Financial Market

Indian Financial markets

Broadly speaking, there are two segments in the financial market.

The financial market comprises of the

- money markets that deal with the short-term lending and borrowing of funds and
- the securities or capital markets that enable longer term transfer of funds using debt and equity instruments.

The financial market is not just provider of funds..

but also liquidity and exit options for the participants.

Now, let us see the structure of the financial markets in the Indian context

The money market

The money market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that it is liquid and can be turned over quickly at low cost and provides an avenue for calibrating the short-term surplus funds of lenders and the requirements of borrowers. The call money market consists of three important instruments viz. Call Money, Notice Money and Term Money.

Call Money, Notice Money, Term Money

- Call money refers to the unsecured segment of the money market that is designed for management of liquidity for a very short period of time – mostly overnight.
- Notice Money**:** If the period of money lent is more than one day and upto 14 days it is called 'Notice money'.
- Term Money**:** Money lent for 15 days to 1 year is called 'Term money'

Treasury Bill

Treasury bills, also known as T-bills, are short term money market instruments. The RBI on behalf of the government to curb liquidity shortfalls. It is a promissory note with a guarantee of payment at a later date. The funds collected are usually used for short term requirements of the government. It is also used to reduce the overall fiscal deficit of the country.

Treasury bills or T-bills have zero-coupon rates, i.e. no interest is earned on them. Individuals can purchase T-bills at a discount to the face/value. Later, they are redeemed at a nominal value, thereby allowing the investors to earn the difference. For example, an individual purchase a 91-day T-bill which has a face value of Rs.100, which is discounted at Rs.95. At the time of maturity, the T-bill holder gets Rs.100, thus resulting in a profit of Rs.5 for the individual.

Commercial Bill

A commercial bill is one which arises out of a genuine trade transaction, i.e. credit transaction. As soon as goods are sold on credit, the seller draws a bill on the buyer for the amount due. The buyer accepts it immediately agreeing to pay amount mentioned therein after a certain specified date. Thus, a bill of exchange contains a written order from the creditor to the debtor, to pay a certain sum, to a certain person, after a creation period. A bill of exchange is a 'self-liquidating' paper and negotiable/; it is drawn always for a short period ranging between 3 months and 6 months.

Certificate of Deposit (CD)

A certificate of deposit (CD) is a product offered by banks and credit unions that provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a predetermined period of time. Almost all consumer financial institutions offer CDs, although it's up to each bank which terms it wants to offer, how much higher the rate will be compared to the bank's savings and money market products, and what penalties it applies for early withdrawal.

Shopping around is crucial to finding the best CD rates because different financial institutions offer a surprisingly wide range. Your brick-and-mortar bank might pay a pittance on even long-term CDs, for example, while an online bank or local credit union might pay three to five times the national average. Meanwhile, some of the best rates come from special promotions, occasionally with unusual durations such as 13 or 21 months, rather than the more common terms based on three, six, or 18 months or full-year increments.

Commercial Paper in India

On 27th March 1989, commercial paper in India was introduced by RBI in the Indian money market. It was initially recommended by Vaghul working Group on the basis of the following points.

- The registration of commercial papers should only be granted to companies having Rs. 5 cores and above net worth with excellent dividend payment record.
- The market should follow the CAS discipline. The RBI should manage the paper amount, entry of the market, and total quantum which can be upgraded in a year.
- No limitation on the commercial paper market apart from the least size of the note. However, the size of one issue and each lot should not be less than Rs. 1 crore and Rs. 5 lakhs respectively.
- It should be eliminated from the provision of insecure advances in the state of banks.

- The company using commercial paper should have minimum 5 cores as net worth, a debt ratio maximum of 105, a debt servicing ratio closer to 2, current ratio minimum 1033, and should be recorded on the stock exchange.
- The paper can be made in terms of interest or at a discount rate to face value.
- It should not be compelled to stamp duty while issuing and transferring.

Capital Market and SEBI

A money market fund is a kind of mutual fund that invests in highly liquid, near-term instruments. These instruments include cash, cash equivalent securities, and high-credit-rating, debt-based securities with a short-term maturity. Money market funds are intended to offer investors high liquidity with a very low level of risk. Money market funds are also called money market mutual funds.

- A money market fund is a type of mutual fund that invests in high-quality, short-term debt instruments, cash, and cash equivalents.
- Though not quite as safe as cash, money market funds are considered extremely low-risk on the investment spectrum.
- A money market fund generates income (taxable or tax-free, depending on its portfolio), but little capital appreciation.
- Money market funds should be used as a place to park money temporarily before investing elsewhere or making an anticipated cash outlay, they are not suitable as long-term investments.

Types of Money Market Funds

Money market funds are classified into various types depending upon the class of invested assets, the maturity period, and other attributes.

- Prime Money Fund
  A prime money fund invests in floating-rate debt and commercial paper of non-Treasury assets, like those issued by corporations

- Government Money Fund
  A government money fund invests at least 99.5% of its total assets in cash, government securities, and repurchase agreements that are fully collateralized by cash or government securities.

- Treasury Fund
  A Treasury fund invests in standard U.S. Treasury-issued debt securities, such as Treasury bills, Treasury bonds, and Treasury notes.

- Tax-Exempt Money Fund
  A tax-exempt money fund offers earnings that are free from income tax. Depending on the exact securities it invests in, a tax-exempt money fund may also have an exemption from state income taxes. Municipal bonds and other debt securities primarily constitute such types of money market funds.

The Capital Markets

Capital markets are where savings and investments are channeled between suppliers—people or institutions with capital to lend or invest—and those in need. Suppliers typically include banks and investors while those who seek capital are businesses, governments, and individuals.
Capital markets are composed of primary and secondary markets. The most common capital markets are the stock market and the bond market.
Capital markets seek to improve transactional efficiencies. These markets bring suppliers together with those seeking capital and provide a place where they can exchange securities.

Financial Institutions:

1. Finance Corporation of India (IFCI)
2. Industrial Credit and Investment Corporation of India (ICICI)
3. State Financial Corporations (SFCs)
4. State Industrial Development Corporations (SIDC'S)
5. Industrial Development Bank of India (IDBI)
6. Industrial Investment Bank of India (IIBIL)
7. Unit Trust of India (UTI)
8. Small Industries Development Bank of India (SIDBI)

IFCI	**ICICI**	**IDBI**	**SIDBI**
IFCI was the first DFI to be setup in 1948.	It was setup in January 1995.	The IDBI was initially set up as a Subsidiary of the RBI. In February 1976, IDBI was made fully autonomous.	SIDBI was setup as a subsidiary of IDBI in 1989.
With Effect from 1 July 1993, IFCI has been converted into Public Limited Company.	With effect from April 2002, ICICI has been converted into a Bank.	The IDBI was designated as apex organisation in the field of Development Financing. However, it was converted in a bank wef Oct 2004.	The SIDBI was designated as apex organisation in the field of Small Scale Finance. The Union Budget of 1998-99 proposed the delinking of SIDBI from IDBI.
The key function of IFCI	The key functions of	The key functions of	The key function of SIDBI

was; granting long-term loans(25 years and above); Guaranteeing rupee loans floated in open markets by industries; Underwriting of shares and debentures; Providing guarantees for industries.	ICICI were; to provide long term or medium term loans or equity participation; Guaranteeing loans from other private sources; providing consultancy services to industry.	IDBI were; it provides refinance against loans granted to industries; it subscribed to the share capital and bond issues of other DFIs; it also acted as the coordinator of DFIs at all India level.	was; to provide assistance to small scale units; initiating steps for technological up gradation and modernization of SSIs; expanding the marketing channel for the Small Scale Industries product; promotion of employment creating SSIs.
IFCI was a public sector DFI.	The ICICI differed from IFCI and IDBI with respect to ownership, management and lending operation. ICICI was a Private sector DFI.	It was a Public sector DFI.	

Public Sector Insurance Companies

- **Life Insurance Corporation of India**
  LIC of India was incorporated on 1st September, 1956 by amalgamating 243 Companies by the Act of Parliament called Insurance Act, 1956. LIC is governed by the Insurance Act 1938, LIC Act 1956, LIC Regulations 1959 and Insurance Regulatory and Development Authority Act 1999. As on 31st March, 2016, LIC has 8 Zonal Offices, 113 Divisional Offices, 2048 Branch Offices, 73 Customer Zones, 1401 Satellite Offices and 1240 Mini Offices in India.

- **GENERAL INSURANCE CORPORATION OF INDIA**
  The General insurance industry was nationalized in 1972 and 107 insurers were grouped and amalgamated into four Companies – National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd. The GIC was incorporated in the year 1972 and the other four companies became its subsidiaries. In November 2000, GIC was notified as the Indian Reinsurer, and its supervisory role over its subsidiaries was brought to an end.

- **THE NEW INDIA ASSURANCE COMPANY LIMITED**
  The company was founded by Sir Dorabji Tata on July 23rd, 1919 and nationalized in 1973 with merger of Indian companies. The Company has 2329 offices and the employee strength is 18783 as on 31.03.2016. The company provides insurance services to the customers having over 170 products catering to almost all segments of

general insurance business. The authorized capital and paid-up equity capital of the company is Rs.300 crore and Rs.200 crore respectively.

- **UNITED INDIA INSURANCE COMPANY LIMITED**
  United India Insurance Company Limited was incorporated in 1938. With the nationalization of General Insurance business in India, 12 Indian Insurance Companies, 4 Cooperative Insurance Societies and Indian operations of 5 Foreign Insurers, besides General Insurance operations of southern region of Life Insurance Corporation of India were merged with United India Insurance Company Limited. The Company has 2080 offices and employee strength of 16345 as on 31.03.2016.

- **THE ORIENTAL INSURANCE COMPANY LIMITED**
  The Oriental Insurance Company Ltd was incorporated in the year 1947. In 2003 all shares of the company held by the General Insurance Corporation of India were transferred to the Government of India. The Company has 1924 offices in the country and has employee strength of 13923 as on 31.03.2016.

- **NATIONAL INSURANCE COMPANY LIMITED**
  The Company was incorporated in the year 1906. After nationalization it was merged, along with 21 foreign and 11 Indian companies, to form National Insurance Company Ltd. The Company has 1998 offices all over India and employee strength of 15079 as on 31.03.2016. The company provides insurance services to the customers catering to almost all segments of general insurance business.
- **AGRICULTURE INSURANCE COMPANY OF INDIA LIMITED**
  'Agriculture Insurance Company Of India Limited' (AIC) was incorporated to exclusively cater to the insurance needs of the persons engaged in agriculture and allied activities in India under the Companies Act, 1956 on 20th December 2002. General Insurance Corporation of India (GIC), NABARD and four public sector general insurance companies have contributed towards the share capital of the Company.

Gilt- Edged Market

The gilt-edged market is the market in government securities or the securities guaranteed (as to both principal and interest) by the government. The former include securities of the Government of India and of the slate governments; the latter are securities issued by Local authorities (like city corporations, municipalities, and port trusts) and autonomous government undertakings like development hanks, state electricity boards, etc.
The term gilt-edged means 'of the best quality". It has come to be reserved for government securities as they do not suffer from the risk of default. Besides, government securities are highly liquid, as they can be easily sold in the market at their going market price. The open market operations of the RBI are also conducted in government securities.

Corporate Securities Market

Bonds, representing debt, and stocks, representing ownership or equity interest in their operations.

Method Raising Capital

Raising capital is when an investor or a lender gives a business funds to assist with starting, growing, and managing day-to-day operations.

Some entrepreneurs consider raising capital to be a burden, but most consider it a necessity. Regardless of their stance on the matter, raising capital is an essential step for entrepreneurs, founders, business owners, or anyone looking to start a company.

A business owner might look at different fundraising methods to service different capital needs. Typically, there are two forms of fundraising: equity and debt financing.

- **Equity Financing**

For those ambitious entrepreneurs in search of millions in upfront capital to push their piece of technology or product to market, equity financing might be the best option.

In short, equity financing is selling a portion of a business in the form of stock to investors in exchange for funds in order to operate and grow the business.

- **Debt Financing**

If you are a business owner not looking to be diluted, then you might explore other options of raising capital, like acquiring debt. Aside from maxing out personal credit cards, companies can raise debt through personal and bank loans, lines of credit, bonds, or convertible notes to service their fundraising efforts.

- **Convertible Debt**

Many early-stage startups, from my experience, raise what's known as convertible debt. This mechanism was created to bridge the gap between debt and equity financing. Convertible debt is exactly what it might sound like. Initially, it functions as traditional debt; however, it has the option to be converted into the company's equity in the future.

- **SAFE Notes**

Another popular alternative is referred to as a SAFE note. SAFE is an acronym that stands for Simple Agreement for Future Equity. It functions similarly to convertible debt (less the interest). Nonetheless, a SAFE note is where an investor gives upfront capital now in exchange for equity in the future upon reaching certain triggers, such as closing a round of financing

By Offer for Sale and Stock Exchange

A private company launches an Initial public offering (IPO) for additional funding. The company sells shares to outside investors so that it can gain access to funds for various purposes. This includes growth and expansion of the company.

However, the company's financial problems do not end with an IPO. Sometimes, a company may need additional capital to meet its goals. That's the time such companies can opt to go for an Offer for Sale (OFS).

Rules and regulations in an OFS:

a) This facility is available only to the top 200 companies in the share market. The ranking is based on market capitalisation.

b) Non-promoter shareholders with more than 10% of share capital are also eligible to offer shares through an OFS

c) The company has to inform the stock exchanges at least two days before the OFS

d) SEBI has mandated that at least 25% of shares in an OFS must be reserved for mutual fund and insurance companies

e) In addition, a 10% reservation is made for retail buyers

National Housing Bank (NHB)

NHB Residex from the National Housing Bank, designed by a technical advisory committee comprising Government representatives, lenders and property market players, is a set of benchmarks that aims to track housing price indicators across Indian cities.
Originally flagged off in July 2007, the index was discontinued in 2015 and was refurbished and re-introduced earlier this month. It now sports enhanced city coverage (rising from 26 to 50, to be eventually raised to 100), a new base year (2012-13) and new data sources (with data from banks and home finance companies and market surveys).

Securities and Exchange Board of India (SEBI)

- SEBI is a statutory body established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

- The basic functions of the Securities and Exchange Board of India is to protect the interests of investors in securities and to promote and regulate the securities market.
- SEBI is a quasi-legislative and quasi-judicial body which can draft regulations, conduct inquiries, pass rulings and impose penalties.
- It functions to fulfill the requirements of three categories –
- Issuers – By providing a marketplace in which the issuers can increase their finance.
- Investors – By ensuring safety and supply of precise and accurate information.
- Intermediaries – By enabling a competitive professional market for intermediaries.
- By Securities Laws (Amendment) Act, 2014, SEBI is now able to regulate any money pooling scheme worth Rs. 100 cr. or more and attach assets in cases of non-compliance.
- SEBI Chairman has the authority to order "search and seizure operations". SEBI board can also seek information, such as telephone call data records, from any persons or entities in respect to any securities transaction being investigated by it.
- SEBI perform the function of registration and regulation of the working of venture capital funds and collective investment schemes including mutual funds.
- It also works for promoting and regulating self-regulatory organizations and prohibiting fraudulent and unfair trade practices relating to securities markets.