explain the steps in Marketing of Securities/ Issue marketing strategy?**

**Also Explain Method of New Issue Marketing/Floating of Primary Market/ Modes of Public issue?**

**A. STEPS IN MARKETING OF ISSUE/ISSUE MARKETING STRATEGY:**





**B. METHOD OF NEW ISSUE MARKETING/FLOATING OF  
PRIMARY MARKET/ MODES OF PUBLIC ISSUE:**

- 1. Pure prospectus Method**
- 2. Offer for sale Method**
- 3. Private placements Method**
- 4. Initial Public offering (IPO) Method**
- 5. Right issue Method**
- 6. Bonus issue Method**
- 7. Book Building Method**
- 8. Employee stock option scheme (ESOP)**
- 9. Bought out deal Method(BOD)**

**1. Pure Prospectus method\ Red Herring Prospectus method:**

- ❑ The issuing company directly offers to the general public\ institutions a fixed number of shares at a stated price through a document called
- ❑ Prospectus. This is the most common method followed by joint stock companies to raise capital through the issue of securities.
- ❑ The Contents of a prospectus:
  - } General Information
  - } Capital Structure of the company
  - } Details of the issues
  - } Details about the company management
  - } Details about the Project
  - } Financial Information
  - } Statutory & other Information

**2. Offer for Sale method:**

- ❑ When the marketing of securities takes place through intermediaries such as issue house, stockbrokers and other it is called Offer for Sale method. There are 2 stages:
- ❑ The first stage is a direct sale by the issuing company to the issue house and brokers at an agreed price.
- ❑ In the second stage intermediaries resell the above securities to the ultimate investors.

**3. Private Placement method:**

- ❑ The direct sale of securities by a company to institutional investors is called private placement. The investors include LIC, UTI, GIC and SFC.
- ❑ The financial intermediary plays a vital role in preparing an offer memorandum and negotiating with the investors.
- ❑



This is the most popular method gaining momentum in recent times among corporate enterprises

**4. Initial Public Offer (IPO) method:**

- ❑ It stands for Initial Public Offer.
- ❑ The public issues made by a corporate entity for the first time in its life are called Initial Public Offer.
- ❑ When a company whose stock is not publicly traded wants to offer that stock to the general public, it takes the form Initial Public Offer.
- ❑ It stands for Follow on Public Offer.
- ❑ It is also called secondary public offering.

When the company raises capital after an IPO has already been made and shares of company are held by public and are already listed on the stock exchange.

**5. Right Issue method:**

- ❑ When the shares of an existing company are offered to its existing share holders, it takes the form of right issue.
- ❑ The existing company issues shares to its existing shareholders in proportion to the number of shares already held by them.
- ❑ It prevents the directors from issuing new shares in their own shares or to their relatives at a lower price and get controlling right.

**6. Bonus Issue Method:**

When the accumulated and surplus of profits of a company are converted into paid up capital, it takes in the form of “Bonus Shares”.

- ❑ It is regulated by the provision of Company articles and SEBI guidelines.

**7. Book Building method:**

- ❑ It is a process of price discovery used in public offers.
- ❑ The issuer sets a base price and a band within which the investor is allowed to bid for shares.
- ❑ It is a process used by companies raising capital through Public Offerings- both IPO and FPO to aid price and demand discovery.
- ❑ The merchant bankers will take the full responsibility for the issue of the shares. The option of 100% book building shall be available only to those issuer companies which propose to make an issue of capital and above Rs 100 crores.

**8. Employees Stock option Method:**

- ❑ Marketing the shares of a company whereby its employees are encouraged to take up shares and subscribed, it's called “Stock option”.
- ❑ It is a voluntary scheme.
- ❑ It offers incentive to the employee to stay in the company.



### 9. Bought Out Deals Method:

- ☐ A method where the promoters of an unlisted company make sales of equity share to Single sponsor is known as “Bought out Deals Method”.
- ☐ It has the following features as
  - } Fund based activity
  - } Outright sale
  - } Quality offer
  - } Speedy sale
  - } Investor protection
  - } Lock in period is 18 months.

### III.Explain prospectus and its contents? Also explain the liability for misstatements in prospectus?

#### PROSPECTUS:

According to Companies Act 1956,Section 2 ( 36) defines “ Any document described as a prospectus and include any notice, circular, advertisement or documents inviting deposits from the public or inviting offer from the public for the purchase of any shares in or debentures of a body corporate.

#### TYPES OF PROSPECTUS:

S.NO	TYPES	DESCRIPTION
1	<b>Abridged prospectus</b>	A Memorandum(Contract) containing features of prospectus
2	<b>Deemed prospectus</b>	The document issued by the Issue House, on behalf of the company.
3	<b>Red herring prospectus</b>	The document which does not have mention price and Quantum of securities.
4	<b>Shelf prospectus</b>	The File has information about issue of share lying on a shelf.

#### CONTENTS OF A PROSPECTUS:

##### 1. General Information:

- ☐ Name & address of registered office of the company
- ☐ Details of letter of intent \ industrial license
- ☐ Name of stock exchange where listed
- ☐ Date of opening, closing of the issue
- ☐ Name, address of lead manager, bankers to the issue, brokers to the issue. Underwriting arrangement

##### 2. Capital Structure of the company:

- ☐





Authorised, issued, subscribed, paid up capital of the company should be mentioned.

Size of the issue

**3. Details of the issues:**

- ☐ Object of the issues
- ☐ Tax benefits available to the company
- ☐ Rights of the instrument holders
- ☐ Authority for the issues & details of resolution passed for the issues
- ☐ Terms of payment

**4. Details about the company management:**

- ☐ History, main objects, present business of the company
- ☐ Subsidiaries of the company
- ☐ Promoters and their background
- ☐ Name, address occupation of manager, managing director's relationship with the company.

**5. Details about the Project:**

- ☐ Cost of the project & means of financing
- ☐ Location of the project
- ☐ Plant & machinery for the projects
- ☐ Infrastructure facilities for raw materials
- ☐ Expected date of trial production and commercial production
- ☐ Schedule of implementation of the projects

**6. Financial Information:**

- ☐ A report from the auditors on profit & losses of the
- ☐ company Asset & liabilities of the company
- ☐ Rate of dividend paid by the company

**7. Statutory & other Information:**

- ☐ Minimum subscription as laid down in the SEBI guidelines
- ☐ Underwriting Commission & brokerage
- ☐ Fees payable to the lead manager
- ☐ Date of listing on stock exchanges

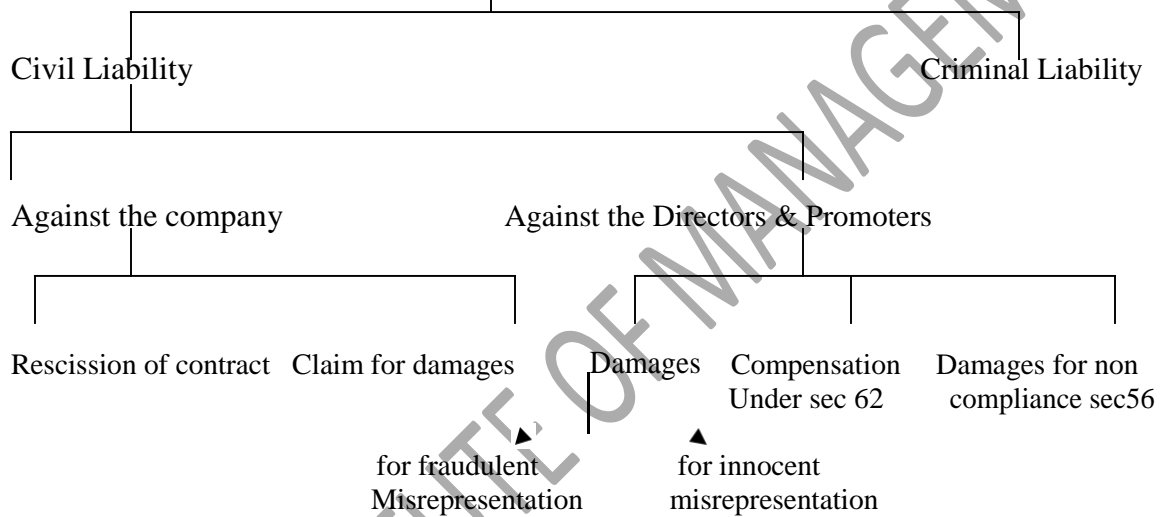
**8. Other information:**

- ☐ In respect of any issue made by the company and other listed companies under the same mgt, the following details:



- ❑ Name of the company, Year of issue, Types of issue, Amount of issue & Date of Completion of the projects
- ❑ Procedure and time schedule for allotment & issue of certificates  
Management perception of risk factors
- ❑ Procedure for making application & availability of forms, prospectus and mode of payment
- ❑ Changes in Directors and Auditors in the last 3 years.

### Liability for Misstatements in Prospectus



#### **A. Civil Liability:**

A person who has been induced to subscribe for shares in a company on the strength of misstatement or omission in the prospectus may have a remedy either against the company or against the promoters or directors.

#### **Remedies against the company:**

(a) Rescission of Contract:

Where a person has purchased the shares of a company on the faith of a prospectus which contained misleading, but not necessarily fraudulent statement, he can seek rescission of the contract.

(b) Claim for amages:

The shareholder has to return the shares to the company and the claim the money with interest from the company.

#### **Remedies against the directors\ promoters:**



Any person who has purchase shares\ debentures on the faith of the prospectus containing untrue statement may sue directors, promoters & experts.

(a) Damages for deceit\ fraud:

Any persons induced to invest in the company by fraudulent statement in a prospectus can sue the company and persons responsible for damages .The share should be first surrendered to the company before the company is sued for damages.

(b) Compensation:

The above persons shall be liable to pay compensation to every persons who subscribes for any shares\ debentures for any loss or damages sustained by him by reason of any untrue statement included therein.

**B. Criminal Liability:**

Every person who authorizes the issue of prospectus shall be punishable for untrue statements with imprisonment for a term which may extend to 2 years or with fine extend upto Rs 50,000.

**IV. Discuss the role of Advertisement in Issue Management? /Role of advertising agent/ consultant/Describe the Advertising Process/ Strategy followed at the time of issuing the securities to the Public?**

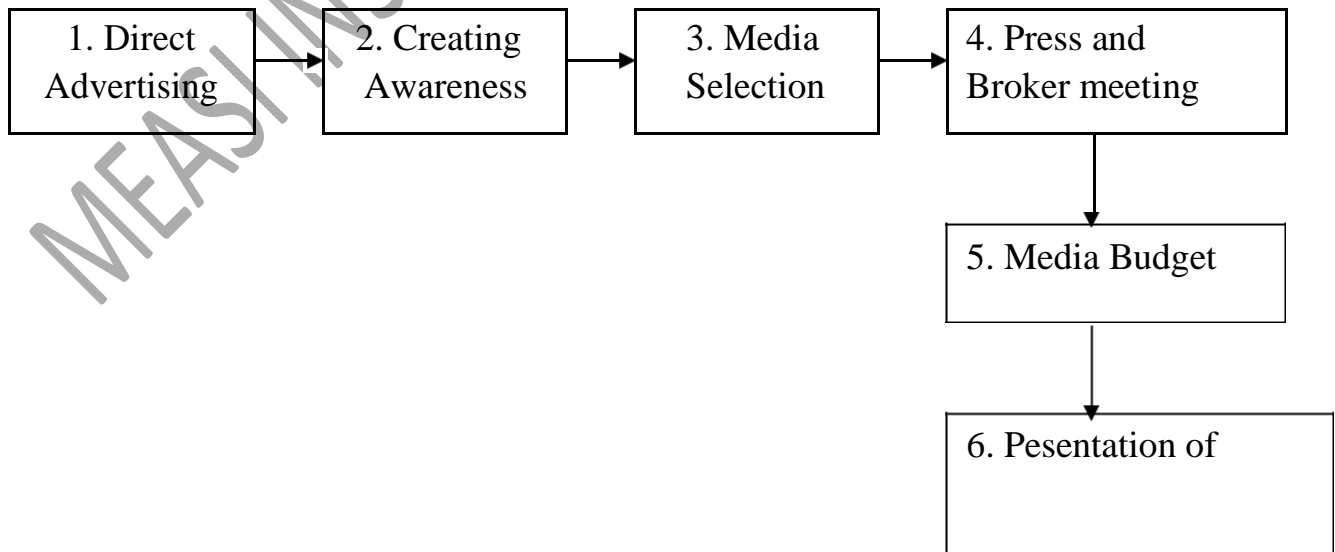
**ADVERTISEMENT:**

- It means notices, brochures, pamphlets, circulars, catalogues, showcards, hoarding, posters pictures, films, television programme or through any electronic media about the offer documents.

**ROLE OF ADVERTISING AGENT/ CONSULTANT:**

1. Publish Advertisement
2. Announcements in selected Newspapers
3. Designing prospectus
4. Arrangement for press, brokers and investors conference.

**Advertising Process/ Strategy:**





Draft  
Advertisements

**SEBI GUIDELINES /CODE OF CONDUCT FOR ADVERTISING AGENT:**

- ❑ An issue advertisement should be fair and clear.
- ❑ An issue advertisement should not include technical terms, legal terminology or complex language.
- ❑ An issue advertisement shall not contain any information's which promise or guarantee rapid profits.
- ❑ All issue advertisement should contain risk factors with the same print size; mention the name of Lead managers, registrars.
- ❑ No corporate advertisement except product advertisements shall be issued.
- ❑ No slogans /unsubstantiated titles should appear in the advertisement.
- ❑ No models, celebrities, fictional characters should appear in the advertisement. No
- ❑ incentives shall be offered through advertisement to anyone associated with marketing the issue.

**V. Explain the nature, features and Steps involved in (GLOBAL DEPOSITORY RECEIPTS) GDR?**

**DEFINITION OF DEPOSITORY RECEIPT:**

A receipt issued by the Depository of a country against the deposit of shares issued by a domestic company which is eligible for issue to foreign investors and is eligible for trading on an overseas stock exchange is known as “Depository Receipt”. Example:

- American Depository Receipt(ADR)
- European Depository Receipt (EDR)
- International Depository Receipt (INDR)
- Indian Depository Receipt (IDR)

**GLOBAL DEPOSITORY RECEIPTS (GDR)**

**DEFINITION:** It is an instrument in the form of certificate issued by the Overseas Depository Bank and issued outside the country to non –residents against ordinary shares of the issuing company.

**FEATURES:**

1. Traded on overseas stock exchange
2. No voting rights
3. Saves administrative costs



4. Negotiable instruments
5. Exchange Risk

**MERIT/ADVANTAGES:**

1. Lower cost
2. Liquidity
3. Tax concession
4. Broadening shareholder base
5. Reduction in foreign exchange

25

**DIFFERENCE BEWTEEN GDR AND ADR:**

S.NO	GLOBAL DEPOSITORY RECEIPT	AMERICAN DEPOSITORY RECEIPT
1	A bank certificate issued in more than one country for a shares in a foreign company	It is a stock that trades in U.S and represents a specified number of shares in foreign corporation
2	It involves foreign exchange risk	It involves Political, inflationary risk
3	Lower cost	Higher cost
4	Single type	Three type
5	Reducing foreign taxes	Avoiding foreign Taxes

**Reference Books:**

1. Manual of Merchant Banking, Bharat Publishing house, Dr.J.C.Verma
2. Merchant Banking Principle and practice, New Age International Publisher, Machiraju.H.R
3. Merchant Banking and Financial services, Tata McGraw hill Education private limited, Dr.S.Guruswamy.



## UNIT- 4

### FEES BASED FINANCIAL SERVICES

**Structure:**

1. Introduction
2. Merger and Acquisition
3. Leasing and Hire Purchasing
4. Portfolio Management Services
5. Credit syndication

#### PART-A( One Marks)

**Merger:**

- ☐ It is a combination of 2 or more companies in such a way into a single company, only one survive while other is dissolved.

**Acquisition:**

- ☐ It is controlled by one company over the asset of another company without any combination of the companies

**Leasing:**

- ☐ It is a form of contract transferring the use of land, space, structure, in consideration of a payment usually in the form of rent for an agreed time period.

**Hire purchase:**

- ☐ It is a mode of financing the price of goods to be sold on a future date.

**Credit /loan syndication /consortium finance:**

- ☐ It is a activities connected with credit procurement and project financing, aimed at raising loan from bank and financial institution are called “Credit syndication”.

**Bill discounting/bill financing/ re-discounting:**

- ☐ When the seller deposit commercial bills and obtains financial accommodation from a bank is known as “Bill discounting”.

#### PART-(5 Marks)

**1. Distinguish between Leasing and Hire Purchasing?**

**DEFINITION OF LEASING:**



- ❑ It is a form of contract transferring the use of land, space, structure, in consideration of a payment usually in the form of rent for an agreed time period.
- ❑ Two parties involved a. Lessor- Seller / Tenant/Owner of Asset b. Lessee – Buyer

**DEFINITION OF HIRE PURCHASING:**

- ❑ A Transaction of finance whereby goods are bought and sold as per the terms, condition and Payment of periodic installments is called “Hire purchasing”.

S.NO	CATEGORY	LEASING	HIRE PURCHASING
1	Ownership	It lies with Lessor	Hirer has option to purchase with certain conditions
2	Parties	Lessor(seller) and Lessee(buyer)	Hire(seller) and Hirer(buyer)
3	Maintenance	Both lessor & lessee	Hirer responsibility
4	Salvage value	Benefit to lessor	Benefit to hirer
5	Option	No option provide to the User	option provide to the user
6	Down Payments	No Payment	20-25%
7	Magnitude	Acquiring high cost Asset	Acquiring low cost asset
8	Lease Rental	Comprise 2 elements	Comprise 3 elements
9	Method of Financing	Business Asset	Business asset & Consumer articles
10	Depreciation	Depreciation Allowance cannot be claimed	Can be claimed by hirer

**2. Describe Portfolio Management services?**

**Portfolio:**

❑



It is a combination of securities such as stocks, bonds and money market instruments.

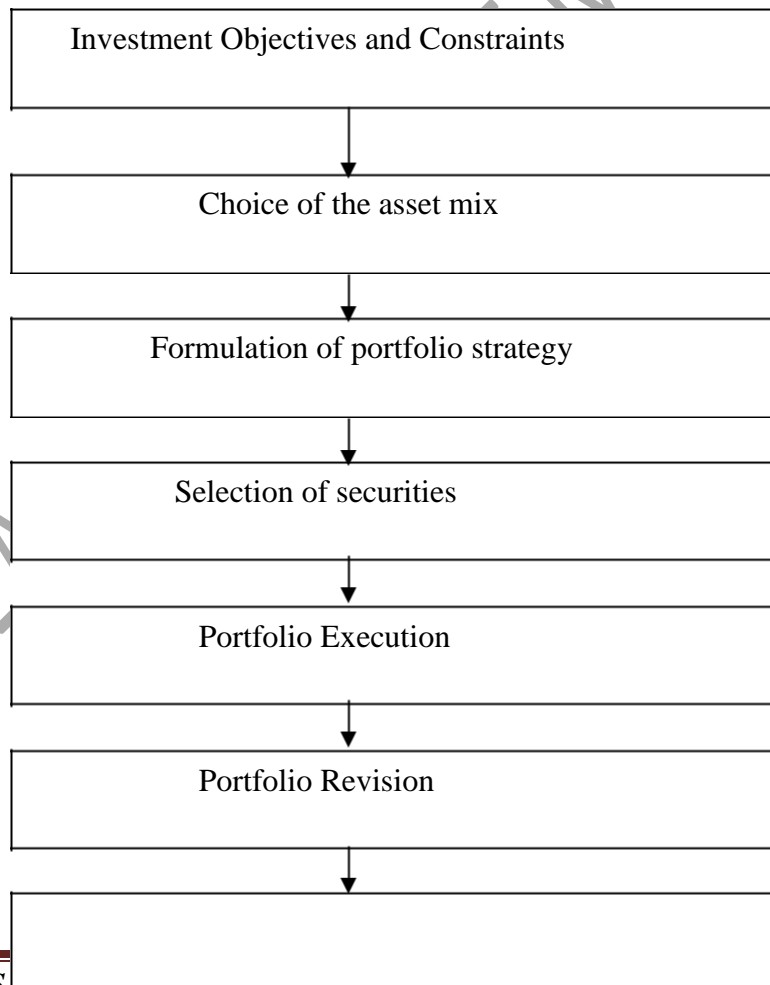
- Investors like to invest in a group or different collection of securities .Such a group of securities is called portfolio.

**Functions/Activities of portfolio management services:**

1. Securities selection and Allocation
2. Risk diversification
3. Efficient portfolio
4. Beta estimation
5. Rebalancing portfolios

**Process of Portfolio Management:**

It consists of all the steps of or process an investors creates, maintains, analyses in the investment of different securities with different risk- returns characters.







### Portfolio Evaluation

#### **Portfolio Manager:**

- ❑ The person responsible for investing a mutual, exchange –traded or closed end funds assets, implementing its investment strategy and managing the day to day portfolio trading.
- ❑ He is otherwise called as money manager.
- ❑ He is also responsible for the securities portfolio of individual or institutional investors.
- ❑ He should have a high standard of integrity, honesty and should not have been convicted of any economics offence or moral turpitude.
- ❑ He should not resort to rigging up of prices, insider trading or creating false markets.
- ❑ Their books of accounts are subject to inspection and audit by SEBI.
- ❑ He has to submit periodical returns and documents as may be required by the SEBI from time to time.

#### **SEBI Norms for Portfolio Manager:**

- ❑ SEBI has prohibited the portfolio manager to assume risk on behalf of the client. The portfolio manager is prohibited to do lending, badla financing and bills discounting as per SEBI norms.
- ❑ The portfolio manager cannot put the clients funds in any investment not permitted by the contract entered into with the client.
- ❑ Client's money has to be kept in a separate account with the public sector bank and cannot be mixed up his own funds or investments.
- ❑ All deals done for a clients account are to be entered in his name and contract notes, bills are all passed in his names.
- ❑ A separate ledger account is maintained for all purchases\ sales on clients behalf which should be done at the market price.
- ❑ Final settlement and termination of contracts is as per the contracts and for the period agreed upon.
- ❑ Notice of termination of contract is also as per the contract. During the period of contracts, portfolio manager is only acting on a contractual basis and on a fiduciary basis. No contract for less than a year is permitted by the SEBI.

### **3. Describe Credit /loan syndication /Consortium finance?**

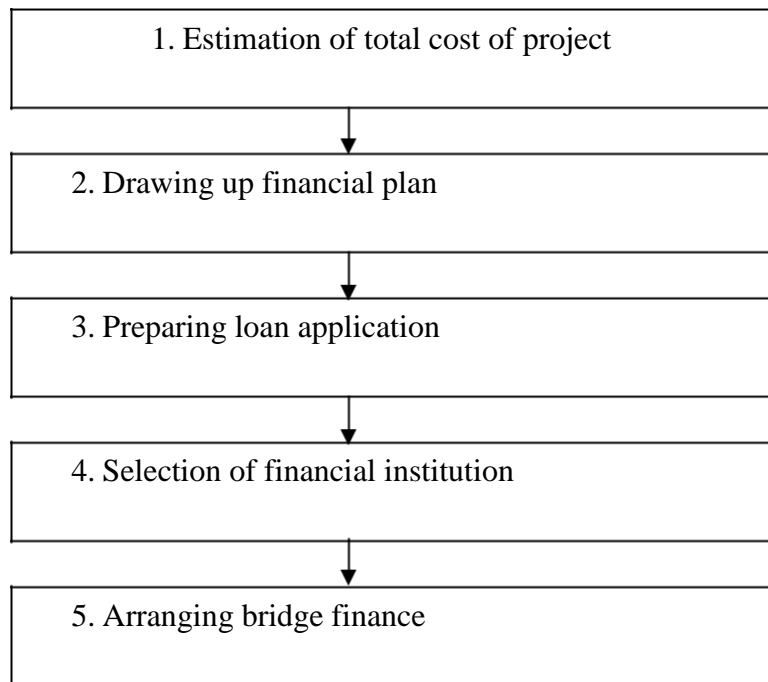
#### **Definition of Credit syndication:**

❑



It is a activities connected with credit procurement and project financing, aimed at raising loan from bank and financial institution are called “Credit syndication”.

**Functions/Activities of Credit syndication:**



**Services of Credit syndication:**

1. Establish promoters details
2. Ascertaining of cost details
3. Ascertainment of loan details
4. Comparison of cost details
5. Project appraisal
6. Identification of funding sources
7. Documentation and creation of security
8. Furnishing beneficiary details
  - General information
  - Promoter information
  - Company information
  - Project profile information
  - Project cost information
  - Project financing information
  - Project marketing information
  - Cash flow information

**4. Describe Commercial Bill Discounting / Bill financing / Re-Discounting?**



### Terminology:

1. **Bill of Exchange** : it is an instrument in writing containing an unconditional order signed by the maker , directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.

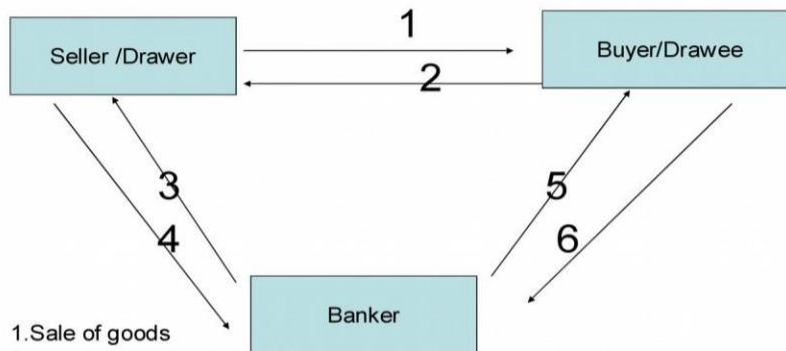
### 2. **Commercial bills:**

Bill of Exchange that are used in the trade and commercial activities are called “Commercial bills”.

### 3. **Bill Discounting:**

When the seller deposit commercial bills and obtains financial accommodation from a bank is known as “Bill discounting”.

### Mechanism of Bill Discounting



1. Sale of goods
2. Drawing of bill and Acceptance
3. Submitting bills for collection & Discounting bills
4. Finalization Accounts
5. Making payments on bills
6. Release of bill

### **Features of Bill Discounting:**

1. Discount charge
2. Maturity- 30,60, 90 days
3. Ready finance
4. Discounting and purchasing

### **Advantages of Bill Discounting:**

1. Safety of funds
2. higher yield
3. Relative stability of prices
4. facility of refinancing
5. Smooth liquidity
6. Certainty of payment

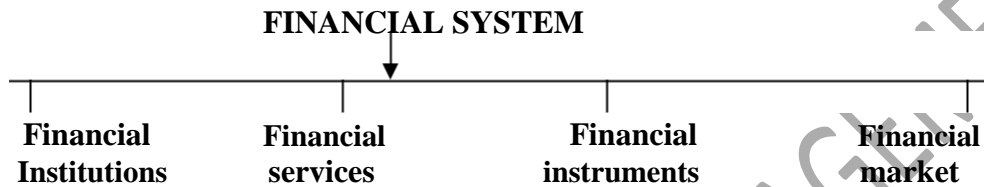


**PART –C(10 Marks)**

**I. Explain the function of good financial system?**

**Financial System:**

- It aims at establishing and providing a regular, smooth, efficient & effective linkage between depositors and investors is known as financial system.





**A. FINANCIAL INSTITUTIONS:**

- ? It provides credit & credit related services are called financial institutions.
- ? It is classified into two categories.
- ? Banking institutions:
  1. Commercial banks
  2. C-operatives banks
  3. Developments banks
  4. EXIM banks.
- ?
  1. Non banking companies
  2. Non banking non financial companies

**B.F INANCIAL SERVICES:**

- ? The function & services that are provided by financial institutions are called financial services. The financial services are
- ? Leasing and Hire purchasing
- ? Merger
- ? Acquisition
- ? Consumer finance
- ? Joint venture
- ? Credit rating

**RECENT TRENDS/DEVELOPOMENT IN FINANCIAL SERVICES:**

1. New Financial intermediaries
2. New financial instruments
3. Specialized institution
4. Regulatory bodies.

**REGULATION OF FINANCIAL SERVICES:**

1. Banking Regulation Act, 1966
2. SEBI (Merchant banking Regulation), 1992
3. Hire purchase Act, 1972
4. FERA Act, 1973

**C.F FINANCIAL INSTRUMENTS:**

- ? Financial assets and securities deal in a financial market are referred to financial instruments.
- ? Financial asset are
  5. Tangible Asset like cash, inventory, land, plant& machine
  6. Intangible Asset like patent, copyright, goodwill.
- ? Financial securities like bank notes, bonds, common stock.

**D. FINANCIAL MARKET:**

?



It is a mechanism that allows people to easily buy and sell financial securities, commodities and other items at low transactions costs.

**(I) Commodity market:**

- ❓ Commodity markets are markets where raw or primary products are
- ❓ exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardized contracts.

**(II) Foreign Exchange market:**

- ❓ The foreign exchange market exists wherever one currency is traded for another. It
- ❓ is the largest and most liquid financial market in the world, and includes trading between large banks, central banks, currency speculators, multinational corporations, governments, and other financial markets and institutions.

**(III) Capital market:**

- ❓ It may be defined as a market for borrowing and lending long term capital funds required by business enterprises.
- ❓ It deals with the raising of finance by various institutions through the issue of various securities.

**(IV) Derivatives market:**

- ❓ Derivatives are financial instruments whose value changes in response to the changes in underlying variables.
- ❓ The main types of derivatives are futures, forwards, options, and swaps.
- ❓ Derivative products are financial products which are used to control risk or paradoxically exploit risk. It is also called financial economics.

**(V) Money market:**

- ❓ It is the global financial market for short-term borrowing and lending.
- ❓ It is debt instruments which have a maturity of less than one year are called money market.
- ❓ It is a collective name given to all institutions that are dealing in short term
- ❓ funds. The money market is where short-term obligations such as Treasury bills, commercial paper and banker's acceptances are bought and sold.
- ❓ Short term funds are required for working capital requirements both in agriculture as well as industry.
- ❓ Without money market, agriculture and industries will come to a halt. When agriculture and industries affected, they affect production, trade, business, employment and income.

**II. Explain the types/Schemes of Merger and Acquisition? Also explain the legal process relating to Approval of Merger?**

**DEFINITION OF MERGER/AMALGAMATION:**

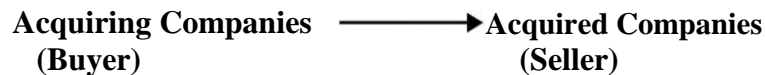
- | It is a combination of 2 or more companies in such a way into a single company, only one survive while other is dissolved.



- } It is a fusion of 2 or more companies into single companies.
- } Example for Merger is TATA OIL MILLS COMPANY Merger with HINDUSTAN LEVER LIMITED.

**DEFINITION OF ACQUISITION/TAKEOVER:**

- } It is controlled by one company over the asset of another company without any combination of the companies.
- } It refers to situation where one firm acquires another and latter ceases to exist.
- } The two companies remain independent and separate legal entities.
- } Example ICICI ACQUIRES BANK OF MADURA.





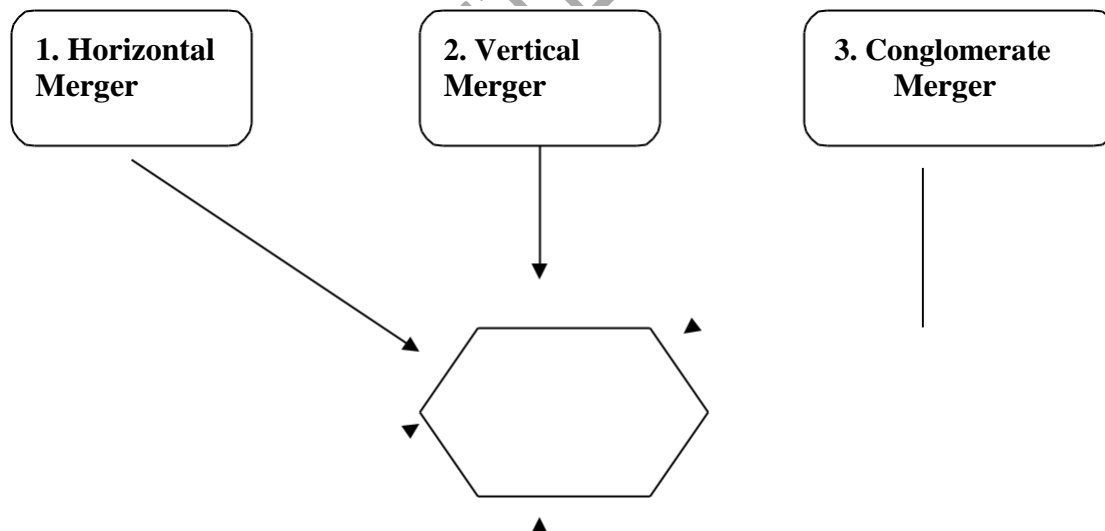
**REASON/PURPOSE OF MERGER:**

1. Procurement of supplies
2. Market expansion
3. restore production facilities
4. Earning growth
5. Tax planning
6. Fusion of synergy
7. Economies of large scale operations
8. helps to receive sick units

**THEORIES OF MERGER:**

1. Synergy theory
2. Q-ratio theory
3. Market share theory
4. Strategic realignment theory
5. Diverfication theory
6. Hubris-Winner curse theory
7. Managialism theory
8. Information and signaling theory

**TYPES/SCHEMES OF MERGER:**







**TYPES  
OF  
MERGE  
R**

**4. Congeneric  
Merger**

**5. Arranged  
Merger**

**6. Negotiated  
Merger**

**1. Horizontal Merger:**

- When 2 or more companies that participate in the same industry.
- It is a merger of two competing firms which are at the same stage.
- Example : Software companies merged with another software company

**2. Vertical Merger:**

- It is type of merger where 2 or more companies that operates in the same industry, but at different stages of production.
- It has two types as a. Backward Merger b. Forward merger Example :
- Hyundai Motors merged with Rane Engineering Pvt limited

**3. Conglomerate Merger:**

- It is merger of 2 companies across different industries
- Example: Telecommunication companies merged with Steel company

**4. Congeneric merger:**

- It is a type of merger where the companies that are getting merged are engaged in Complementary activities.
- Example : Car Manufacturer merged with Scooter Manufacturer

**5. Arranged merger:**

- Where merger of financially sick company takes place with another sound company as part of package of financial rehabilitation, under the financial body is called “arranged Merger”
- Example : MODI Cements merger with Gujarat Ambuja Cements.

**6. Negotiated Merger:**

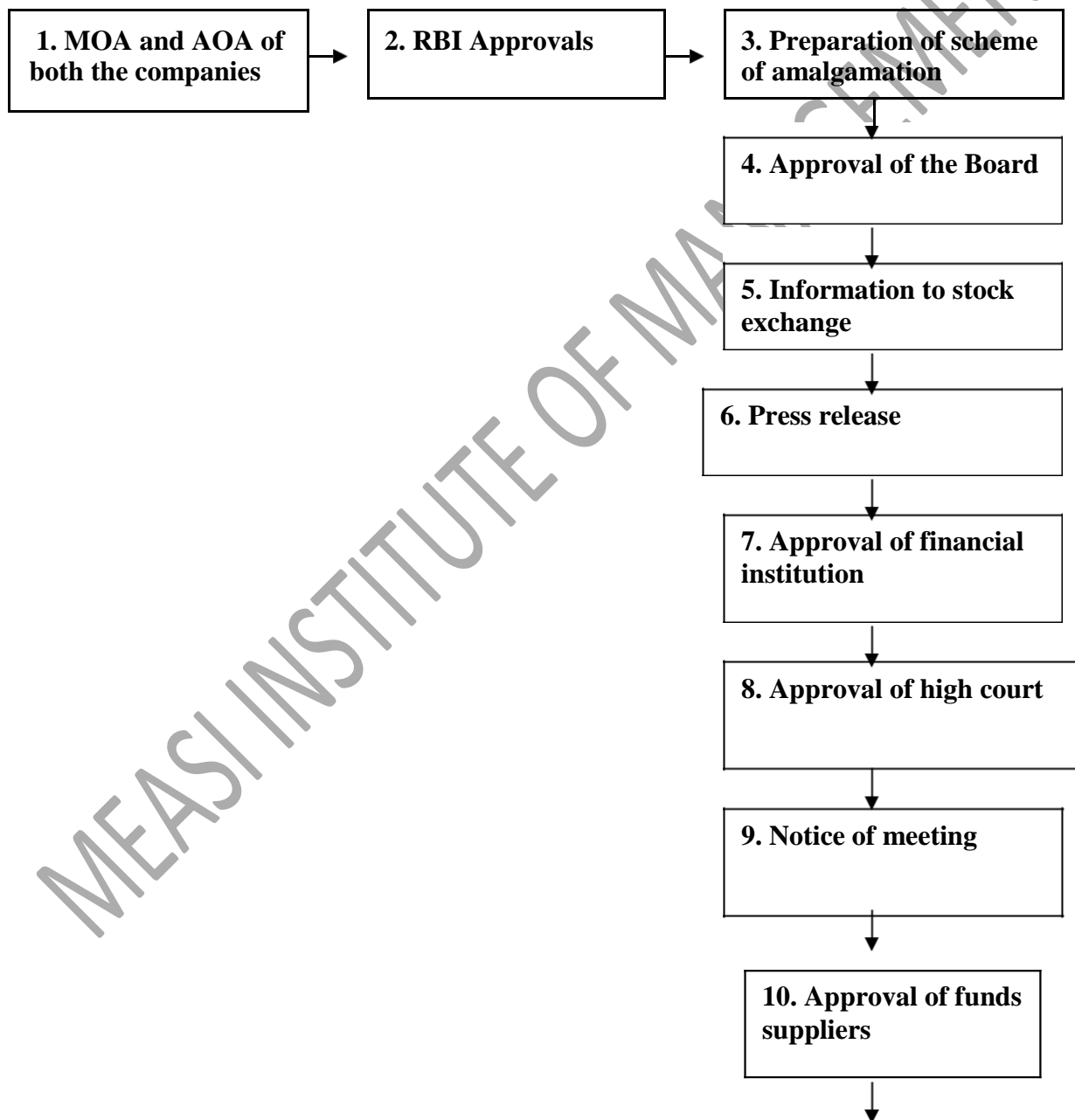
- Where merger 2 or more companies takes place after protracted negotiations, it is called as “Negotiated Merger”

?



Example : Merger of ITC classic ltd with ICICI ltd

**GUIDELINES/LEGAL PROCESS RELATING TO MERGERS AND ACQUISITION:**





**II. Explain the structure of leasing Industry in India?/Describe various types of Leasing and merits and Demerits? Explain the Advantage of Lessor and Lessee?**

**DEFINITION OF LEASING:**

It is a form of contract transferring the use of land, space, structure, in consideration of a payment usually in the form of rent for an agreed time period.

- Two parties involved
- a. Lessor- Seller / Tenant/Owner of Asset
  - b. Lessee – Buyer

**STRUCTURE OF LEASING INDUSTRY IN INDIA:**

S.NO	Nature of Sector	Example
1	<b>PRIVATE SECTOR</b> a. Pure Leasing companies b. Hire purchase and Finance companies	Groven leasing ltd Sundaram finance ltd
2	<b>PUBLIC SECTOR</b> a. Financial institution b. Public sector organization c. Subsidiaries of Banks	IFCI, ICICI Bharat Electronics limited SBI

**PROBLEMS OF LEASING**

1. Unhealthy competition
2. Lack of Adequate personnel
3. Tax consideration
4. Stamp duty
5. Delayed payment and Bad Debts
6. Seizure of assets
7. No moratorium period

**LEASING PROCESS:**

1. Lease selection
2. order and delivery
3. lease contract
4. lease period

**TYPES OF LEASING**

1. Financial leasing



2. Operating leasing
3. Leverage leasing
4. Sale and lease back
5. Cross border Leasing
6. Import Leasing
7. Swap leasing
8. Wrap leasing
9. Open end leasing
10. Close end leasing

#### **1. Financial Leasing:**

- | It is called “Capital lease, long term lease and Net lease”.
- | In financial leasing, the lessee (buyer) select the equipment, settle the price and he will pay a series of rental for the use of asset.
- | Lessor (Seller) will recover large part of cost of asset plus interest from the lessee.
- | This type of leasing is mainly covers
  - a. Diesel Generators
  - b. Machine tools
  - c. Textile Machinery
  - d. Office Equipment

#### **2. Operating Leasing:**

- | It is called “Short term / true leasing”.
- | In this method, the contractual period between the lessor and lessee is less than the full economic life of the Equipment
- | Example: Aircraft which has economic life of 25 years, may be leased to an airline Industry for 5 years.

#### **3. Leverage Leasing:**

- | When a part or whole of financial requirement involved in a leasing is arranged with the help of financier, it is called “Leverage leasing”.
- | It is used for financing those assets which require huge capital outlay.
- | This type of leasing is mainly covers
  - a. Pipe line Equipment
  - b. Rail road Equipment
  - c. Electricity generating plants.

#### **4. Sale and lease back:**

- | In this method, an asset sells it to the lessor and get the asset back
- | The ownership of asset changes from original lessee to the lessor, which in turn lease out back to the owner.
- | This type of leasing is mainly covers
  - a. Retail stores
  - b. Shopping centers
  - c. Multi purpose industrial building



### **5. Cross border Leasing:**

- | Where lessor in own country lease out assets to a lessee in another country is called “Cross border leasing”.
- | It is also known as “International /Transaction leasing”.

### **6. Import Leasing:**

- | The leasing of imported capital goods is known as “Importing leasing”.
- | It is benefit to the buyer because arranging source of funds take a long time, during which the price of asset may change.

### **7. Swap Leasing:**

- | Lessee is allowed to exchange equipment leased out, whenever the original asset has to be sent to the lessor for some repair or maintenance.

### **8. Wrap leasing:**

- | When the lessee further sub-leases the asset to the end user, it is called “Wrap leasing”.
- | The lessee retaining a fee and share of residual value.

### **9. Consumer Leasing:**

- | The leasing of consumer durables such as television, printer, computer for not exceeding 4 month and not exceeding Rs25,000 is called “Consumer leasing”

### **10. Balloon leasing:**

- | A type of lease which has Zero residual value at the end of lease period is called “Balloon leasing”.
- | Where lease rental are low at the beginning, high during mid years and Low again the end of years.

## **ADVANTAGE OF LEASING**

### **A. Advantage to Lessor:**

1. Stable business
2. Wider distribution
3. Sale of supplies
4. Second hand market
5. Tax benefits
6. Absorbing obsolescence risk
7. Augmenting salesmanship
8. Reduces competition
9. Professional services\_\_\_\_\_

### **B. Advantage to Lessee:**

1. Efficient use of funds



2. Cheaper and flexible source
3. Off balance sheet financing
4. Better liquidity
5. Convenient payment of lease rentals
6. Easy operation
7. Postpones taxes
8. Hedge against inflation
9. Long term finance
10. Piecemeal financing

**Reference Books:**

1. **Manual of Merchant Banking, Bharat Publishing house, Dr.J.C.Verma**
2. **Financial services, Tata McGraw hill Education private limited, M.Y.Khan**
3. **Indian financial system, Vikas publishing House, Machiraju**
4. **Merchant Banking and Financial services, Tata McGraw hill Education private limited, Dr.S.Guruswamy.**
4. **Financial services, Prentice Hall of India, Tripathy.**



## UNIT- 5

### FUND BASED FINANCIAL SERVICES

**Structure:**

1. Introduction
2. Factoring and Forfeiting
3. Credit Rating and Venture Capital
4. Credit syndication and Mutual funds
5. Credit cards and Debit cards
6. Real Estate financing and Consumer Financing

**PART –A (One Marks)**

**CARE:**

- ☐ It stands for Credit Analysis and Research.
- ☐ It is a credit rating agency that offers rating grades on debt instruments.

**CRISIL:**

- ☐ It stands for Credit Rating and Investment services of India Limited.
- ☐ It is a credit rating agency that offers rating grades on debt instruments.

**Net Asset Value:**

- ☐ It is the value being obtained by the unit holders on its sales to the mutual fund industry.

$$\text{NAV} = \frac{\text{Market value of the funds investments} + \text{Receivables} + \text{Accrued Income} - \text{Liabilities} - \text{Accrued Expenses}}{\text{Number of shares outstanding}}$$

**Subrogation:**

- ☐ The insurer becomes entitled to the rights and privileges of the insured on the latter interest upon the settlement of claims.

**Discount Rate:**

- ☐ The interest rate used in discounted cash flow analysis to determine the present value of future cash flows.

**Factor:**

- ☐ A bank that rendered the factoring service.

**Venture Capital:**

- ☐ A form of equity financing specially for funding high risk and high reward projects is known as “Venture capital”.



**Credit rating:**

- ☐ It is defined as an expression or symbol about credit quality of the issuer of securities with reference to a particular instrument.

**PART –B (5 Marks)**

**1. Describe the Mechanism /Modus operandi of Forfeiting? \_**

**FORFAITING:**

- ☐ A form of financing of receivable arising from international trade is known as forfeiting.

**MECHANISM / PREOCCESS/MODUS OPERANDI:**

1. Commercial contract
2. Transaction
3. Notes Acceptance
4. Forfaiting contract
5. Sale of notes
6. Payment

FEATURES	BILLS DISCOUNTED	FACTORING	FORFAITING
1. Scrutiny	Individual Sale Transaction	Service of Sale Transaction	Individual Sale Transaction
2. Extent of Finance	Upto 75 – 80%	Upto 80%	Upto 100%
3. Recourse	With Recourse	With or Without Recourse	Without Recourse
4. Sales Administration	Not Done	Done	Not Done
5. Term	Short Term	Short Term	Medium Term
6. Charge Creation	Hypothecation	Assignment	Assignment

**2. Describe the working Mechanism of Credit card cycle? Mention its types and its Facilities to Credit card holders?**

**PLASTIC CARDS:**

1. Credit card
2. Debit card

**WORKING MECHANISM/ PROCESS/ CREDIT CARD CYCLE**

1. Contract for credit card





2. Issue of credit card
3. Purchase of good and service
4. Charging of credit card and raising bill
5. Submission of bill for collection
6. Payments for bills
7. Charging and settlements

**TYPES/CLASSIFICATION OF CREDIT CARDS**

1. Business card
2. Gold card
3. Domestic card
4. International card
5. Master card
6. VISA card
7. Proprietary card
8. Private label cards
9. Smart cards
10. Chip cards
11. Pre paid credit cards
12. Gift cards

**FACILITIES/ ADVANTAGES CREDIT CARD HOLDERS**

1. Shopping convenience
2. Credit facility
3. Safety
4. Acceptability
5. Enhanced sales
6. Easy validation
7. Market expansion
8. Cross selling
9. Risk coverage
10. 24 hours service
11. Photo card option
12. Credit lines increase

**3. Distinguish between Debit and Credit cards?**

S.NO	FEATURES	DEBIT CARD	CREDIT CARD
1	SIZE	2 X 3 Inches	2 x 3 inches
2	Nature of banking product	Liability product	Asset product
3	Merchant preference	More	Less



4	Chances of fraud	Low	High
5	Nature of financing	own sources	Consumer loan
6	Chance of overspending	Nil	Substantial
7	Main services providers	Cirrus, Visa Electron	Visa, Amex

#### 4. Describe the Concept of Real Estate Financing?

##### DEFINITION:

- ❑ A set of all financial arrangements that are made available by housing finance institutions to meet the requirements of housing.

##### FACTOR / GROWTH/CURRENT TRENDS OF HOUSING FINANCE:

1. Budgetary support
2. Access to resources
3. Changing curve
4. Project sizes
5. Sector wise opportunity a.  
Office space markets  
b. Retail real estate  
c. Hospitality sector  
d. Residential construction

##### MAJOR ISSUE IN HOUSING FINANCE

1. Archaic laws
2. Lack of clear title
3. High stamp duty
4. Obsolete Rental laws
5. Foreclosure laws
6. Inadequate Building codes and standards
7. Inadequate Development and planning
8. Slum clearance and Public housing
9. Land supply
10. Rental control Act

##### REAL ESTATE FINANCING INSTITUTIONS

1. National housing Bank(NHB)
2. Housing Development Finance Corporation Limited(HDFC)
3. Life insurance Corporation Housing finance Limited(LICHFL)
4. Housing and urban Development Corporation of India(HUDCO)



### **5. Write notes on Consumer finance or Consumer credit?**

**DEFINITION:** It refers to the activities involved in granting credit to consumers to enabled them possess own goods meant for everyday use.

**MERITS:**

- Maximization of Revenue
- Enhanced living standard
- Exportation
- Effective stock management
- Large scale production

**DE- MERITS:**

- Insolvency
- Economic instability
- Artificial boom
- Risk to traders
- Bad debt Risk

1. Revolving credit
2. Fixed credit
3. Cash loan
4. Secured finance
5. Unsecured finance

**SOURCES OF CONSUMER FINANCE:**

1. Traders
2. Commercial banks
3. Credit card institutions
4. Credit union
5. Middlemen
6. Saving and loan associations
7. Mutual savings banks

**RECENT TRENDS/GROWTH OF CONSUMER FINANCE:**

- Aspirational changes in life styles
- Flexible interest rate structure
- Increasing tie up of manufacture with financiers
- The lure of zero interest scheme
- Increasing competition
- Attractive terms of lending by financial institution



**PART –C (10 Marks)**

**I. Explain various services function provider by Factors and also mention different types of Factoring?**

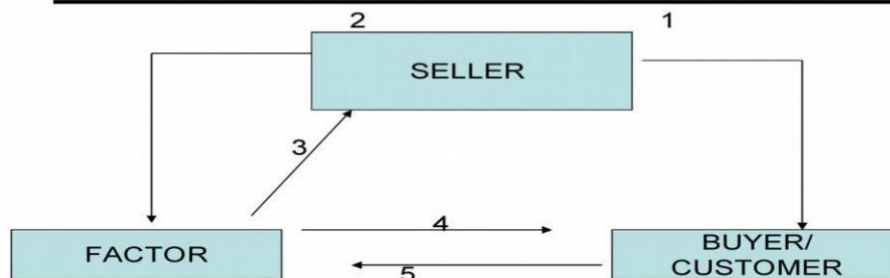
**FACTORING:**

- It is defined as an arrangement under which the factor purchase the accounts receivable and makes immediate cash payment to the supplier.

**LEGAL ASPECTS OF FACTORING**

1. Transfer of property act
2. Indian stamp act
3. Negotiable instrument act
4. Foreign exchange regulation act

**MECHANISM/PROCESS OF FACTORING**



1. Send invoice to customer
2. Assign invoice to factor
3. Payment upto 80% to the seller by the factor
4. Statement to customer by the factor
5. Payment to factor by the buyer

**FUNCTION / SERVICES RENDERED BY FACTOR:**

1. Financing facility
2. Debt administration
3. Sales ledger administration
4. Credit risk
5. Advisory services

**TYPES OF FACTORING:**



1. Domestic factoring
2. International factoring
3. Notified factoring
4. Non –notified factoring
5. Recourse factoring
6. Non-recourse factoring
7. Advance factoring
8. Maturity factoring
9. Invoice factoring
10. Old line factoring

**1. Domestic factoring:**

- ☐ Factoring that arises from transactions relation to domestic’s sales is known as “Domestic factoring.”
- ☐ It is of three types
  - } Disclosed factoring
  - } Undisclosed factoring
  - } Discount factoring

**2. International factoring:**

- ☐ It is otherwise called as “Cross border factoring or Exports factoring”.
- ☐ It deals with export sales and provides financial service, collection services and advisor service.

**3. Notified Factoring:**

- ☐ In case of notified factoring, the customer (Buyer) is informed about the assignment of the debt to the factoring agent and is asked to pay the dues to the factor instead of the firm (seller).

**4. Non-notified factoring:**

- ☐ In this factoring, the factoring arrangement is not disclosed to the customer but the customer is required to make the payment to the changed address.
- ☐ It is otherwise known as “Confidential factoring”.

**5. Recourse factoring:**

- ☐ In recourse factoring, the factor purchases the receivables on the condition that the loss arising on the account of irrecoverable receivables will be borne by the seller.

**6. Non-recourse factoring:**

- ☐



In Non- recourse factoring, the factor purchases the receivables on the condition that the loss arising on the account of irrecoverable receivables will be borne by the factor itself.

**7. Advance factoring:**

- ☐ In case of advance factoring, the factor provides an advance varying between 75-85% of the value of receivable and the balance is paid upon on the guaranteed payment date.

**8. Maturity factoring:**

- ☐ In case of maturity factoring, the factor makes the payment on a guaranteed payment dates or on the date of collection.

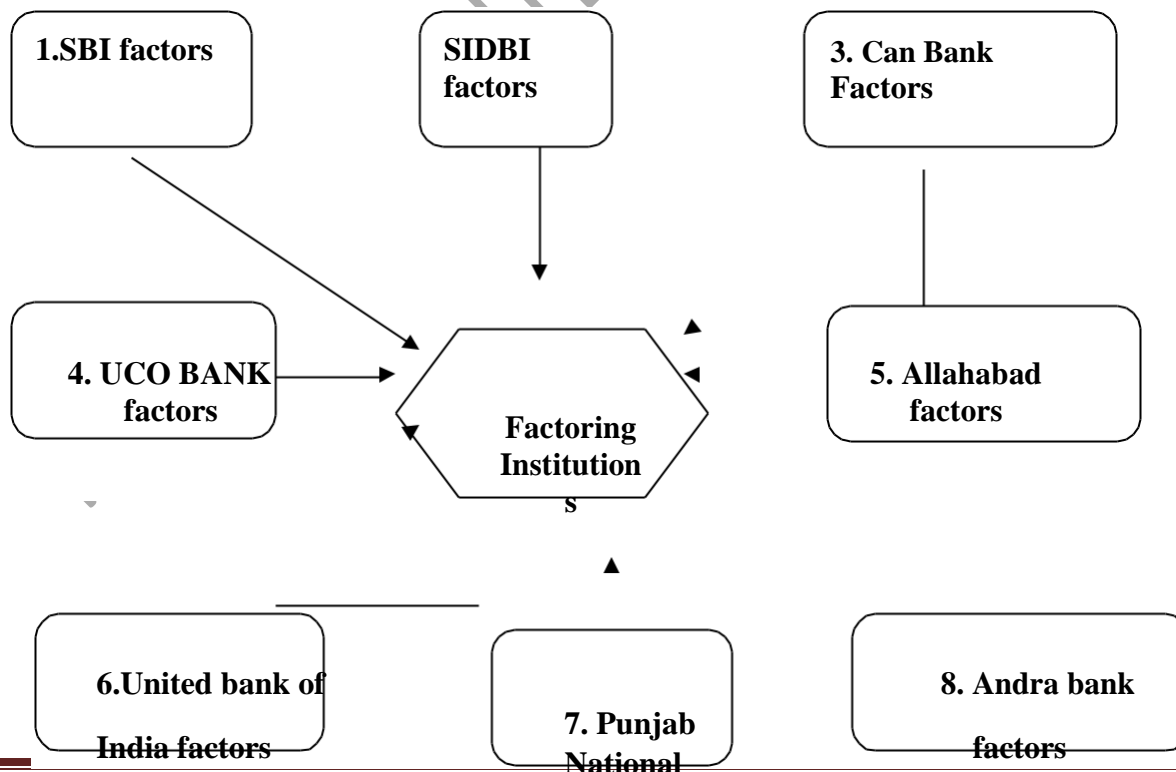
**9. Invoice factoring:**

- ☐ Under this type, the debts due to the clients (seller) are purchased by the factor who thus provides improved liquidity under which the suppliers position becomes very comfortable.

**10. Old line factoring:**

- ☐ It is otherwise known as “Full service factoring”.
- ☐ It is a form of factoring that combines the features of non-recourse and advances factoring.

**FACTORING INSTITUTION:**





**II. Explain the features, process, agencies of CREDIT RATING? / Explain the methodology followed by CRISIL in rating credit instruments?**

**CREDIT RATING**

- ☐ It is defined as an expression or symbol about credit quality of the issuer of securities with reference to a particular instrument.

**FEATURES/ OBJECTIVE OF CREDIT RATING:**

1. Specificity
2. Relativity
3. Guidance
4. Broad parameters
5. No guarantee

**Merits:**

1. Information service
2. Systematic risk evaluation
3. Professional competency
4. Efficient portfolio management
5. Index of faith

**DEMERITS:**

1. Based on Assumptions
2. Guidance not recommendation
3. Competitive rating

**CREDIT RATING PROCESS:**

1. Contract between Rater and Client
2. Sending Expert team to client place
3. Data collection
4. Data analysis
5. Discussion
6. Credit Report preparation
7. Submission to grading committee
8. Grade communication to client

**A. GLOBAL CREDIT RATING AGENCIES:**

1. Moody investor service (Moody's)
2. Standard & Poor corporation (S&P)
3. Duff and Phelps credit rating company(DCR)
4. Japan credit rating agency (JCR)
5. Thomson bank watch
6. Fitch investors service



**B. DOMESTIC CREDIT RATING AGENCIES:**

1. Credit Rating and information service of India(CRISIL)
2. Investment information and credit rating agency of India limited(ICRA)
3. Credit Analysis and Research (CARE)

**CREDIT RATING SYMBOLS**

S.NO	CREDIT RATING AGENCIES	SYMBOLS
1	CRISIL	AAA-highest safety AA-high safety A-adequately safety B-High risk D-Default
2	ICRA	LAAA-High safety LBBB-Moderate safety LC-Substantial risk LD-Default
3	CARE	CARE AAA-High safety CARE A –medium safety CARE C –High risk

**RATING METHODOLOGY OF CRISIL AND ICRA FOR MANUFACTURING AND FINANCE COMPANY:**

**1. Business Analysis**

- Industry risk
- Market position of the company
- Operating efficiency
- Legal position
- Project risk
- Protective factors

**2. Financial Analysis**

- Accounting quality
- Earning protection
- Adequacy of cash flows
- Financial flexibility
- Financing policies
- Financial performance indicators

**3. Fundamental Analysis:**

- Liquidity management





- Asset quality
- Profitability and financial position
- Interest and tax sensitivity

**4. Magement Evaluation**

- Track record
- Vision, goal and Strategies
- Competitive position
- Future outlook of the business

**5. Regulatory and Competitive Environment**

- Structure and regulatory framework
- Trends in regulation

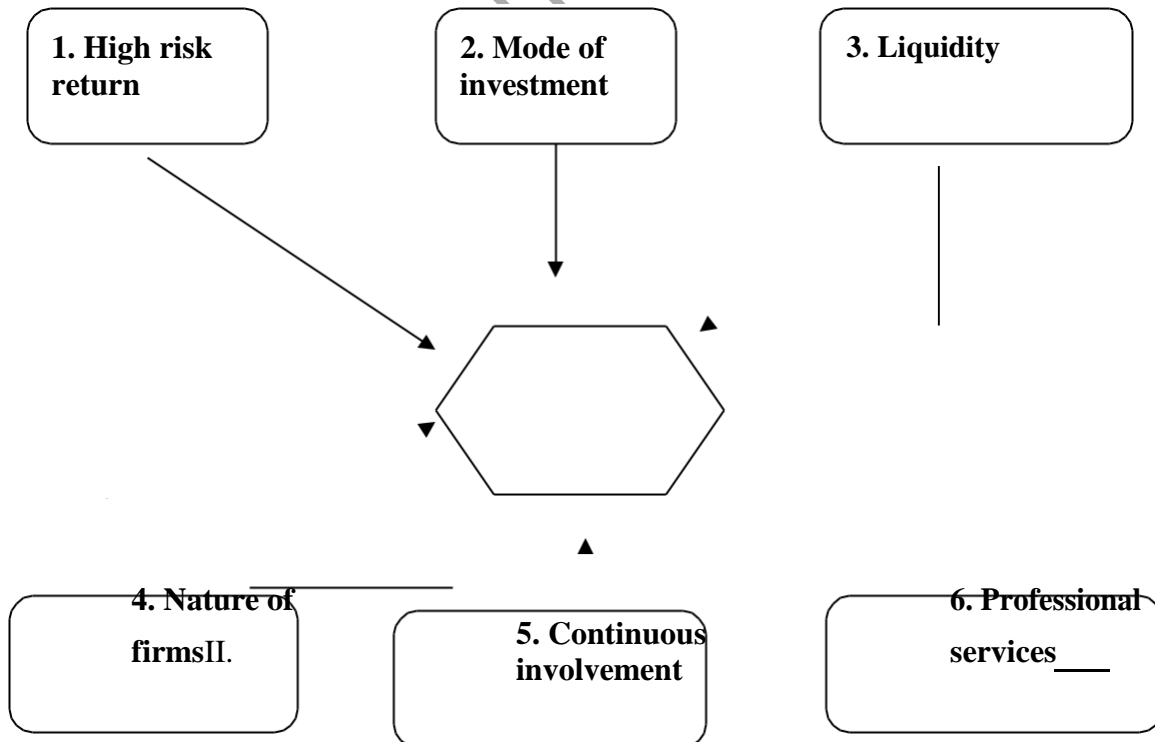
**III. Explain the features, growth, various stages and different methods of VENTURE CAPITAL FINANCING?**

**DEFINITION:**

☐ A form of equity financing specially for funding high risk and high reward projects is known as “Venture capital”

**FEATURES OF VENTURE CAPITAL:**

**FEATURES**





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### GROWTH OF VENTURE CAPITAL FINANCING

1. Growth of venture capital in USA
2. Growth of venture capital in UK
3. Growth of venture capital in European nations
4. Growth of venture capital in Japan
5. Growth of venture capital in India

### VARIOUS STAGES/PROCEDURE/STEPS OF VENTURE CAPITAL

#### A. Early stage Financing Seed capital

- ☐ stage Start up stage
- ☐ Second round finance

#### B. Later stage Financing

- ☐ Expansion finance
- ☐ Replacement finance
- ☐ Turn arounds finance
- ☐ Buy outs- Management, shareholder and receivership buy outs

#### C. EXIT MECHANISM

- ☐ IPO Method
- ☐ Sales of share method
- ☐ Puts and calls method
- ☐ Trade sales method
- ☐ Liquidation

### DIFFERENT METHODS OF VENTURE CAPITAL FINANCING

1. Risk capital foundation
2. Seed capital scheme
3. Venture capital scheme
4. Program for application of commercial technology(PACT)
5. Venture Capital unit scheme(VECAUS)
6. Technology Development and Information company of India Ltd(TDICI)
7. Gujarat venture finance limited(GVFL)
8. Credit capital venture fund
9. SIDBI venture capital fund
10. Canbank venture capital fund

#### IV .Explain the role of Mutual funds in India?



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OR

**Explain the classification of Mutual funds?**

### **Mutual funds:**

- ☐ It is a corporate body that attracts savings, which are then invested in money market, debt market and capital market instruments such as shares and debentures.
- ☐ It is a financial service organization that receives money from shareholders, invests it, earns returns on it, attempts to make it grow and agrees to pay the shareholder cash on demand for the current value of his investment.
- ☐ The Management and Operation of mutual funds are as follows
  - } Sponsoring Institution
  - } Asset management company
  - } Trustees

### **Features/Role of Mutual funds:**

1. Mobilizing small savings
2. Investment Avenue
3. Professional management
4. Diversified Investment
5. Investment protection
6. Convenience and flexibility

### **Reason for Slow Growth:**

1. Disparity between NAV and Listed price
2. No uniformity in the calculation of NAV
3. Lack of Transparency
4. Poor investor servicing
5. Absence of Qualified sales force.
6. Dependence on Outside Agencies

### **Factors consider for selecting a mutual funds:**

1. Objective of the fund
2. Consistency of performance
3. Historical background
4. Cost of operation
5. Investor servicing
6. Market trends.

### **Facilities available to an investor of a mutual fund:**

1. Repurchase facilities
2. Reissue facilities
3. Rollover facilities
4. Lateral shifting facilities.



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## Classification/Schemes/Types of Mutual funds:

### 1. Closed ended schemes:

Under this scheme, the corpus of the funds and its duration are prefixed. In other words, the corpus of the fund and the number of units are determined in advance. Once the subscription reaches the predetermined level, the entry of investors is closed.

### 2. Open ended schemes:

It is just the opposite of closed ended funds. Under these schemes, the size of the fund and the period of the fund are not predetermined. The investors are free to buy and sell any number of units at any point of time.

Net Asset Value: It is the actual value of a share/unit on any business day. It is affected by four factors such as Purchase and sale of investment securities, Valuation of all investment securities held, Asset and Liabilities, Unit sold.

$$\text{NAV} = \frac{\text{Market value of the funds investments} + \text{Receivables} + \text{Accrued Income} - \text{Liabilities} - \text{Accrued Expenses}}{\text{Number of shares outstanding}}$$

### 3. Income funds:

This fund aims at generating and distributing regular income to the members on a periodical basis. It concentrates more on the distribution of regular income. It sees that the average return is higher than that of the income from bank deposit.

### 4. Pure Growth Funds:

It concentrates mainly on long run gains. They do not offer regular income and they aim at capital appreciation in the long run. Hence they have been described as "NEST EGGS" investments.

### 5. Balance funds:

It is nothing but a combination of both income and growth funds. It aims at distributing regular income as well as capital appreciation. The purpose is to balance the commitment of the funds.

### 6. Specialized funds:

They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows. Here the mutual funds will be investing the investor's money in a particular industry such as steel or petroleum so that such industries will grow rapidly.

### 7. Money market funds:



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These funds are basically opened mutual funds. They have all the features of the open ended fund. But they invest in highly liquid and safe securities like commercial paper, banker's acceptances, certificates of deposit; treasury bills. These instruments are called money market instruments.

### **8. Taxation funds:**

It is basically a growth oriented fund. But it offers tax rebates to the investors either in the domestic or foreign capital market. It is suitable to salaried people who want to enjoy tax rebates particularly during the month of Feb. and March.

### **9. off shore funds:**

The objective of launching off shore mutual funds is to attract foreign capital for investment in the country of the issuing company. It open up the capital market to the foreign investors and to global portfolio investments.

### **10. Dual fund:**

The closed ended mutual funds units are traded in the open market and they have a specific duration. The funds sell two classes of stock one is preferred shares and the other is income shares. Dividend on preferred shares is assured.

### **SEBI REGULATION FOR MUTUAL FUNDS:**

1. SEBI lay down common advertising code for all mutual funds
2. Every mutual funds is required to send audited annual statements to SEBI.
3. All mutual funds must distribute minimum of 90% of their profits in any given year.
4. AMC should have atleast 10 years experience in the field of portfolio mgt, financial administration.
5. AMC cannot act as the AMC for another mutual fund.
6. AMC should have minimum networth of Rs 10 crores
7. Mutual funds shall be established in the form of trusts under Indian trust act.
8. Money market mutual funds would be regulated by RBI

### **Reference Books:**

1. **Manual of Merchant Banking, Bharat Publishing house, Dr.J.C.Verma**
2. **Financial services, Tata McGraw hill Education private limited, M.Y.Khan**
3. **Indian financial system, Vikas publishing House, Machiraju. Merchant Banking and Financial services, Tata McGraw hill Education private limited, Dr.S.Guruswamy.**
4. **Financial services, Prentice Hall of India, Tripat**