FINANCIAL SERVICES

UNIT – I

INTRODUCTION OF FINANCIAL SERVICES : -

The economic development of a nation is refteeted by the progress of various economic unit , brodly classified in to corporate , Government and household sectors . The performing their activities these uint will be placed in s surplus (or) deficit (or) balanced budegating situations. There will the some entities in an economy.

The function of financial system are to channelize the funds from the surplus unit to the deficit unit . An efficient financial system not only encourages saving and invenstement . It is also efficiently allocated resources in different investment avenues and this accelerate the rate of economic development .

The proper allocation of fund is essential for the transations to take place in the financial system and to have a development impact on the economy and to enable proper allocation of resources , various financial markets are necessary.

FINANCIAL SYSTEM :

Meaning the ferm financial system is a set of inter – related activities (or) services working together to achieve some predetermined purpose (or) goal . It includes different Markets. The institutions , Instrument , services and mechanisms, which inffience the generation of favings , Investment , capital formation and growth.

PROF S.B.GUPATHA :

Define the financial System as a set of institutional arrangement through which financial surplus available in the economic are mobilised .''

FEATURES OF FINANCIAL SYSTEM :

The special features of financial system.

- It is a set of interrelated activities and services .
- Services are working together to achieve predefermined goals .
- The system allows transfer of money between savers and borrowers.
- It is applicable at global, regional and firm level.

FUNCTIONS OF FINANCIAL SYSTEM :

PROVISION OF LIQULIDITY : The manjor function is the provision of money and monetary assets for the production of goals and service . There should not be and shortage of moneny for productive ventures.

MOBILIZATION OF SAVINGS :

The Another important activities is to mobilize savings and channelize them in to productive activities . The financial system should offer appropriate incentive to attract savings and make them available for more productive ventures.

SMALL SAVINGS TO BIG INVENSTMENTS :

It is channelizes small savings fund received form the for saving group to the industries to investments.

POLICY FUNCTION :

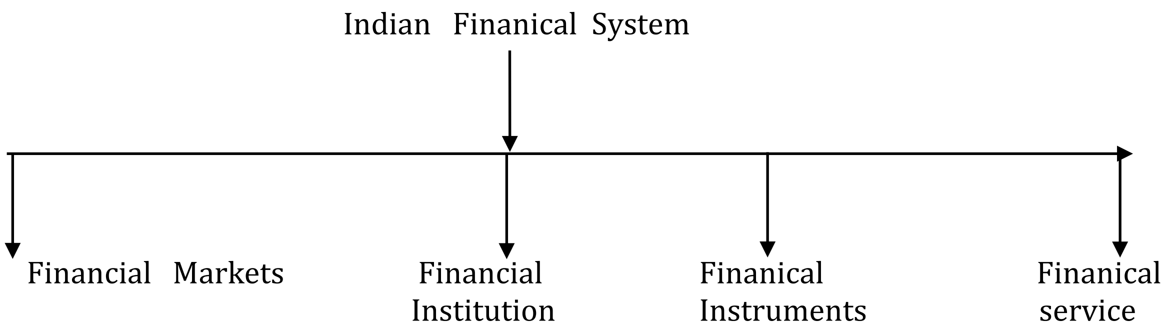
Through the policy function, the government ensure a smooth flow of fund from savings to investment in order to stabilize the economy.

CREDIT FUNCTION :

After mobilization of the savings and laying down the necessary ploices. The credit function will ensure that these savings will transaction in to the necessary credit.

COMPONENTS OF FINANCIAL SYSTEM :

The structures (or) components of financial system is vest includes different financial components



(i) The financial market is defined as a market for the exchange of capital and credit including the money markets and capital markets .

THEN THE COMPONENTS OF FINANCIAL MARKETS .

i) Money Market

ii) Capital market

iii) Foreign Exchange market

iv) Debt market.

MONEY MARKET :

The money market can be divided as a market for short – term money and financial assets that are hear substitution for monet (generally UP to one year)

CAPITAL MARKET :

The capital market is designed to finance the long – term investment the transation taking place in this market will be for periods over a year . Antother classification could be primary market and secondary market.

Exple :

Bombay stock exchange , national stock Exchanges, over the counter Exchange of India.

FOREIGN EXCHANGE MARKET :

Foreign Exchange market deal. With the multicurrency requirements. Which are met by exchange of currencies , depending on the exchange rate that is applicable the transfer of fund takes place in the market.

Expel :

1) Authorised dealars
2) Money changers
3) Foreign Bankers
4) Exporters and import

DEBT MARKET :

The debtmarket to india has not been as remarkable is in the equity market , it is characterised by regulated interest rates, limited players and lack of trading earlier.

(i) Govt securities market consisting of central government and state government securities .

(ii) Bond market consisting to financial bonds.

Govt securities is in need of fund to meet its budgetary deficits , It goes for the issue the rtreasury bills and bonds. Treasury bills are issued for raising short - term fund bonds are issued for raising long – term fund up to period of 15 – 20 years .

II FINANICAL INSTITUTIONS :

The financial Institution are the institution which offer financial services for its clients (or) members . The most probable financial service is financial intermediaries.

The financial instution define the focuses on dealing with financial transaction , investment , loan and deposits.

FEACTURES OF FINANCIAL INSTITUTIONS :

(i) It is an institutions as well as indermediaris

(ii) It channelizes savings fund in to Investment fund

(iii) It create financial asstes , deposits loans , and securities .

(iv) Established with a clear operating function .

(v) Reghulated by the Govt and regulating authorities.

III . FINANICAL INSTRUMENTS :

The financial Instruments refer to those documents which reporesent financial claims on assets .

Expl :

Bills of exchanges

Promising Notes

Shares

Debentures

(A) PRIMARY (OR) DIRECT SECURITIES

Directly issued by the ultimate investors to the ultimate savers,

Expl : shanes and debentures.

(B) SECONDARY (OR) INDIRECT SECURITIES :

These are securities issued by some intermediaries called financial institution to the ultimate savers.

Expl : UTI , mutual Funds .

Short – term securities = Treasury bills

Medilim term securities = maturity period upto & one to five years.

Long - term securities = A maturities periods of one than five years.

Expl : Govt maturating after 10 years

V. FINANCIAL SERVICES :

The financial Institution provide a variety of servies such as financial performance guarantees , deposit , institution , hire purchases , instalment credit acceptance brokerage.

MANAGEMENT OF NEW ISSUES :

The capital market refer to a market for long – term capital . it is involve all the facitities and institutional arrangement for borrowing and lending long – term capital .

CAPITAL MARKET CONSISTS OF

(i) primary market (or) New issue market

(ii) secondary market (or) old issue market

(i) ***FEATURES OF SPECIAL ISSUES OF CAPITAL MARKET*** :

- Mobilization of savings and acceleration of capital formation.
- Promotion of industrial growth.
- Raising long – term capital
- Proper channectization of funds.

FUNCTION OF CAPITAL MARKET :

(i) It facilities growth in saving and mobitizes the same investment on one hand.

(ii) It help the corporate to expand , growth and diversify and growth of income facities in the economy of nation.

(iii) It capital market bank , including development bank act as intermediaries borrowers and lenders.

(iv) Capital market raise fund for government sector undertaking and governments .

ADVANTAGES OF PRIMARY MARKET :

- It provides opportunity for new investors to start new enterprises.
- Exisiting company will be in a position to expand their activites.
- Promotion of parthership firm into public limited companies (or) merger of companies (or) facilities buy back of shares.

PLAYERS IN THE PRIMARY MARKET :

(i) Merchant bankers

(ii) Under writers

(iii) Banker to the issues

(iv) Registrars and shars transfer agents

(v) Broker to issue

UNDER THE SEBI GUIDELINES :

SEBI has introduced various guideline as regulating measures for capital issues.

- Disclosure of all material facts is made compulsory.
- Encouragement to initial public offers.
- Increase it populorsing to private placement market.
- Under writer has made optional.
- Issue to due diligence certificate .
- Condition regarding applications sizes.
- Regulation of merchant banking
- Reforms as to mutual funds.
- Vetting of ofter document.

MERCHANT BANKING :

meaning : Merchant bank mean any person who is engaged in the business of issue management eifter my making arrangement regarding selling , buying or subscribing to securities as manager , consultant , adviser , (or) rendering corporate advising service in relating to such issue management.

DEFINITION : A kind of financial Institution that provide a variety of service including investment banking , management of customer securities portfolios, insurance acceptance of bills.

SCOPE OF MERCHANT BANKING IN INDIA :

In a present day capital market seenario ,marchant banker , play the role of an encouraging and supporting force to the entrepreneurs, corporate sectors and the investors. There is vast scope for merchant bankers to enlarge their operations both doniestic and international market .

GROWTH OF NEW ISSUE MARKET :

The growth of new issue market is inprecedented since 1990-1991. The amount of annual arerage of capital issue by non government public companies also increased .

ENTRY OF FOREIGN INVESTOR'S

Indian capital market was it. Opening upto 1992 by allowing foreign institutional investors to invest in primary and secondary market and also permitting Indian company to directly tap foreign capital through euro issues.

CHANGING POLICY OF FINANCIAL INSTITUTION :

The policy of deentratilation and encougragment of small and mediu, industries will further increase the demand foe technical and financial service which can be provided by merchant bankers.

DEVELOPMENT OF DEBT MARKET :

The concept to debt market has set to work through SNSE and OTCEI. The development of debt market will offer tremendous opportunity to merchant - banker.

INNOVATION IS FINANICAL INSTRUMENT .

The Indian capital market has witnessed innovation in the introduction of financial instrument this has further eatended the role of merchant bankers as market marer's for these instruments.

FUNCTION OF MERCHANT BANKING :

The following are various function of merchant banking.

CORPORATE COUNSELING :

They provide counseling service eto companies with regards to their timing of isuse of shares. Capital structure , and other promotional aspect with regard to the company.

PROJECT COUNSEING :

They help their client various stages of project undertaken by the clients. It is also included the filling up to application firms with relavant information for obtaining funds from financial instutions.

LOAN SYNDICATION :

They arranage to tie up loan for their clients, first they analysise the position of clients cash flow and then prepare a detailed loan memorandums.

THEY HAVE TO CONDUCT REGULAR MARKET AND ECONOMIC SERVEY TO KNOWN AS:

(i) Monetary and fiscal policles of the government

(ii) Secondary market position

(iii) Changing pattern f the industries.

(iv) The competition faced by the industry with similar types of industries.

UNIT –II

MUTUAL FUNDS : MEANING

Mutual funds represeont pooled savings of numerious investors invested by professional fund managr are diversified portfolio to obtain optimum return on investment with least risk to the investors.thus every investor whether big (or) small will have a stake in the fund and can enjoy the wide portpolio to the investment held by the fund.

DEFINITION :

Define a mutual fuind as a fund established in the form of a turst by a sponsor, to raise moneys by the trustees throughthesales of units to the public underone or moreschemes for investing in securitiesin accordance with those regulations.

Types of functions :

Types and different scheme of mutual funds.

Based on maturing	based on investment	Special scheme
1.open ended scheme	growth fund	Tax saving fund
2. closed ended scheme	Income Fund	Loan fund
	Money market	No load fund
	Mutual fund	industries specific fund
	Gild fund	sector fund
	Undex fund	

OPEN ENDED FUND :

Under this scheme the size of the fund as period of the are not predetermined the investor are frce to buy and sell any number unit act any point of time.

CLOSED ENDED FUND :

The corpus of the funs and number of unit determined in advance one the subscription reaches that lovel , its entry if investor is closed . After the expriy of the fixed period.

GROWTH FUND :

The aim is to provide capital appreciation over the medium to long run. The investment is made is equity stock , these funds have high risk. * investors in their prime caring years * Investors seck growth ovwer the long run.

INCOME FUND :

This fund aim at gererating and distribution regular income to the members on periodical basis. It cercentrate more on the distribution of regular income and it alos sees that the average refurn is more them that it for income from bank deposits .

TAXATION FUND :

It is basically a growth oriented fund and it ofter tax rebate to the investrs eifter the domestic (or) foreign capital market .

LOAD FUND :

It is one that charges a commission for entry (or) exit . that is each time buy (or) sell unit in the fund a commission will be payable . typically entry and exit range form 1 % to 2 % .

ADVANTAGE OF MUUAL FUNDS:

Mutual fund are advantages to individual investor in relation to their direct involvement in investment portfolio activities covering the following aspect.

REDUCED RISK :

It provide small investors access to redived investment risk regulatiog diversification. Economi cof scale in transaction cst and professional fund mangament

DIVERSIFIED INVESTMENT :

Small investors participate in large basket of securing and shares the benefits of efficiently managed portfolio by expert and are freed of keeping any records of share certificate.

STRESS FREE INVESTMENT :

The mutual fund relieve investor from emotional stress in buying (or) selling securities as it is manged by professional expest who act scientifically with right timing in buying and selling for their clients.

IV) REVOLVING TYPE OF INVESTMENT :

Automatic reinvestment of dividend and capital gain provided relief to the members of mutual fund.

V) SELECTION AND TIMING INVESTMENTS :

Expertise in stock selection and timing is made available to investors so that invested fund generates higher return to them.

VI) WIDE INVESTMENT OPPORTUNITIES:

Available of wider investment opportunites that create an increased level of liquidity for the funds holder become possible because of package if more liguid securities in the prot folio of more liguid.

VII) INVESTMENT CARE :

Care for a securities is available through mutual fund to the investors relieving them of various rules and regulations.

VII) LOW INVESTMENT AND EASY LIGUIDILY :

There are encashable on any day since they are death in stock exchange.

IX) TAX BENEFIT:

Investors are allowed tax excorption an investment made in mutual fund with a view to motivate them to invest in mutual fund and provide finance toindustry.

UNIT TRUST OFINIDA:

The constitution and mangament

TRUST :

The Mutual fund shall be constituted as a trust with the investor as the benficiany the board at basic structure should consist of 3 elements. The trustees, the fund manager the beneficiary.

II. BOARD OF TRUSTEES

The management of the mutual fund shal vest in the board to trustees. The board of trustee shall have not less than 6 members and not more then 10 members.

III. SPONSOR : Sponser shall contribute Rs.5 crores to the corpus fund as non-transferable capital . The corpus many be used to commence investment in scheme to be floated by the mutual fund.

IV) UTI should obtain approval for it mutual fund schmes from the ministry of finance

COMMERICAL BANKS :

And entry of private sector : in India , the mutual fund industry has been growthly mutual fund in india, monopolized by the unit trust of india ever since 1963 now, the commercial bank like SBI canara bank, Indian Bank, , Bank of India , LIC and private sectors and ofter financial institution have entered in to filed. On the whole as on 1995 there were nearly 25 mutual fund offering 80 different schme and serving nearly 60 million investors.

The government of banking regulation act, commercial bank were allowed to strat mutual fund from the public . it was SBI which first started it mutual fund called SBI magnum fund.

The emergence to SEBI , the functioning to mutual fund was regulated at this stage more private sectors institute also entered mutual funds. We have a number of private sectors mutual fund starting from Kothari pioneer mutual fund.

The mutual fund find going very tough most of the fund rae not able to colket the targeted amount from small investors . The mutual fund industry to face many problem.

NEED FOR COMMERICAL BANK FOR MUTUAL FUND :

Bank are not ale to provide better yield to the investing public . pubic saving and fixed deposit intrust rate. Hence ther is a necessary to entre in to field of mutual fund.

Mutual backed by a bank will be to a better position to tap the saving efficiently and vigorously for the capital market,

Bank can provide a wider range of product is mutual fund by introducing innovative scheme and enter the professionation in the mutual funds industry.

Investor servicing can be effectively done by banks through netkwork of bracnhess spread through out the country.

SEBI – GUIDELINES :

The fast growing industry is regulate by the securities and exchanges board of india, since inception of SEBI is a statuary body. SEBI initially formulated SEBI regulation 1993 providing detailed.

Procedure for establishement , registration, constitution , management of trustees, assit management company , about, scheme product to be designed investment of fund collected.

i) ESTABLISHMENT OF MUTUAL FUNDS:

To development mutual funds, sponsorship is reguired. An application for registration of a mutual fund shall be made to the board of form a sponso

ii) CONSTITUTION OF THE MUTUAL FUNDS.

A mutual fund shal be constituted in the form of a trust and the instrument of trust shall be I the formn of a deed, duly registered under the provision of Indian registration act.

i) ***APPOINTMENT OF TRUSTEE***:

a). The mutual fund is reguired to have an indepdent board of trustee, two third to the trustee should be independentperion who are not assolicated with the sponsor in any manner whatsoever. Appointed as a trustee it any other mutual tinal fund unless he is an independent trustee and prior approved if the mutual fund which he is trustee has been appointment

IV) APPOINTMENT OF AN ASSET MANAGEMENT COMPANY :

The sponsor (or) the trustees are required to appoint an AMC to manage the assts of the mutual fund. Under the mutual satisfy certain eligibility criteria in order to quality to register with SEBI as an AMC.

(V) ADVERTISEMENT MATERIAL :

Advertisement is respect of every scheme shall be in conformity with the adversement code as specified in the sixth schedule and shall be submitted to the the board with in 7 days from the date of issue.

UNIT – III

LEASE FINANCING :

Meaning It is an arraagement between two parties the Leasing company (or) Lessor and the user (or) lessee where by the former arranges to buy capital equipment for the use of the latterfor an agreed period of time in return for the payment if rent.

DEFINITION :

Leasing is a from if contract transferring the use or accupancy of land, space, structure or equipmemt , in the consideration of apayment usually in the form of a rent.

LEASING AS A SOURCES OF FINANCE :

Leasing is a important source of finance for lessee . lessing companies finance for.

Modernization of business

Balancing equipment

Card, scooters, and ofter vehicles and durables.

Items entitled to 100 % (or) 50% depreciation.

Asset which are not being finance by banks (or) instrument

VARIOUS TERMS USED IN LEASE AGREEMENT :

LESSOR : the party who is the owner of the equipment and who give it fir lease to the other party for payment of a periodical amount .

LESSEE : The party who obtais the equipment for use for which the pays periodical rentals.

LEASE PROPERTY : The subject if the lease , the asset, artice or equipment that is on lease.

TERM OF LEAK : This refer to the lease period for which the arrangement will be in operation.

LEASE RENTAL :

This refer to consideration for lease this may be conneeted with.

i) interest on investment

ii) In case of any maintance of the equipment by the lessor.

ii) Dericiation of assets .

CONCEPT OF LEASING IN INDIA :

The first leasing company of india was prompted by the Chidambaram group in 1973 this was followed by the 20th century leasing company in 1980 at Mumbai.

This was a change in the scenari in the early 1980 the credit squeeze announced by the RBI and the inplenmentation of tendon and chore committee norms on maximum permissiable bank finance for working capital made the manufacturing companies set a part portion of long – term fund for working capital.

Equipment leasing was first introduced by the ICICI which now provide leasing fir comuperizatioon exports , expansion .

SBI was the first commercial bank to have to subsidency . the first forgin bank to participate in the equity to a leasing company was the standard charted bank, canara bank , puunjab national bank, central bank of India.

Based on their performed in 1996-97 and 1997-98 the following NBFCS (Non banking finance companies) are reted the strongest in leasing market.

1. Sundaram finance limited.
2. Cholamandalam investor finance companies limited
3. Ashok Leyland finance limited.

SALIENT FEATIVES OF THE INDIAN CONTEXT :

1. The leases structured in the Indian context are only finance lease.
2. Operating lease is very limited as the resales market used equipment – is not.
3. Equipment – leased transation are mostly direct lease.
4. Equipment lease are generally for capital investment mot exceeding 100 lakhs.
5. Project leasing is done with limited scales.

TYPE OF LEASE :

The following are the various types of lease.

1***. FINANICAL LEASE (OR) CAPITAL LEASE*** :

A lease is defined as a financial lease if transferred substantial part of the risk and rewards associated with ownership from the lessor to the lessee.

2. OPERATING LEASE (OR) SERVICE LEASE

The lessee uses the asset for a specified period . the lessor bear the risk of obsolencene and incidental risk.

(i) Lessor bear all expenses.

(ii) Lessor will not able to realize to full cost of asset

3. ***LEVERAGED LEASE*** : the value of the leased may be of a large amont which may not be possible for the lessor to finance . so the lessor involve one more financier who will have charge over the leased asset .
4. ***CONVEYANCE TYPE LEASE*** : Here the lease be for along period with a clear intention of conveying the ownership of title on the lessee.
5. ***SALES AND LEASE BACK*** : Here a company owing the asset sell it to the lessor. The lessor pays immediately for the asset but leases the asset to the seller.
6. ***FULL AND NON PAYOUT LEASING*** : A full payout lease is one in Which the lessor recovers the full value it the leased asset by way of leasing. in non – payout lease, the lessor leases out five same asset over and over again.
7. ***SPECIATISED SERVICE LEASE*** :

   The leassor or the owner to the asset is a specialist of the asset which he is leasing out. He not only leases out but also give specialited personal service to the lessee.

MERITS AND DEMERITS OF LEASING :

MERITS OF LEASING :

1. ***PERMIT ATTERNATIVE USE OF FUND*** :

A leasing arrangement provide a firm the use and control over asset without incurring huge capital expenditure. It saves condierable fund for alternative use would be otherwise be tied up in fixed capital.

2. ***FASTER AND CHEAPE CREDIT*** .

   It permit firms to acquire new equipment without going through formal serutiriy procedure. Hence acquisition of asset under leasing arrangement is cheaper and fast source it finance.

3. ***FLEXIBILITY*** : leasing arrangement may be tailored to the lesses, needs more easity that ordinary financing . Lease rental can be structured to maken the lessee cash flows . It can be skipped during the month when the cash flow are expected to below.

4. ***SAFETY***: Form the creditor point to view it is the safest method if finance as they have a good security is the form of asset.

5. ***BETTER DEBT EQUITY RATION*** : - because to leasing the lessee is able to have better debt equity ratio.

5. ***DEMERITS OF LEASING*** :

1. Certain tax benefit may not be avaitable on leased equipment
2. The value to real assets may increase during lease period. It such a case the lessee loses the advantage it potential capital gain .
3. Cost of financing is high when compared to debt financing.
4. Compared to the term loan , lease finance is costlier.

THE INDIAN LEASING SCENARIO :

It is to the threshital of a major break through industrial development due to liberatized economic policy measure. Initiated by the government . Leasing as a convenient and flexiable financing option can play a vital role the process of industrial development.

The leasing industry has taken the contre stage with the government and public sector undertaking are looking to industry.

The government has indicated that it is open to sugeestion for reviewing the existing policies. Such conduciveness and the willingness to precent bottlenecks is the area of taxation and other area will go a long way in speeding up the growth of the industring in country.

VENTURE CAPITAL :

MEANING : venture capital mean to the commitment of setting up of small firm especially in new idea (or) new technologies. Venture capital it long term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth.

DEFINITION :

Venture capital defined as a financing institution which joins an entrepreneurs as a co promoter in a project and shares the risk and reward of the enterprises.

Features of venture capital :

Features of venture capital are,

1. It is usually in the form of an equity participation , convertible debt or lng – term loan.
2. Investment is made not only in high risk but also in high growth potential projects.
3. It is available only for commercialization f new ideas and not for enterprises which are engaged trading booking , financial service agency.
4. Venture capitalist join the enterprenure as a co promoter in project and shares the risk and rewards of the enterprises.
5. There is continuous involvement is business after making as inventment by the investor.

ADVANTAGES OF <u>VENTURE CAPITAL</u> :

Venture capital is great potential value to every corporate enterprise.

1) <u>ADVANTAGES TO INVENSTING PUBLIC</u> :

(i) The investing public will be able to redue risk significantly against inscrupulous management.

(ii) Investors have no mean to vouch for the reasonableness of the business. The venture capital fund equipped wit necessary skills will be able to analyse the prospects of the business.

2) ***<u>ADVANTAGES OF PROMOTERS</u>***:

(i) The entrepreneur for the success of public are required to convince tens of under writer , brokers and thousands of investors.

(ii) Public issue of equity shares has to be preceded by a lot of effort.

3) ***<u>GENERAL ADVANTAGES</u>*** :

(i) A developed venture capital institutional setup reduces the time lag between a technological innovation and commercial exploitation.

(ii) It help in developing new process product in conductive atmosphere.

<u>CREDIT RATING MEANING</u> : Rating are designed exchisively for the purpose of grading bonds accreding to their investment qualities.

Definition : the rating are expressed in code number which can be easity understand by the lay investors to know company financial starding without going is to the complicated financial reports.

FUNCTION IT CREDIT RATING :

1) ***SUPPERIOR INFORMATION*** :

   i) It provided unliased opinion

   ii) Due to professional resources a rating firm has greayer ebiling to asses risk.

3. ***LOW COST OF INFORMATION*** :

(i) A rating firm gathers analysis interprets and summarizes complex information in a simple and reading understood format for wide public consumption represent a cost effective arrangement.

HEALTHY DISCIPLINE ON CORPORATE BORROWERS:

The public esposure has healthy influence over the management it issuer because at it desive to have a clear image.

ADVERTAGES OF CREDIT RATIONS :

1. ***BENEFIT THE INVESTORS***.

   (i) It is an give idea to the investor to degree financial strength to the issuer company.

   (ii) Rating symbols give them idea about the risk involved.

2. ***BENEFIT TO COMPANY***

   (i) A company with highly rated instrument has the opportunity to redue the csost it borrowing form the public.

   (ii) ***BENEFIT TO REGULATING AUTHORITIES***.

   (iii) The regulating authorities can discipline financial institution my insisting on credit rating before going for public issue.

   (iv) Benefit to brokers and financial intermediaries:

   (i) Brokers may take fewer effort to convince their client to select a particular investment proposal and save time , cost , energes , and power of the brokers and financial intermediaries.

   (v) ***BENEFIT TO THE PUBLIC*** ;

   1) It is channelizes the saving of the public to producture purpose.

   2) Public can also discrimate their investment on the bias to credit rating.

DIS ADVANTAGE CREDIT AND RATING :

BIASED RATING AND MISREPRESSENTAION ;

1) In the absence of quality rating credit rating is a curse for capital market industry . rating committee members should also be impartial and judicions in their decision making .

2) ***STAFIC STUDY*** : ratig is done on the resent and historic date of the company and prediction of company's health through rating is momentary and anything can be offter assignment to rating symbols to the company.

3) ***CONCEALMENT OF MATERIAL INFORMATION*** ;

   Concealment of material information from the investigation team render the rating unreliable.

UNIT – IV

HIRE PURCHASE :-

Meaning : Hire purchase is a method of selling goods . In a hire purchase transaction, the goods are let out on hire by a finance company (creditors) to the hire purchase customer (hirer). The buyer is required to pay an agreed amount is periodical installment during a given period . the ownership of the property remains with creditors and passes on to hirer on the payment of last installment .

FEATURES OF HIRE PURCHASE :-

Under hire purchase system , the buyer takes possession of goods immediately and agrees to pay the hire purchase price in installment

- ⇨ Each installment is treated as hire charges.
- ⇨ The Ownership of the goods goes to buyer from seller on the payment to the last installment.
- ⇨ In case , the buyer make any default in the payment of any installment.
- ⇨ The hirer has right to terminate the agreement any time before the property please.

CONTENTS OF THE HIRE PURHCASE AGREEMENT :

- ⇨ Hire purchase agreement has the following clauses :
    - Agreement
    - Delivery of the goods
    - Place
    - Inspection
    - Hire charges
    - Details of cost of repair
    - Alteration of Agreement
    - Termination of contract
    - Promising note
    - Tax implication

HIRE PURHCASE AND TRANSPORT INDUSTRY :

When a vechicle is purchase on hirepurchase, the finance company will have the vehicle …….. hypothecated in its favour and this will be mentioned is the R.C book of the vehicle and also in the insurance policy.

On completion of the installment amount , the purchase will get a certificate form the finance company regarding the completion of payment .

The R.T.O. authorities will cancel the hypothecation in the R.C book and will also mention that the Hypothecation is cancelled with effect from the particular date.

This will be duly informed to insurance company by making an endorsement in the insurance policy. Thus the ownership get compeletely transferred in the name of the purchase hirer.

LEASE VS HIRE PURCHAS SIMILARITIES :

- Economic substance of both of them is same
- Both are insurance of bailment with hirepurchase having an additional elements of sale.
- Financial remain owner in both cases.
- Repossession rights are similar in both cases.
- In case of motor vehicles in both cases user is recognized as owner
- Requirement of bailment are applicable to both with equal force.

DIFFERENCE BETWEEN HIRE PURCHASE AND LEASING

HIRE PURCHASE	***LEASING***
1. The agreement entered for the transferred of ownership after a fixed period	It is only in financial lease the ownership will get transferred whil in operating lease , ownership is not transferred .
2. Its contains option to buy	No option to buy
3. Legal ownership with the financier.	Legal ownership is with the lessor.
4. Incom tax recognizes hirer as owner	Income tax recognizes lessor as owner
5. Depreciation allowed to hirer.	Depriciation allowed to lessor.
6. Accounted as hirer's assets	Accounted as a lessor assets.

PROSPECTS OF HIREPURCHASE IN INDIA:

The Hirepurchase act was paseed in 1972. Which is controlling the hire purchase transaction. The hire purchase finance companies come under non banking finance companies (NBFCs) and are subject to the regulation of reserve bank of India act.

Earlier these NBECs were accepting deposits firm the public by offering attractive interest rate and were collecting higher interest rate from the buyers of durable goods on hirepurchase . But in 1998 certain restriction by non – banking finance companies involved in hire purchase finance.

To overcome the above handicap, may automobile companies such as maruth udyog limited and tata have themselves promoted their own hire purchase finance companies .

Of late , housing finance has been taken up no hire purchase by most of the commercial bank and with the production of floating interest rate. It is picking up both in urban and rural area.

Thus , in India hirepurchase finance is mainly encourage by the middle income group consumer in the purchase of houses , and durable goods. Where as in industries , It is leasing which is becoming very popular.

DIFFERENT BETWEEN HIRE PURCHASE AND INSTALMENT SALES :

HIRE PURCHASE	INSTALMENT
1. There are 3 parties in hire purchase trade namely the seller , the financier and buyer.	There are 2 parties seller and buyer
2. There are 3 agreements namely (a) seller and financier (b) financier and buyer (c) buyer and sellers.	There is only one agreement between the buyer and seller
3. It is an agreement to hire and later to buyer .	It is an agreement to buy
4. The ownership transfer from the seller to financier and than to buyer in the payment of the last installment	The owhership transfer on the first instalment form the seller to buyer.
5. On default the financier will take back the goods for the buyer.	On default the seller cannot take back the goods but can only sue the buyer.

UNIT-V

FACTORING : MEANING

Factoring is a specialized activities where by a firm converts its receivable into cash by selling them to a factoring organization. The factors assumes the risk of collection and in the event of non payment by the customer debtors bears the risk of debts losses.

The factoring is a methods of financing whereby a company sells it trade debts at a discount to a d financial institution , and a company which sells goods and service to trade customr on credit.

DEFINITION :-

An arrangement which inchides at least two of the service , namely of finance , maintenance of accounts, collection of debts and protection against risk.

Factoring is a service of financial nature involving the conversion of credit bills in to cash ………….. A. Avathari.

CONCEPT OF FACTERING IN INDIA;

In India the idea of providing factering service was first thought to by the vaghul working groups. It last recommented that bank and private non-banking financial companie should be encouraged to provide factoring service with a view to helping the industrialist and trader totideover financial of their book debts .

In the public interest and in the interest of banking policy , the RBI is of the view
(a) the banks should not directly undertake the business of factoring.
(b) the banks may set up separate subsiday
(or) invest is factoring companies jointly with ofter banks.
(c) joint venture factoring company may undertake the factoring business but should not financial other factoring companies.

Recently in Feb- 1994, the RBI has permitted all banks to entre in to the factoring business.

1. Factoring should be treated on per with loan and advance should accordingly be given risk weight of 100% for calculation of capital to risk asset ratio.
2. A bank exposure shall not exceed 25% of the bank capital fund to an individual borrower and 50% to a group of borrower.
3. Factoring ervice should be provided only in respect of those involve which represent geruine trade transaction.

SIGNIFICANCE AND IMPORTANCE OF FACTORING :

The factoring can be play an important role in any developing economy India factoring can be play an important role in development of smaill scale industries and thus help in employment generation as are labour intensive industries.

1. ***IN SMALL SCALE INDUSTRIES***:

   Most of theis unit face cash flow problem because of their is abilities to recover the receivable and inadegnate working capital often caused by delayed collection of accounts receivable and therefore need factoring service.

2. ***EXPERT TRADER***:

   Export trader go for factoring service on account of the availability of additional services ad it may be extremely useful to small scale exports and new entrants.

3. ***PREVENTION OF INDUSTRIAL SICKNESS*** :-

The incidencial of industrial sickness in india has been on the rise during the last decade. Any of the medium and small unit may not have been a red if they had been able to recover their dues in time. Most of these unit face cash flow problem because to mounting overdue accounts and therefore need factoring services.

TYPE OF FACTORING :

1. ***FULL SERVICE FACTORING*** : Here al the financing of factoring are done by the factors and the factors undertake the credit risk.
2. ***WITH RESOURCE FACTORING*** : credit risk is taken by the seller (or) the client and when the customer fails to pay on the due date, the factors will take action on the seller.
3. ***WITHOUT RESOURCE FACTORING*** :

   Here the factoring take the risk and the client need not bear the credit riskin cse of non payment fund by the customer
4. ***MATURITY FACTORING*** :

   The factoring make payment only on the marturing of the bill (or) at the end of the collection period to the supplier.

5. ***ADVANCE FACTORING*** :

The factors provides advance against uncollected debts at an interest to the seller, normally this may be 60% to 75 % to the debt amount.

6. ***BANK FINANCE FACTORING*** :

Here the bank , finance that portion which the factors has held in reserve 15 %to 20 % of the amount of debts.

7. ***CONFIDENTIAL FACTORING*** : -

Here the arrangement is not disclosed to outsiders. On the the supplier receiving money from the customer , he will repay the advance to the factors.

FACTORING OF MECHARISM :

CLIENT

1. Place order goods
2. Delivery of goods.
3. Notice pay for factors.

3. Fixation of customer limit
4. Copy of invoice
5. Prepayment upto 80 %

Balance amount of unpaid

CUSTOMER

7. Follow up to un[aod by due
8. Payment

(6) monthly statement

FACTORS VS LEASING :

Lease is a contract where by the owner of an asset (lessor) grant to another party (lessee) the exclusive right to use the asset usully for an agreed period of time in return for the payment of rent.

FACTORING	***LEASING***
1. It undertake the task of realizing accounts receivable	It is a right to use the asset for a periodical rental payment for an grad period of time .
2. It is short term in nature	It is medium and long term in nature.
3. It is an agreement between factors and the client	It is an agreement between lessee lessor.
4. It is off balance sheet financing	Leased asset is captioned in the book of
5. 80% fianancing is provided here	lessor/ lessing company .
6. No such charges 15 allowed	The lessor receive the depreciation charges.

FACTORING IN INDIA KALYANA SUNDARAM COMMITTEE:

RECOMMENDATION:

Kalyana committee was appointed in 1989 my RBI to study the feasibility of introduction factoring service in india . Accordingly in 1990 the recommendation of the committee were accepted .

1. There is more scope for introduction factoring in india, especially through banks.
2. Exporter, can enjoy more benefit by factoring service .
3. The growth of financing will be so fast that with in 2 (or) 3 years it will be a viable business.
4. Export factor's can provide various other service also
5. All the industries as well as service can avail factoring service
6. Factors can arrive at a price by taking in to account various cost of funds.
7. Initially the factoring can be introduced at the zonal level.
8. Bank, can take, up factoring business due to their excellent network of branches.
9. Competition among factors will ensure efficient service to clients.