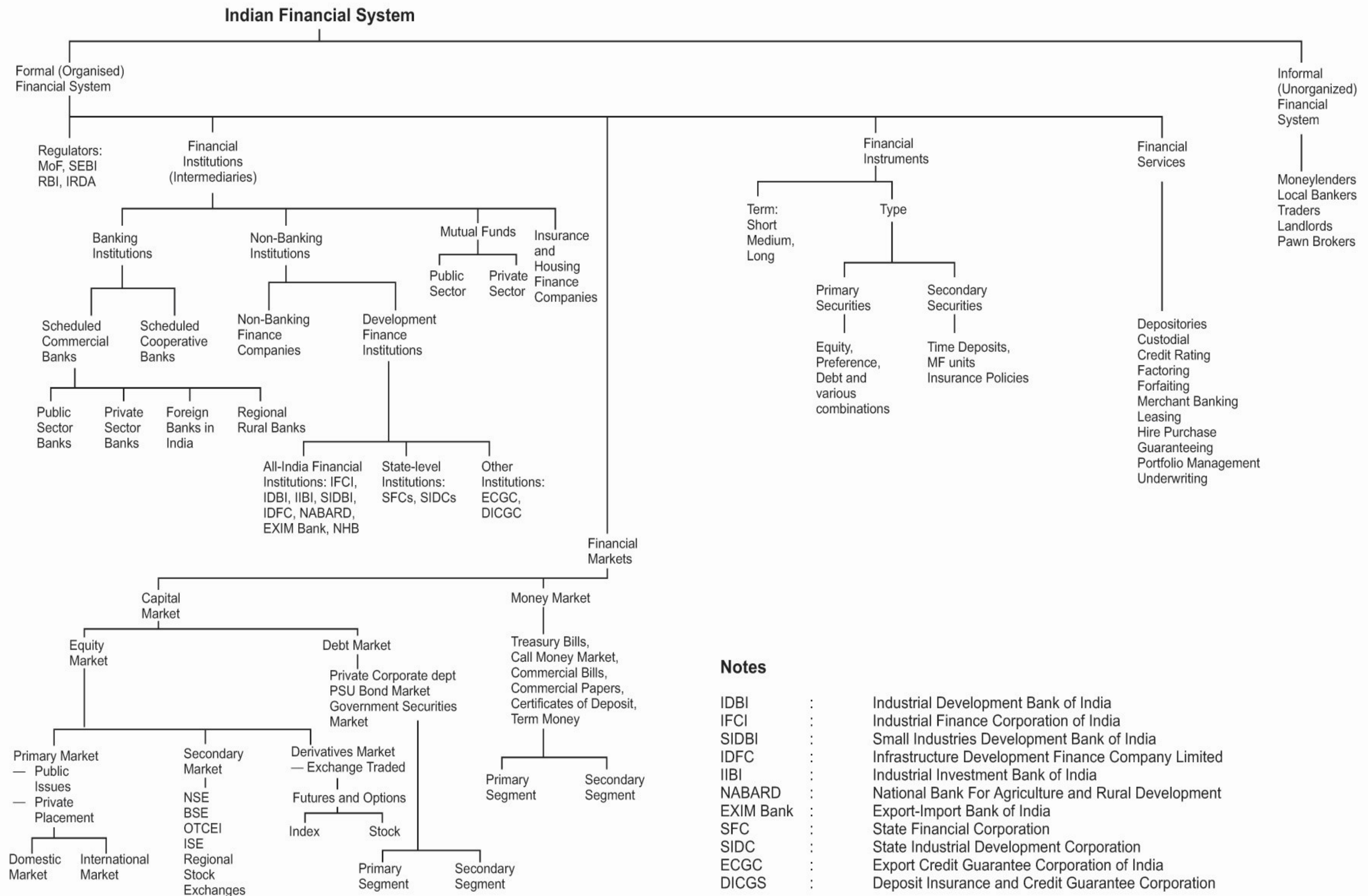
# Indian Financial System
# Paper AH 6
# For B.Com ( Hons ) –Part III

**By**
**Tamal Basu**
**Assistant Professor**
**Department of Commerce ( UG & PG)**
**Prabaht Kumar College, Contai**

# Financial System: An Introduction

# The Indian Financial System



# Meaning of the Financial System

- A set of sub systems of financial institutions, markets, instruments and services
- Intermediates with the flow of funds between savers and borrowers.
- Facilitates transfer and allocation of scarce resources efficiently and effectively

# Types of Financial System

- Formal financial system – organized, institutional and regulated

- Informal financial system

  *Advantages*

  - Low transaction costs
  - Minimum default risk
  - Transparency of procedures

  *Disadvantages*

  - Wide range of interest rates
  - Higher rates of interest
  - Unregulated

# Components of the Financial System

- Financial Institutions
- Financial Markets
- Financial Instruments
- Financial Services

# Types of Financial Institutions

- **Banking: creators and purveyors of credit.**
  - ***Types***
    - **Commercial Banks**
    - **Cooperative Banks**
- **Non-banking: purveyors of credit**
  - ***Types***
    - **Developmental financial institutions**
    - **Mutual funds**
    - **Insurance companies**
    - **NBFCs**

# Functions of Financial Institutions

**Provide three transformation services**

- **Liability, asset and size transformation**
- **Maturity transformation**
- **Risk transformation**

# Financial Markets

## Types

- Money Market – A market for short-term debt instruments
- Capital Market – A market for long-term equity and debt instruments

## Segments

- Primary Market – A market for new issues
- Secondary Market – A market for trading outstanding issues

# Financial Instruments

- Types
  - Primary
  - Secondary
- Distinct Features
  - Marketable
  - Tradable
  - Tailor-made

# Functions of Financial System

- Mobilise and allocate savings
- Monitor corporate performance
- Provide payment and settlement systems
- Optimum allocation of risk bearing and reduction
- Disseminate prize related information
- Offer portfolio adjustment facility
- Lower the cost of transactions
- Promote the process of financial deepening and broadening

# Key Elements of a Well-functioning Financial System

- A strong legal and regulatory environment
- Stable money
- Sound public finances and public debt management
- A central bank
- Sound banking system
- Information system
- Well-functioning securities market

# Financial System Designs

## Types

- **Bank-based**
- **Market-based**

# Market-based Financial System

## Advantages

- Provide attractive terms to both investors and borrowers
- Facilitate diversification
- Allow risk sharing
- Allow financing of new technologies

## Drawbacks

- Prone to instability
- Exposure to market risk
- Free-rider problem

# Bank-based Financial System

## Advantages

- Close relationships with parties
- Provide tailor-made contracts
- Efficient inter-temporal risk sharing
- No free-rider problem

## Drawbacks

- Retards innovation and growth
- Impedes competition

# Functions of Financial Markets

- Enabling economic units to exercise their time preference
- Separation, distribution, diversification and reduction of risk
- Efficient payment mechanism
- Providing information
- Enhancing liquidity
- Providing portfolio management services

# Role and Importance of Financial System in Economic Development

- 1. It links the savers and investors. It helps in mobilizing and allocating the savings efficiently and effectively. It plays a crucial role in economic development through saving-investment process. This savings – investment process is called capital formation.
- 2. It helps to monitor corporate performance.
- 3. It provides a mechanism for managing uncertainty and controlling risk.
- 4. It provides a mechanism for the transfer of resources across geographical boundaries.
- 5. It offers portfolio adjustment facilities (provided by financial markets and financial intermediaries).
- 6. It helps in lowering the transaction costs and increase returns. This will motivate people to save more.
- 7. It promotes the process of capital formation.
- 8. It helps in promoting the process of financial deepening and broadening. Financial deepening means increasing financial assets as a percentage of GDP and financial broadening means building an increasing number and variety of participants and instruments. In short, a financial system contributes to the acceleration of economic development. It contributes to growth through technical progress.

# Financial Markets

- Financial market deals in financial securities (or financial instruments) and financial services. Financial markets are the centres or arrangements that provide facilities for buying and selling of financial claims and services. These are the markets in which money as well as monetary claims is traded in. Financial markets exist wherever financial transactions take place. Financial transactions include issue of equity stock by a company, purchase of bonds in the secondary market, deposit of money in a bank account, transfer of funds from a current account to a savings account etc. The participants in the financial markets are corporations, financial institutions, individuals and the government. These participants trade in financial products in these markets. They trade either directly or through brokers and dealers. In short, financial markets are markets that deal in financial assets and credit instruments.

# Functions of Financial Markets:

- The main functions of financial markets are outlined as below:
- 1. To facilitate creation and allocation of credit and liquidity.
- 2. To serve as intermediaries for mobilisation of savings.
- 3. To help in the process of balanced economic growth.
- 4. To provide financial convenience.
- 5. To provide information and facilitate transactions at low cost. 6. To cater to the various credits needs of the business organisations.

# Classification of Financial Markets:

- There are different ways of classifying financial markets.  There are mainly five ways of classifying financial markets.

1. Classification on the basis of the type of financial claim: On this basis, financial markets may be classified into debt market and equity market.

*Debt market*: This is the financial market for fixed claims like debt instruments.

*Equity market*: This is the financial market for residual claims, i.e., equity instruments.

2. Classification on the basis of maturity of claims: On this basis, financial markets may be classified into money market and capital market.

*Money market*: A market where short term funds are borrowed and lend is called money market. It deals in short term monetary assets with a maturity period of one year or less. Liquid funds as well as highly liquid securities are traded in the money market. Examples of money market are Treasury bill market, call money market, commercial bill market etc. The main participants in this market are banks, financial institutions and government. In short, money market is a place where the demand for and supply of short term funds are met.

*Capital market*: Capital market is the market for long term funds. This market deals in the long term claims, securities and stocks with a maturity period of more than one year. It is the market from where productive capital is raised and made available for industrial purposes. The stock market, the government bond market and derivatives market are examples of capital market. In short, the capital market deals with long term debt and stock.

3. Classification on the basis of seasoning of claim: On this basis, financial markets are classified into primary market and secondary market.

*Primary market*: Primary markets are those markets which deal in the new securities. Therefore, they are also known as *new issue markets*. These are markets where securities are issued for the first time. In other words, these are the markets for the securities issued directly by the companies. The primary markets mobilise savings and supply fresh or additional capital to business units. In short, primary market is a market for raising fresh capital in the form of shares and debentures.

*Secondary market*: Secondary markets are those markets which deal in existing securities. Existing securities are those securities that have already been issued and are already outstanding. Secondary market consists of stock exchanges. Stock exchanges are self regulatory bodies under the overall regulatory purview of the Govt. /SEBI.

4. Classification on the basis of structure or arrangements: On this basis, financial markets can be classified into organised markets and unorganized markets.

*Organised markets*: These are financial markets in which financial transactions take place within the well established exchanges or in the systematic and orderly structure.

*Unorganised markets*: These are financial markets in which financial transactions take place outside the well established exchange or without systematic and orderly structure or arrangements.

5. Classification on the basis of timing of delivery: On this basis, financial markets may be classified into cash/spot market and forward / future market.

*Cash / Spot market*: This is the market where the buying and selling of commodities happens or stocks are sold for cash and delivered immediately after the purchase or sale of commodities or securities.

*Forward/Future market*: This is the market where participants buy and sell stocks/commodities, contracts and the delivery of commodities or securities occurs at a pre-determined time in future.

6. Other types of financial market: Apart from the above, there are some other types of financial markets. They are foreign exchange market and derivatives market.

*Foreign exchange market:* Foreign exchange market is simply defined as a market in which one country's currency is traded for another country's currency. It is a market for the purchase and sale of foreign currencies.

*Derivatives market:* The derivatives are most modern financial instruments in hedging risk. The individuals and firms who wish to avoid or reduce risk can deal with the others who are willing to accept the risk for a price. A common place where such transactions take place is called the derivative market. It is a market in which derivatives are traded. In short, it is a market for derivatives. The important types of derivatives are forwards, futures, options, swaps, etc.

# Financial Instruments (Securities)

- Financial instruments are the financial assets, securities and claims. They may be viewed as financial assets and financial liabilities. Financial assets represent claims for the payment of a sum of money sometime in the future (repayment of principal) and/or a periodic payment in the form of interest or dividend. Financial liabilities are the counterparts of financial assets. They represent promise to pay some portion of prospective income and wealth to others. Financial assets and liabilities arise from the basic process of financing. Some of the financial instruments are tradable/ transferable. Others are non tradable/non-transferable. Financial assets like deposits with banks, companies and post offices, insurance policies, NSCs, provident funds and pension funds are not tradable. Securities (included in financial assets) like equity shares and debentures, or government securities and bonds are tradable. Hence they are transferable. In short, financial instruments are instruments through which a company raises finance.

# Financial Services

- The development of a sophisticated and matured financial system in the country, especially after the early nineties, led to the emergence of a new sector. This new sector is known as financial services sector. Its objective is to intermediate and facilitate financial transactions of individuals and institutional investors. The financial institutions and financial markets help the financial system through financial instruments. The financial services include all activities connected with the transformation of savings into investment. Important financial services include lease financing, hire purchase, instalment payment systems, merchant banking, factoring, forfaiting etc.

## Weaknesses of Indian Financial System

Even though Indian financial system is more developed today, it suffers from certain weaknesses. These may be briefly stated below:

1. **Lack of co-ordination among financial institutions:** There are a large number of financial intermediaries. Most of the financial institutions are owned by the government. At the same time, the government is also the controlling authority of these institutions. As there is multiplicity of institutions in the Indian financial system, there is lack of co-ordination in the working of these institutions.

2. **Dominance of development banks in industrial finance**: The industrial financing in India today is largely through the financial institutions set up by the government. They get most of their funds from their sponsors. They act as distributive agencies only. Hence, they fail to mobilise the savings of the public. This stands in the way of growth of an efficient financial system in the country.

3. **Inactive and erratic capital market:** In India, the corporate customers are able to raise finance through development banks. So, they need not go to capital market. Moreover, they do not resort to capital market because it is erratic and inactive. Investors too prefer investments in physical assets to investments in financial assets.

4. **Unhealthy financial practices**: The dominance of development banks has developed unhealthy financial practices among corporate customers. The development banks provide most of the funds in the form of term loans. So there is a predominance of debt in the financial structure of corporate enterprises. This predominance of debt capital has made the capital structure of the borrowing enterprises uneven and lopsided. When these enterprises face financial crisis, the financial institutions permit a greater use of debt than is warranted. This will make matters worse.

5. **Monopolistic market structures**: In India some financial institutions are so large that they have created a monopolistic market structures in the financial system. For instance, the entire life insurance business is in the hands of LIC. The weakness of this large structure is that it could lead to inefficiency in their working or mismanagement. Ultimately, it would retard the development of the financial system of the country itself.

6. **Other factors:** Apart from the above, there are some other factors which put obstacles to the growth of Indian financial system. Examples are:

a. Banks and Financial Institutions have high level of NPA.

b. Government burdened with high level of domestic debt.

c. Cooperative banks are labelled with scams.

d. Investors confidence reduced in the public sector undertaking etc.,

e. Financial illiteracy.

# BANKING SYSTEM IN INDIA

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non-banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry.

## Classification of Banking Industry in India

An outline of the Indian Banking structure may be presented as follows:-

1. Reserve banks of India.
2. Indian Scheduled Commercial Banks.
    a) State Bank of India and its associate banks.
    b) Twenty nationalized banks.
    c) Regional rural banks.
    d) Other scheduled commercial banks.
3. Foreign Banks
4. Non-scheduled banks.
5. Co-operative banks.

# Reserve bank of India

The reserve bank of India is a central bank and was established in April 1, 1935 in accordance with the provisions of reserve bank of India act 1934. The central office of RBI is located at Mumbai since inception. Though originally the reserve bank of India was privately owned, since nationalization in 1949, RBI is fully owned by the Government of India. It was inaugurated with share capital of Rs. 5 Crores divided into shares of Rs. 100 each fully paid up.

Functions of RBI as a central bank of India are explained briefly as follows:

***Bank of Issue:*** The RBI formulates, implements, and monitors the monitory policy. Its main objective is maintaining price stability and ensuring adequate flow of credit to productive sector.

***Regulator-Supervisor of the financial system:*** RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions. Their main objective is to maintain public confidence in the system, protect depositor's interest and provide cost effective banking services to the public.

***Manager of exchange control:*** The manager of exchange control department manages the foreign exchange, according to the foreign exchange management act, 1999. The manager's main objective is to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

***Issuer of currency:*** A person who works as an issuer, issues and exchanges or destroys the currency and coins that are not fit for circulation. His main objective is to give the public adequate quantity of supplies of currency notes and coins and in good quality.

***Developmental role:*** The RBI performs the wide range of promotional functions to support national objectives such as contests, coupons maintaining good public relations and many more.

***Related functions:*** There are also some of the related functions to the above mentioned main functions. They are such as, banker to the government, banker to banks etc….

- Banker to government performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks maintains banking accounts to all scheduled banks.

***Controller of Credit*:** RBI performs the following tasks:

- It holds the cash reserves of all the scheduled banks.
- It controls the credit operations of banks through quantitative and qualitative controls.
- It controls the banking system through the system of licensing, inspection and calling for information.
- It acts as the lender of the last resort by providing rediscount facilities to scheduled banks.

***Supervisory Functions:*** In addition to its traditional central banking functions, the Reserve Bank performs certain non-monetary functions of the nature of supervision of banks and promotion of sound banking in India. The Reserve Bank Act 1934 and the banking regulation act 1949 have given the RBI wide powers of supervision and control over commercial and co-operative banks, relating to licensing and establishments, branch expansion, liquidity of their assets, management and methods of working, amalgamation, reconstruction and liquidation. The RBI is authorized to carry out periodical inspections of the banks and to call for returns and necessary information from them. The nationalisation of 14 major Indian scheduled banks in July 1969 has imposed new responsibilities on the RBI for directing the growth of banking and credit policies towards more rapid development of the economy and realisation of certain desired social objectives. The supervisory functions of the RBI have helped a great deal in improving the standard of banking in India to develop on sound lines and to improve the methods of their operation.

***Promotional Functions:*** With economic growth assuming a new urgency since independence, the range of the Reserve Bank's functions has steadily widened. The bank now performs a variety of developmental and promotional functions, which, at one time, were regarded as outside the normal scope of central banking. The Reserve bank was asked to promote banking habit, extend banking facilities to rural and semi-urban areas, and establish and promote new specialized financing agencies.

## Indian Scheduled Commercial Banks

The commercial banking structure in India consists of scheduled commercial banks, and unscheduled banks.

***Scheduled Banks***: Scheduled Banks in India constitute those banks which have been included in the second schedule of RBI act 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6a) of the Act. "Scheduled banks in India" means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the s State Bank of India (subsidiary banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank". For the purpose of assessment of performance of banks, the Reserve Bank of India categories those banks as public sector banks, old private sector banks, new private sector banks and foreign banks, i.e. private sector, public sector, and foreign banks come under the umbrella of scheduled commercial banks.

***Regional Rural Bank***: The government of India set up Regional Rural Banks (RRBs) on October 2, 1975 [10]. The banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourers, and small enterpreneurs. Initially, five RRBs were set up on October 2, 1975 which was sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The total authorized capital was fixed at Rs. 1 Crore which has since been raised to Rs. 5 Crores. There are several concessions enjoyed by the RRBs by Reserve Bank of India such as lower interest rates and refinancing facilities from NABARD like lower cash ratio, lower statutory liquidity ratio, lower rate of interest on loans taken from sponsoring banks, managerial and staff assistance from the sponsoring bank and reimbursement of the expenses on staff training. The RRBs are under the control of NABARD. NABARD has the responsibility of laying down the policies for the RRBs, to oversee their operations, provide refinance facilities, to monitor their performance and to attend their problems.

***Unscheduled Banks***: "Unscheduled Bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank".

# NABARD

NABARD is an apex development bank with an authorization for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity, NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas
2. Bringing about or promoting institutions development and
3. Evaluating, monitoring and inspecting the client banks

Besides this fundamental role, NABARD also:

- Act as a coordinator in the operations of rural credit institutions
- To help sectors of the economy that they have special credit needs for eg. Housing, small business and agricultural loans etc.

# Role of Specialised Financial Institutions

- SFIs are institutions set up mainly by the government for providing medium and long-term financial assistance to industry. As these institutions provide developmental finance, that is, finance for investment in fixed assets, they are also known as ‘development banks’ or ‘development financial institutions’. These institutions receive funds for their financing operations primarily from the government or other public institutions. These institutions also raise funds from the capital market

# Types of Specialised Financial Institutions

(a) All India Development Banks

- 1. Industrial Development Bank of India (IDBI)
- 2. Small Industries Development Bank of India (SIDBI)
- 3. Industrial Finance Corporation of India (IFCI)
- 4. Industrial credit and Investment corporation of India (ICICI)
- 5. National Bank for Agriculture and Rural Development (NABARD)
- 6. Industrial Investment Bank of India Ltd. (previously, Industrial Reconstruction Bank of India) Industrial Development Bank of India (IDBI)

# Types of Specialised Financial Institutions

(b) State-level Institutions

1. State Financial Corporations (SFCs)
2. State Industrial Development Corporations (SIDC)
3. State Industrial Investment Corporations (SIIC)

# Types of Specialised Financial Institutions

(c) Investment institutions

1. Unit Trust of India (UTI)
2. Life Insurance Corporation of India (LIC)
3. General Insurance Corporation (GIC)

# Objectives and Functions of Industrial Finance Corporations of India (I.F.C.I.)

- The primary role of IFCI is to provide 'direct financial assistance' on medium and long term basis to industrial projects in the corporate and co-operative sectors. Over the years, the scope of activities of the corporation has widened. The objectives of the corporation are stated below.

(a) To provide long and medium-term credit to industrial concerns engaged in manufacturing, mining, shipping and electricity generation and distribution.

(b) The period of credit can be as long as 25 years and should not exceed that period;

(c) To grant credit to a single concern up to a maximum amount of rupees one crore. This limit can be exceeded with the permission of the government under certain circumstances;

(d) guarantee loans and deferred payments;

(e) underwrite and directly subscribe to shares and debentures issued by companies;

(f) assist in setting up new projects as well as in modernisation of existing industrial concerns in medium and large scale sector;

(g) assist projects under co-operatives and in backward areas.

## Functions

The main functions of I.F.C.I. are as under:-

i) Granting loans and advances for the establishment, expansion, diversification and modernisation of industries in corporate and co-operative sectors.

ii) Guaranteeing loans raised by industrial concerns in the capital market, both in rupees and foreign currencies.

iii) Subscribing or underwriting the issue of shares and debentures by industries. Such investment can be held up to 7 years.

iv) Guaranteeing credit purchase of capital goods, imported as well as purchased within the country.

v) Providing assistance, under the soft loans scheme, to selected industries such as cement, cotton textiles, jute, engineering goods, etc.

vi) Providing technical, legal, marketing and administrative assistance to any industrial concern for the promotion, management and

expansion of the industrial concern.

vii) Providing equipment (imported or indigeneous) to the existing industrial concerns on lease under its 'equipment leasing scheme'.

viii) Procuring and reselling equipment to eligible existing industrial concerns in corporate or co-operative sectors.

ix) Rendering merchant banking services to industrial concerns.

# State Financial Corporations (SFCs)

- IFCI was established to cater to the financial needs of industrial concerns in large scale corporate and co-operative sectors. Small and medium sized enterprises were outside the purview of IFCI. To meet the financial needs of small and medium enterprises, the government of India passed the State Financial Corporation Act in 1951, empowering the State governments to establish development banks for their respective regions. Under the Act, SFCs have been established by State governments to meet the financial requirements of medium and small sized enterprises. There are 18 SFCs at present.

# The objectives of state financial corporations are as under:

- Provide financial assistance to small and medium industrial concerns. These may be from corporate or co-operative sectors as in case of IFCI or may be partnership, individual or joint hindu family business. Under SFCs Act, “industrial concern” means any concern engaged not only in the manufacture, preservation or processing of goods, but also mining, hotel industry, transport undertakings, generation or distribution of electricity, repairs and maintenance of machinery, setting up or development of an industrial area or industrial estate, etc.

**The functions of SFCs include**

(1) Grant of loans and advances to or subscribe to debentures of, industrial concerns repayable within a period not exceeding 20 years, with option of conversion into shares or stock of the industrial concern.

(2) Guaranteeing loans raised by industrial concerns which are repayable within a period not exceeding 20 years.

(3) Guaranteeing deferred payments due from an industrial concern for purchase of capital goods in India.

(4) Underwriting of the issue of stock, shares, bonds or debentures by industrial concerns.

(5) Subscribing to, or purchasing of, the stock, shares, bonds or debentures of an industrial concern subject to a maximum of 30 percent of the subscribed capital, or 30 percent of paid up share capital and free reserve, whichever is less.

(6) Act as agent of the Central government, State government, IDBI, IFCI or any other financial institution in the matter of grant of

loan or business of IDBI, IFCI or financial institution.

(7) Providing technical and administrative assistance to any industrial concern or any person for the promotion, management or expansion of any industry.

(8) Planning and assisting in the promotion and development of industries.

# Industrial Development Bank of India (IDBI)

- The Industrial Development Bank of India was set up in July 1964 as a wholly owned subsidiary of the Reserve Bank of India. The purpose was to enable the new institution to benefit from the financial support and experience of RBI. After a decade of its working, it was delinked from RBI in 1976, when its ownership was transferred to the Government of India. The purpose was to allow RBI to concentrate on its central banking function and allow IDBI to grow into a developmental agency.

# IDBI CONTD.

- IDBI is now the principal financial institution for co-ordinating the working of institutions engaged in financing, promoting or developing industry, assisting the development of such institutions and providing credit and other facilities for the development of industry. Thus the role of IDBI may be stated as under:
- (1) As an apex financial institution, it coordinates the working of other financial institutions.
- (2) It assists in the development of other financial institutions.
- (3) It provides credit to large industrial concerns directly.
- (4) It undertakes other activities for the development of industry.

# Objectives

The main objectives of IDBI is to serve as the apex institution for term finance for industry in India.

(1) Co-ordination, regulation and supervision of the working of other financial institutions such as IFCI , ICICI, UTI, LIC, Commercial Banks and SFCs.

(2) Supplementing the resources of other financial institutions and thereby widening the scope of their assistance.

(3) Planning, promotion and development of key industries and diversifications of industrial growth.

(4) Devising and enforcing a system of industrial growth that conforms to national priorities.

Its objectives include

## Function

The IDBI has been established to perform the following functions-

(1) To grant loans and advances to IFCI, SFCs or any other financial institution by way of refinancing of loans granted by such institutions which are repayable within 25 year.

(2) To grant loans and advances to scheduled banks or state co-operative banks by way of refinancing of loans granted by such institutions which are repayable in 15 years.

(3) To grant loans and advances to IFCI, SFCs, other institutions, scheduled banks, state co-operative banks by way of refinancing of loans granted by such institution to industrial concerns for exports.

(4) To discount or rediscount bills of industrial concerns.

(5) To underwrite or to subscribe to shares or debentures of industrial concerns.

(6) To subscribe to or purchase stock, shares, bonds and debentures of other financial institutions.

(7) To grant line of credit or loans and advances to other financial institutions such as IFCI, SFCs, etc.

(8) To grant loans to any industrial concern.

(9) To guarantee deferred payment due from any industrial concern.

(10) To guarantee loans raised by industrial concerns in the market or from institutions.

(11) To provide consultancy and merchant banking services in or outside India.

(12) To provide technical, legal, marketing and administrative assistance to any industrial concern or person for promotion, management or expansion of any industry.

(13) Planning, promoting and developing industries to fill up gaps in the industrial structure in India.

(14) To act as trustee for the holders of debentures or other securities.

# Industrial Credit and Investment Corporation of India (ICICI)

- Industrial Credit and Investment Corporation of India was established as a joint stock company in the private sector in 1955. Its share capital was contributed by banks, insurance companies and foreign institutions including the World Bank. Its major shareholders now are Unit Trust of India, Life Insurance Corporation of India and General Insurance Corporation and its subsidiaries. They together hold approximately 50% of the paid up share capital of ICICI.

# ICICI- OBJECTIVES

The ICICI has been established to achieve the following objectives:

- (I) To assist in the formation, expansion and modernisation of industrial units in the private sector;
- (ii) To stimulate and promote the participation of private capital (both Indian and foreign) in such industrial units;
- (iii) To furnish technical and managerial aid so as to increase production and expand employment opportunities;
- (iv) To assist in the development of the capital market through its underwriting activities.

## Functions

The primary function of ICICI is to act as a channel for providing development finance to industry. In pursuit of its objectives of promoting industrial development, ICICI performs the following functions:-

(i) It provides medium and long-term loans in Indian and foreign currency for importing capital equipment and technical services. Loans sanctioned generally go towards purchase of fixed assets like land, building and machinery;

(ii) It subscribes to new issues of shares, generally by underwriting them;

(iii) It guarantees loans raised from private sources including deferred payment;

(iv) It directly subscribes to shares and debentures;

(v) It provides technical and managerial assistance to industrial units;

(vi) It provides assets on lease to industrial concerns. In other words, assets are owned by ICICI but allowed to be used by industrial concerns for a consideration called lease rent.

(vii) It provides project consultancy services to industrial units for new projects.

(viii) It provides merchant banking services.

# Export-Import Bank of India: Objectives

- 1. To ensure and integrated and co-ordinated approach in solving the allied problems en
- 2. To pay specific attention to the exports of capital goods;
- 3. Export projection;
- 4. To facilitate and encourage joint ventures and export of technical services and international and merchant banking; countered by exporters in India.
- 5. To extend buyers' credit and lines of credit;
- 6. To tap domestic and foreign markets for resources for undertaking development and financial activities in the export sector.

# Export-Import Bank of India: Functions

- (a) Planning, promoting and developing exp
- (b) Providing technical, administrative and managerial assistance for promotion, management and expansion of export sector.orts and imports;
- (c) Undertaking market and investment surveys and techno-economic studies related to development of exports of goods and services.

# EXIM BANK –OTHERS ASPECTS

- The Exim Bank has a 17-member Board of Directors, with Chairman and Managing Director as the chief executive and full-time director. The Board of Directors consists of the representative of the Government of India, RBI, IDBI, ECGC, commercial banks and the exporting community.
- The authorised capital of Exim Bank is Rs. 200 crores, of which Rs. 75 crores is paid up. The banks have secured a long-term loan of Rs. 20 crores from the Government of India. It can also borrow from the RBI. It is empowered to raise resources in domestic and international markets.
- The Bank began its lending operations from March, 1982. Till June, 1982, it has extended assistance up to Rs. 133 crores to the export sector in various ways.

# Capital Market

A capital market is market for securities (Debt or Equity), where business enterprises (Companies) and government can raise long term funds.

The primal role of this market is to make investment from investors who have surplus funds to the ones who are running a deficit

The different types of financial instruments that are traded in the capital markets are

> Equity instruments
> Credit market instruments,
> Insurance instruments,
> Hybrid instruments and
> Derivative instruments.

## Types of capital Market

There are two types of capital market:

- Primary market
- Secondary market

# Primary Market

It is that market in which shares, debentures and other securities are sold for the first time for collecting long-term capital

This market is concerned with new issues. Therefore, the primary market is also called NEW ISSUE MARKET

In this market, the flow of funds is from savers to borrowers (industries), hence, it helps directly in the capital formation of the country

The money collected from this market is generally used by the companies to modernize the plant, machinery and buildings, for extending business, and for setting up new business unit.

# Features of primary market

It is related with New Issues

It has no Particular Place

It has Various Methods Of Float Capital: Following are the methods of raising capital in the primary market:

i) Initial Public Issue (IPO)
ii) Offer For Sale
iii) Private Placement
iv) Right Issue

It comes before Secondary Market

## Secondary Market

The secondary market is that market in which the buying and selling of the previously issued securities is done.

The transactions of the secondary market are generally done through the medium of stock exchange.

The chief purpose of the secondary market is to create liquidity in securities.

## Features of secondary market

- It Creates Liquidity
- It Comes after Primary Market
- It has a Particular Place (Stock exchanges)
- It encourage New Investments

# Indian capital Market

**The Indian Capital Market is one of the oldest capital markets in Asia which evolved around 200 years ago**

## Indian capital markets-Time line

1830s:Trading of corporate shares and stocks in Bank and cotton Presses in Bombay.

1850s: Sharp increase in the capital market brokers owing to the rapid development of commercial enterprise.

1860-61: Outbreak of the American Civil War and ' Share Mania ' in India.

1894: Formation of the Hamada Shares and Stock Brokers Association.

1908: Formation of the Calcutta Stock Exchange Association

BSE founded in1875. It can be said that in1899 the stock exchange at Bombay was consolidated. Electronic Stock Exchange started in 1992.

NSE founded in1992 (as a competitor of BSE) NSDL founded in 1996. NSDL- National Security Depositor Limited

## Major events in Indian capital Market

In 1993- private sector entry allowed in mutual fund.

In March 1995-NSE started a limit order book market, instead of open outcry.

In 1992- FII (Foreign Institutional Investor) were allowed in Indian security market. Indian companies were allowed to raise GDR & FCCBS. GDR- global depository receipt FCCBS- foreign currency convertible bonds

# INDIAN CAPITAL MARKET DIVIDED INTO TWO STAGES

**1947-91:-very much controlled and restricted by Indian Govt.**

**1991 onwards:-liberalized, progressive and regulated by .SEBI**

**WHY IN 1991INDIAN CAPITAL MARKET LIBERALIZED?**

Because of increasing oil price

Double digit inflation

Foreign loan chances of default creates shortage of adequate capital and brought economic crisis for India.

**CHANGES IN CAPITAL MARKET POLICY AND GROWTH RATE OF INDIA**

Since independence India followed democratic socialism

1951-56 - 3.6%

War period - 1961 -66 - 2.5%

Always remains below - 5%

1991 onwards liberalized economic policy

8th plan 1992-97 - 6.7% growth rate and

Then afterwards always remains more than 5%.

In 2008 India was world's second fastest growing major economy even in world slowdown-2009 - growth rate 6.1%

Now expecting 8% growth rate

## Reforms in Capital Market of India

The **major** reforms undertaken in capital market of India includes

1. **Establishment of SEBI**
2. **Establishment of Creditors Rating Agencies**
3. **Increasing of Merchant Banking Activities**
4. **FII and performance of Indian Economy**
5. **Rising Electronic Transactions**
6. **Growing Mutual Fund Industry**
7. **Growing Stock Exchanges**
8. **Investor's Protection**
9. **Growth of Derivative Transactions**
10. **Insurance Sector Reforms**
11. **Commodity Trading**

# CAPITAL MARKET

-
- A good capital market is essential pre requisite for industrial and commercial development of a country.credit is required and supplied on both short term and long term basis.The money market caters to the short term needs only.The long term needs are met by the capital market.
- The term, refers to the institutional arrangements for facilitating the borrowing and lending of long term funds..It may be defined as an organised mechanism for effective and efficient transfer of money capital or financial resources from the investing parties to the entrepreneurs engaged in industry or commerce.
- **OBJECTIVES AND IMPORTANCE**
  Capital market,Ensures best possible coordination and balance between the flow of savings on the one hand and the flow of investment leading to capital formation on the other.Directs the flow of savings into most profitable channels and thereby ensures optimum utilisation of financial resources

# FUNCTIONS

- **Mobilisation of financial resources on a nation wid**
- Import of foreign capital to supplement the deficit in the required financial resources for economic growth.Effective allocation of mobilised financial resources.

# COMPONENTS OF CAPITAL MARKET

- New issue or primary market.
- Secondary market
- Financial institutions

# PARTICIPANTS OF CAPITAL MARKET

- Clearing house for long term capital
- 1) New Issue Market
- 2)stock Exchange
- 3) Financial Institutions
- Borrowers:
- Individuals,Corporations
- Institutions
- Government
- Entrepreneurs

Supply of money capital:

Individuals,
Corporations
Institutions
Banks
Government

# NEW ISSUE MARKET OR PRIMARY MARKET

- New securities, i.e., shares or bonds that have never been issued previously, are offered.Both new and existing companies can raise capital on the new issue market.The main function is to facilitate the transfer of funds from the willing investors to the entrepreneurs.

# CAPITAL MARKET INSTRUMENTS

- Ownership securities
- Equity shares.
- Preference shares
- Creditor ship securities
- Debentures
- Bonds

# CAPITAL MARKET INTERMEDIARIES

- Firm or person (such as a broker or consultant) who acts as a mediator on a link between parties to a business deal, investment decision, negotiation, etc.Intermediaries usually specialize in specific areas, and serve as a conduit for market and other types of information.

# INTRMEDIARIES

- Intermediaries are service providers in the market, including stock brokers, sub-brokers, financiers, merchant bankers, underwriters, depository participants, registrar and transfer agents, FIIs/ sub accounts, mutual Funds, venture capital funds, portfolio managers, custodians, etc
- MERCHANT BANKERS
- STOCK BROKERS
- PUBLIC
- CAPITAL MARKETS
- UNDERWRITERS
- DEPOSITORY PARTICIPTANT
- INTERMEDIARIES
- PORTFOLIO MANAGERS
- INTERMEDIARIES
- FINANCIERS
- MUTUAL FUNDS
- VENTURE CAPTAL

# DEPOSITORY PARTICIPTANT

- Depository system introduced in India in the year 1996.In India, a Depository Participant (DP) is described as an agent of the depository. They are the intermediaries between the depository and the investors.Service provided- Dematerialization, Rematerialization, Transfers of securities, settlement of trades.In India- NSDL & CDSL are the two entity.

# STOCK BROKER

- A stockbroker is a regulated professional individual, usually associated with a brokerage form firm or broker-dealer, who buys and sells stocks and other securities for both retail and institutional clients, through a stock exchange or over the counter, in return for a fee or commission.Stockbrokers are known by numerous professional designations, depending on the license they hold, the type of securities they sell, or the services they provide.

# SUB BROKERS

- An intermediary broker, from whom another broker acquires the reinsurance that needs to be placed.Person who is not a Trading Member of a Stock Exchange but who acts on behalf of a Trading Member as an agent or otherwise for assisting investors in dealing in securities through such Trading Members.All Sub-Brokers are required to obtain a Certificate of Registration from SEBI without which they are not permitted to deal in securities. a Sub-Broker unless they are registered with SEBI can wok as a Sub-Broker.

# UNDERWRITERS

- A company or other entity that administers the public issuance and distribution of securities from a corporation or other issuing body.They have taken on the risk of distributing the securities.Underwriters make their income from the price difference (the "underwriting spread") between the price they pay the issuer and what they collect from investors or from broker-dealers who buy portions of the offering.

# Advantages of Underwriting

- 1. The company is sure of getting the value of shares issued
- 2. It enhances goodwill of the company
- 3. It facilitates wide distribution of securities
- 4. The company gets expert advice from underwriters in the matter of marketing securities
- 5. It fulfills requirement of minimum subscription

# STOCK EXCHANGE

- the secondary market where existing securities (shares and debentures) are traded.
- STOCK EXCHANGEStock Exchanges are organised and regulated markets for various securities issued by corporate sector and other institutions.
- 24 approved stock exchanges in our country

# DEFINITIONS OF STOCK EXCHANGE

- “ Security exchanges are market places where securities that have been listed thereon may be bought and sold for either investment or speculation” Pyle Stock Exchange means any body of individuals whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling in securities” Securities Contract (Regulation) Act, 1956

# FUNCTIONS OF STOCK EXCHANGE

- 1. Ensure liquidity of capitalProvide ready market where buyers and sellers are always availableProvide hard cash after selling their holdings
- 2. Continuous market of securitiesSecurities once listed continue to be traded at the exchange irrespective of the fact that owners go on changing
- 3. Evaluation of SecuritiesInvestors can evaluate the worth of their holdings from the prices quoted at different exchanges for these securities.

# LISTING OF SECURITIES

- Listing of securities means permission to quote shares and debentures officially on the trading floor of the stock exchangeEvery security listed by companies cannot be traded at a stock exchange. The stock exchange fix certain standards which the company must fulfill before getting the securities listed.

# OBJECTIVE OF LISTING OF SECURITIES

- Proper supervision and control of dealing in securitiesProtect the interest of shareholders and the investors
- Avoid concentration of economic power
- Ensure liquidity of securitiesRegulate dealings in securities
- Requiring promoters to have reasonable stake in the company

# DEMATERIALISATION OF SHARES

- Securities held in physical form are converted into electronic form and credited to demat account.It offers a number of benefits to the investor.It is a safe and convenient way to hold securities compared to holding securities in physical form.No stamp duty is levied on transfer of securities held in demat form.Instantaneous transfer of securities enhances liquidity.

# REMATERIALISATION OF SHARES

- Securities can be changed from demat form to physical form.For this one has to submit a Rematerialisation Request Form (RRF) through the concerned DP in the same manner as Dematerialisation.The Depository Participant will forward the request to the Depository after verifying that the client has the necessary securities in balance.

# There are two depositories in India, namely, NSDL and CDSL.

- For smooth functioning of the depository system, depository participants act as intermediary between the clients and the depository. They help in transfer of securities in a smooth manner. They also help in performing the task of changing physical securities into demat form and vice-versa.ISIN(International Securities Identification Number) is a unique identification number assigned to all the securities as per ISO (International Standards Organisation).

# SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

- The Government issue and ordinance on January 30,1992 for giving statutory power to SEBI. This Act was passed by the parliament as Act No. 15 of 1992 which received assent of the parliament on 4th April Further, on May 29, 1992 the Government issued an ordinance abolishing the Capital Control Act, The ordinance also supersedes the various guidelines issued by the CCI from time to time . Accordingly, SEBI was set up under the SEBI Act, 1992.

# OBJECTIVE OF SEBI ACT 1992

- The overall objective of SEBI are to protect the interest of investors and promote the development of stock exchange and to regulate the activities of stock market. The objective of SEBI are :-To regulate the activities of the stock exchange.To protect the rights of investors and ensuring safety to their investment.To pr event fraudulent and malpractices by having balance between self regulation of business and its statutory regulation.To regulate and develop a code of conduct for intermediaries such as brokers, underwriters etc.

# POWER AND FUNCTION OF SEBI

- Regulating the business in stock exchange and any other securities.Registering and regulating the working of stock broker, sub-broker , share transfer agents, bankers to issue, merchant bankers, underwriters, portfolio manager, investment advisor and such other intermediaries who may be associated with securities markets in any manner.Registering and regulating the working of the working of venture capital funds and collective investment schemes, including mutual funds.Promoting and regulating self – regulatory organization.Prohibiting fraudulent and unfair trade practices relating to securities markets.Promoting investor's education and training of intermediaries of securities markets

# Money Markets

- Money market constitutes an important segment of the financial market by providing an avenue for equilibrating the surplus funds of lenders and the requirements of borrowers for short periods ranging from overnight up to an year.It also provides a focal point for central bank's intervention in influencing the liquidity in the financial system and thereby transmitting the monetary policy impulses.
- "Money Market" refers to the market for short-term requirement and deployment of funds.Money market instruments are those instruments, which have a maturity period of less than one year.The most active part of the money market is the market for overnight call and term money between banks and institutions and repo transactions.Call Money / Repo are very short-term Money Market products.

# Instruments termed as money market instruments

- Certificate of Deposit (CD)
- Commercial Paper (CP)
- Inter Bank Participation
- Certificates
- Inter Bank term Money
- Treasury Bills
- Bill Rediscounting
- Call/ Notice/ Term Money

# Call/Notice Money Call Money – Overnight one day borrowing

- Notice Money – period upto 14 daysBalances very short term liquidity requirementsNo collateral requirementMainly used to meet CRR requirements

# Commercial Paper

- Commercial Papers are short term borrowings by Corporates, FIs, PDs, from Money Market.FeaturesCommercial Papers when issued in Physical Form are negotiable by endorsement and delivery and hence highly flexible instrumentsIssued subject to minimum of Rs 5 lakhs and in the multiples of Rs. 5 Lac thereafter,Maturity is 15 days to 1 yearUnsecured and backed by credit of the issuing companyCan be issued with or without Backstop facility of Bank / FI

# Eligibility Criteria CP

- Any private/public sector co. wishing to raise money through the CP market has to meet the following requirements:Tangible net-worth not less than Rs 4 crore - as per last audited statementShould have Working Capital limit sanctioned by a bank / FICredit Rating not lower than P2 or its equivalent - by Credit Rating Agency approved by Reserve Bank of India.Board resolution authorizing company to issue CPsCommercial Papers can be issued in both physical and demat form.Commercial Papers are issued in the form of discount to the face value.Commercial Papers are short-term unsecured borrowings by reputed companies that are financially strong and carry a high credit rating.

# CD

- CDs are short-term borrowings in the form of Promissory Notes having a maturity of not less than 15 days up to a maximum of one year.CD is subject to payment of Stamp Duty under Indian Stamp Act, 1899They are like bank term deposits accounts. Unlike traditional time deposits these are freely negotiable instruments and are often referred to as Negotiable Certificate of DepositsFeatures of CDAll scheduled banks (except RRBs and Co-operative banks) are eligible to issue CDsIssued to individuals, corporations, trusts, funds and associationsThey are issued at a discount rate freely determined by the issuer and the market/investors.Freely transferable by endorsement and delivery. At present CDs are issued in physical form (UPN)These are issued in denominations of Rs.5 Lacs and Rs. 1 Lac thereafter.Bank CDs have maturity up to one year. Minimum period for a bank CD is fifteen days.Financial Institutions are allowed to issue CDs for a period between 1 year and up to 3 years.

# Repo and a Reverse Repo

- A Repo deal is one where eligible parties enter into a contract with another to borrow money against at a pre-determined rate against the collateral of eligible security for a specified period of time.The legal title of the security does change. The motive of the deal is to fund a position.Though the mechanics essentially remain the same and the contract virtually remains the same, in case of a reverse Repo deal the underlying motive of the deal is to meet the security / instrument specific needs or to lend the money.Indian Repo Market is governed by Reserve Bank of India.

# Meaning of Repo

- It is a transaction in which two parties agree to sell and repurchase the same security. Under such an agreement the seller sells specified securities with an agreement to repurchase the same at a mutually decided future date and a priceThe Repo/Reverse Repo transaction can only be done at Mumbai between parties approved by RBI and in securities as approved by RBI (Treasury Bills, Central/State Govt securities).

# Uses of Repo It helps banks to invest surplus cash

- It helps investor achieve money market returns with sovereign risk.It helps borrower to raise funds at better ratesAn SLR surplus and CRR deficit bank can use the Repo deals as a convenient way of adjusting SLR/CRR positions simultaneously.RBI uses Repo and Reverse repo as instruments for liquidity adjustment in the system

# Treasury bills (T-Bills)

- A class of Central Government SecuritiesT-Bills are issued by Government of India against their short term borrowing requirements with maturities ranging between 14 to 364 days.Banks, Primary Dealers, State Governments, Provident Funds, Financial Institutions, Insurance Companies, NBFCs, FIIs (as per prescribed norms), NRIs & OCBs can invest in T-Bills.

# T-bills Type

- T-Bills are for different maturities day, 28 days (announced in Credit policy but yet to be introduced), 91 days, 182 days and 364 days. 14 days T-Bills had been discontinued recently. 182 days T-Bills were not re-introduced.The T-Bill of 91-day and 364-day are currently issuedT-Bills are issued at a discount-to-face value. For example a Treasury bill of Rs face value issued for Rs gets redeemed at the end of it's tenure at Rs91 days T-Bills are auctioned under uniform price auction method where as 364 days T-Bills are auctioned on the basis of multiple price auction method.

# Mutual Fund

- A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
- Mutual funds give small or individual investors access to professionally managed portfolios of equities, bonds, and other securities. Each shareholder, therefore, participates proportionally in the gains or losses of the fund. Mutual funds invest in a vast number of securities, and performance is usually tracked as the change in the total market cap of the fund—derived by the aggregating performance of the underlying investments.

# Organization of a Mutual Fund

The Organization of a Mutual Fund contains entities such as

- Mutual Fund Shareholders
- Board of directors
- Investment management company or Asset Management Company
- Custodians
- Transfer Agents
- SEBI

# Types of Mutual Funds

**By Structure:**

- Open-ended Funds
- Closed-ended Funds
- Interval Funds

**By Investment Objective:**

- Growth Funds
- Income Funds
- Balanced Funds
- Money Market Funds
- Load Funds
- No-Load Funds

# Advantages of Mutual Funds

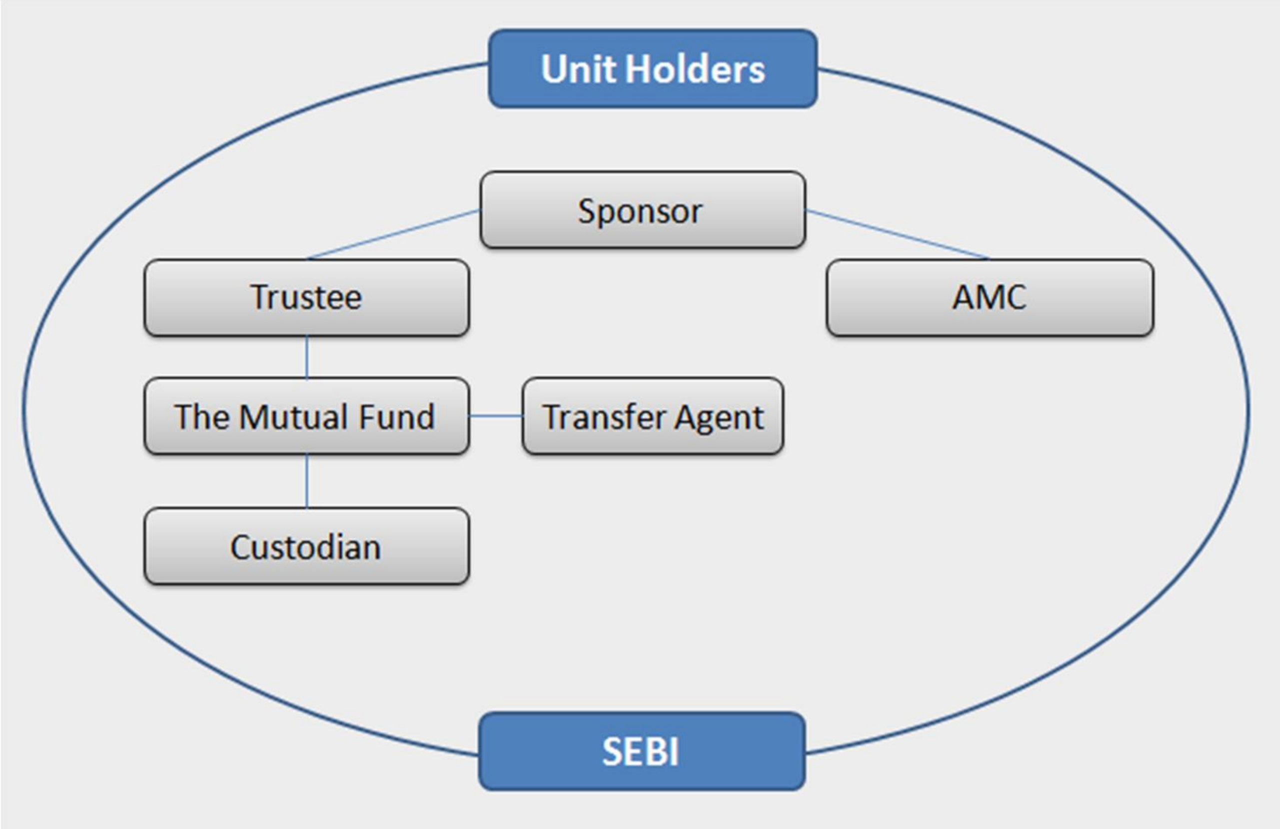
- Diversification
- Expert Management.
- Liquidity
- Convenience
- Reinvestment of Income
- Range of Investment Options and Objectives
- Affordability

# Disadvantages of Mutual Funds

- Although mutual funds can be beneficial in many ways, they are not for everyone.
- No Control Over Portfolio
- Capital Gains
- Fees and Expenses
- Over-diversification
- Cash Drag

# Structure of Mutual Funds in India.

- The structure of Mutual Funds in India is a three-tier one. There are three distinct entities involved in the process – the sponsor (who creates a Mutual Fund), trustees and the asset management company (which oversees the fund management). The structure of Mutual Funds has come into existence due to SEBI (Securities and Exchange Board of India) Mutual Fund Regulations, 1996. Under these regulations, a Mutual Fund is created as a Public Trust. We will look into the structure of Mutual Funds in a detailed manner


Unit Holders
Sponsor
Trustee
AMC
The Mutual Fund
Transfer Agent
Custodian
SEBI

# The Fund Sponsor

- The Fund Sponsor is the first layer in the three-tier structure of Mutual Funds in India. SEBI regulations say that a fund sponsor is any person or any entity that can set up a Mutual Fund to earn money by fund management. This fund management is done through an associate company which manages the investment of the fund. A sponsor can be seen as the promoter of the associate company. A sponsor has to approach SEBI to seek permission for a setting up a Mutual Fund. Once SEBI agrees to the inception, a Public Trust is formed under the Indian Trust Act, 1882 and is registered with SEBI. Trustees are appointed to manage the trust and an asset management company is created complying with the Companies Act, 1956.

# Trust and Trustees

- Trust and trustees form the second layer of the structure of Mutual Funds in India. A trust is created by the fund sponsor in favour of the trustees, through a document called a trust deed. The trust is managed by the trustees and they are answerable to investors. They can be seen as primary guardians of fund and assets. Trustees can be formed by two ways – a Trustee Company or a Board of Trustees. The trustees work to monitor the activities of the Mutual Fund and check its compliance with SEBI (Mutual Fund) regulations. They also monitor the systems, procedures, and overall working of the asset management company. Without the trustees' approval, AMC cannot float any scheme in the market. The trustees have to report to SEBI every six months about the activities of the AMC.

# Asset Management Companies

- Asset Management Companies are the third layer in the structure of Mutual Funds. The asset management company acts as the fund manager or as an investment manager for the trust. A small fee is paid to the AMC for managing the fund. The AMC is responsible for all the fund-related activities. It initiates various schemes and launches the same. The AMC is bound to manage funds and provide services to the investor. It solicits these services with other elements like brokers, auditors, bankers, registrars, lawyers, etc. and works with them. To ensure that there is no conflict between the AMCs, there are certain restrictions imposed on the business activities of the companies

# Custodian

- A custodian is responsible for the safekeeping of the securities of the Mutual Fund. They manage the investment account of the Mutual Fund, ensure the delivery and transfer of the securities. They also collect and track the dividends & interests received on the Mutual Fund investment

# Registrar and Transfer Agents (RTAS).

- These are the entities who provide services to Mutual Funds. RTAs are more like the operational arm of Mutual Funds. Since the operations of all Mutual Fund companies are similar, it is economical in scale and cost effective for all the 44 AMCs to seek the services of RTAs. CAMS, Karvy, Sundaram, Principal, Templeton, etc are some of the well-known RTAs in India. Their services include.
- Processing investors' application
- Keeping a record of investors' details
- Sending out account statements to the investors
- Sending out periodic reports
- Processing the payouts of the dividends
- Updating the investor details i.e. adding new members and removing those who have withdrawn from the fund.

# NAV ( Net Asset Value ) –in Mutual Funds

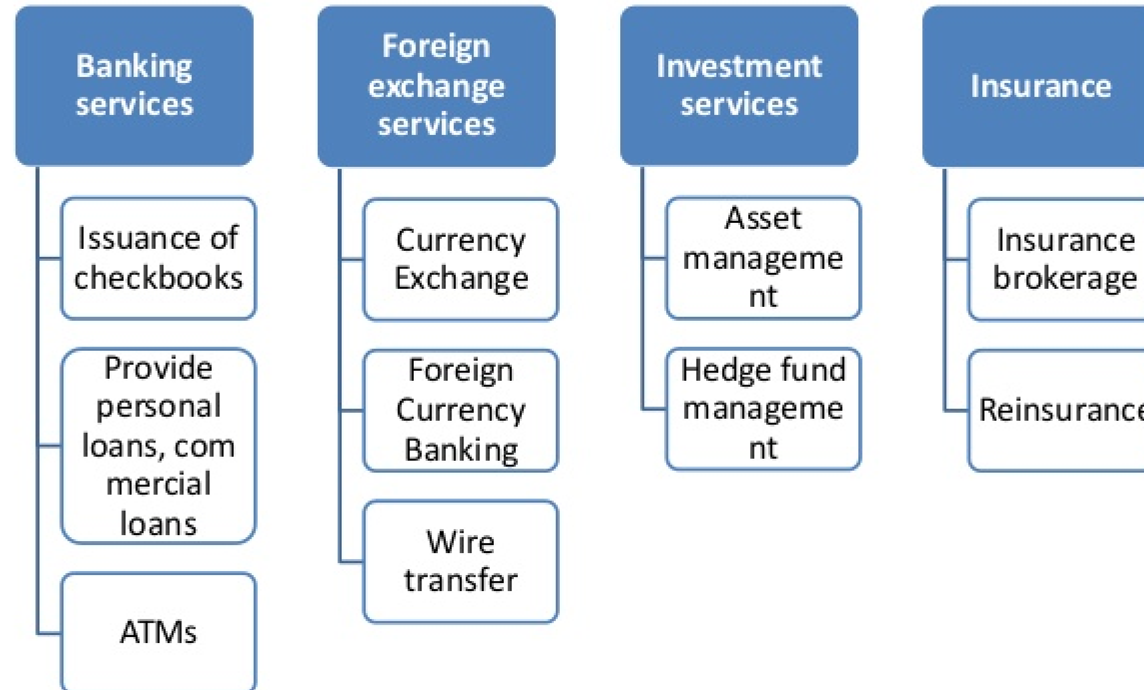
- Net Asset Value (NAV) is the market value of a mutual fund unit. The overall cost of a mutual fund depends on this market value per fund unit. If you add up the market value of all the shares in the fund and divide it by the number of total mutual fund units, the resulting figure will be NAV.
- NAV is simply the price per share of the fund. Just like shares have a share price; mutual funds have a net asset value.

# What is the difference between NAV & Market Price?

- Investors tend to assume that the net asset value and the market price of an equity share are the same, which is not true. They might be selling or buying the mutual fund units at NAV but it shouldn't be confused with the market price of a unit. The share price is decided by investors in the stock market. Whereas the investors do not decide the NAV of a mutual fund unit.
- Factors like demand-supply and company's potential also determine the share price. So, the net asset value will always be different from the market price of a share.

# NAV Calculation

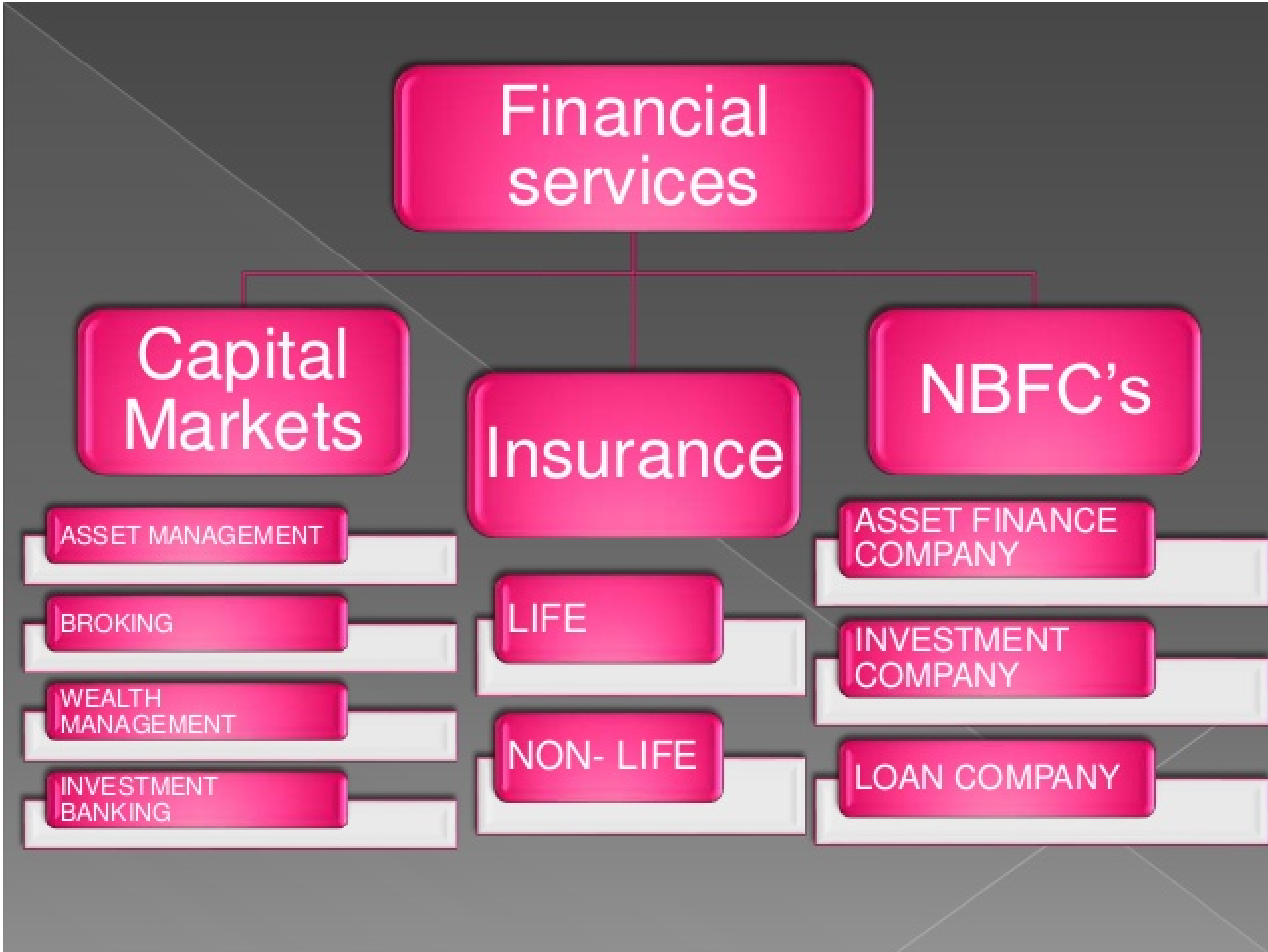
- All mutual companies estimate their portfolio worth once the stock market closes at 3:30 p.m., each day. The market opens again the next day with the previous day's closing share prices. The fund house deducts all the outstanding liabilities and expenses accordingly to calculate net asset value (NAV) of the day using the given formula.
- **Net Asset Value = [Assets – (Liabilities + Expenses)] / Number of outstanding units**


TYPES OF FINANCIAL SERVICES
Banking services
Issuance of checkbooks
Provide personal loans, com mercial loans
ATMs
Foreign exchange services
Currency Exchange
Foreign Currency Banking
Wire transfer
Investment services
Asset manageme nt
Hedge fund manageme nt
Insurance
Insurance brokerage
Reinsurance

# Financial Services in India Key Drivers

- India's high savings rate offers significant opportunity to put resources into the financial markets.
- favorable demographic profile with a large segment of the population under 30 years.
- The Census 2011 shows that 56.9 per cent of India's total population comes in the age group 15-59 years.
- A large, untapped domestic market, with a huge growth potential.
- Presence of financial and capital market mechanisms.
- A large and continuously growing intellectual capital

Healthy rate of economic growth.


Financial services
Capital Markets
Insurance
NBFC's
ASSET MANAGEMENT
BROKING
WEALTH MANAGEMENT
INVESTMENT BANKING
LIFE
NON- LIFE
ASSET FINANCE COMPANY
INVESTMENT COMPANY
LOAN COMPANY

# TYPES OF FINANCIAL SERVICES

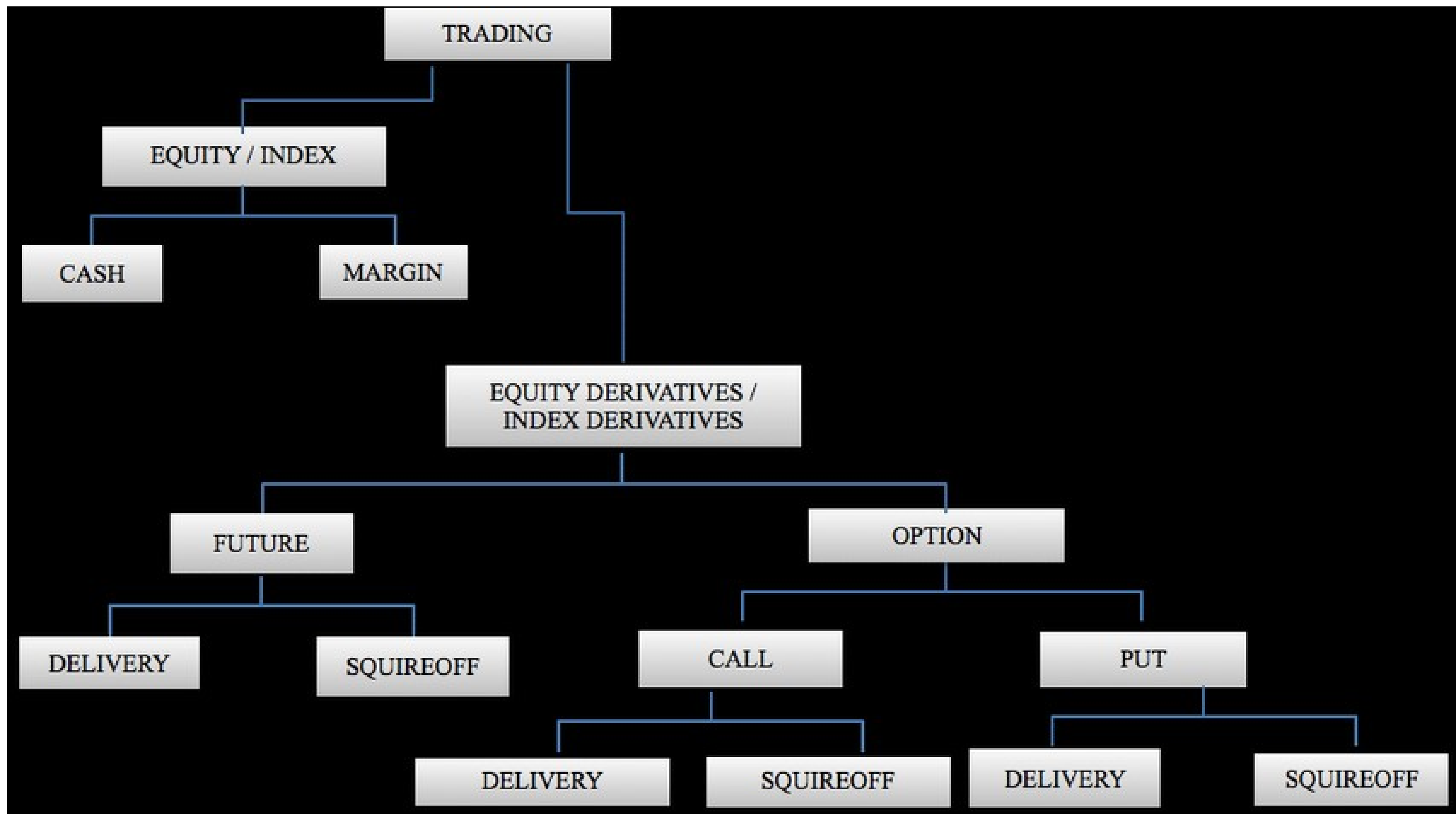
## Fund Based Services

Leasing
Hire purchase
Factoring
Mutual funds
Bill discounting
Credit Financing
Housing Finance

## Fee Based Services

Issue Management
Portfolio management
Corporate counseling
Merchant banking
Credit rating
Stock broking
Debt &Capital restructuring

# SHARE TRADING


TRADING
EQUITY / INDEX
CASH
MARGIN
EQUITY DERIVATIVES /
INDEX DERIVATIVES
FUTURE
OPTION
DELIVERY
SQUIREOFF
CALL
PUT
DELIVERY
SQUIREOFF
DELIVERY
SQUIREOFF

# Types of Trading in Stock Market

- Intraday Trading [ Types of Trading for Experienced Players]
- Delivery Trading [ Types of Trading for Beginners]
- Short Sell [ Types of Trading for Experienced Players]
- Buy Today Sell Tomorrow (BTST)
- Sell Today Buy Tomorrow (STBT)
- Margin Trading

# Intraday Trading [ Types of Trading for Experienced Players]

- Intraday trading is also known as day trading. In this type of trading, the trader buys and sells the stocks on the same day. He can enter into a stock any number of times within a single day. Here, the trader can hold a stock for a few seconds or few hours or till the end of trading session. In other words, he has to close his trade before the closing hours of market.
- Intraday trading is for active traders. It allows them to earn quick money. However, it is equally risky. It requires fast decision making and quick actions. Therefore, beginners should stay away from intraday trading style.

# Delivery Trading [ Types of Trading for Beginners]

- Delivery trading is also known as position trading. In this type of trading, the trader keeps a long tern horizon. Meaning, the trader buys and holds the stocks for longer period of time. It can be for weeks or even months. The biggest challenge in delivery trading is to identify stocks with large price movement. Here, the trader seeks to buy stocks based on extensive research. Moreover, he looks at technical trends and projections that suggest a possibility of large price movement. In this trading style, the trader buys a stock when he sees an emerging trend. Likewise, he sells a stock when the trend is at its peak.

# Short Sell [ Types of Trading for Experienced Players]

- Short selling is another popular trading strategy. Here, the trader sells the shares even without holding them. In other words, he sells first and then later buys the shares before the end of the trading session. The logic behind this trading style is that the trader anticipates the market to be bearish. He expects the price to fall. So, he enters a short position (sells shares) and later recovers the same (buys shares) when the price falls down. The position has to be squared off before the market closes. In other words, it means selling shares at the high price and buying it back at a low price.

# Buy Today Sell Tomorrow (BTST)

- As the name suggests, in this type of trading, you buy today and sell tomorrow. Which means people buy shares today in anticipation that price will go up the next day. The next day when the market opens, the trader sells his shares and makes a profit. In BTST, you do not get the delivery of shares. This is because stock market in India works on T+2 settlement cycle.
- There is a difference between delivery trading and BTST. In delivery trading, you get the delivery of stocks to your demat account. Once you get the delivery, only then you can sell the stocks. But what if there is a big opportunity that exists before you get the delivery? Then the role of BTST comes into the picture. In BTST trading style, you can buy shares and sell them tomorrow even without having a delivery. An advantage of BTST is that you don’t have to pay any DP charges.

# Sell Today Buy Tomorrow (STBT)

- This trading style is exactly opposite of BTST. Here you can sell today and buy tomorrow. But this type of trading is not allowed in equity trading. However, it can be done in the derivatives market. In this style, the trader enters into a short sell first (sells). He then carries forward his short sell position to the next day and squares it off by buying. In other words, the trader here expects the market to be bearish. Therefore, he taps the opportunity and earns a profit. In simple words, in STBT, a trader sells some asset class future and again buys it as the market opens on the next day.

# Margin Trading

- Margin trading involves buying and selling securities in a single session. It is good for traders who believe in making quick money. Margin trading is very useful for Futures and Options trading. Here you have to buy a minimum lot of assets in one go. A trader needs to pay the initial margin to trade in this style. The margin is a certain percentage of the total traded value. It is pre-determined by SEBI (stock market regulator).

# OPTION TRADING

- Options trading allows you to buy or sell stocks, ETFs etc. at a specific price within a specific date. This type of trading also gives buyers the flexibility to not buy the security at the specified price or date.

  While it is a little more complex than stock trading, options can help you make relatively larger profits if the price of the security goes up. That's because you don't have to pay the full price for the security in an options contract. In the same way, options trading can restrict your losses if the price of the security goes down, which is known as hedging.
- The right to buy a security is known as 'Call', while the right to sell is called 'Put'.

# Options

Options: contract giving the buyer right, but not obligation to buy or sell the underlying asset at a certain price on/before the certain date.

Two types of Options:

- Call Option: Gives the holder right to buy an assets at certain price within the specific period of time.
- Put Option: Gives the holder right to sell an assets at certain price within the specific period of time.

# What is an Option?

| PUTS | CALLS |
| --- | --- |
| ○ Long – right to sell stock<br>○ Short – obligation to buy | ○ Long – right to buy stock<br>○ Short – obligation to sell |

Options are derivatives of the value of 100 shares of a given stock. Unlike a stock, options prices fluctuate without any buying or selling.