

Presentation on Indian Financial System



S.Y.B.COM - SEM IV

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Topics to be Covered



- Structure of Indian Financial Market
- Primary Market
- Procedure of IPO
- Dematerialization-Process
- Role of Depositories NSDL and CDSL
- Functions of SEBI
- Investor Protection measures of SEBI
- Functions of Stock Exchange
- Speculators
- Credit Rating agencies-Advantages
- CRISIL
- CARE
- ICRA

Structure of Financial Market

- Money market

- Unorganised Market
- Organised Market

Short term funds
upto 1 year

RBI

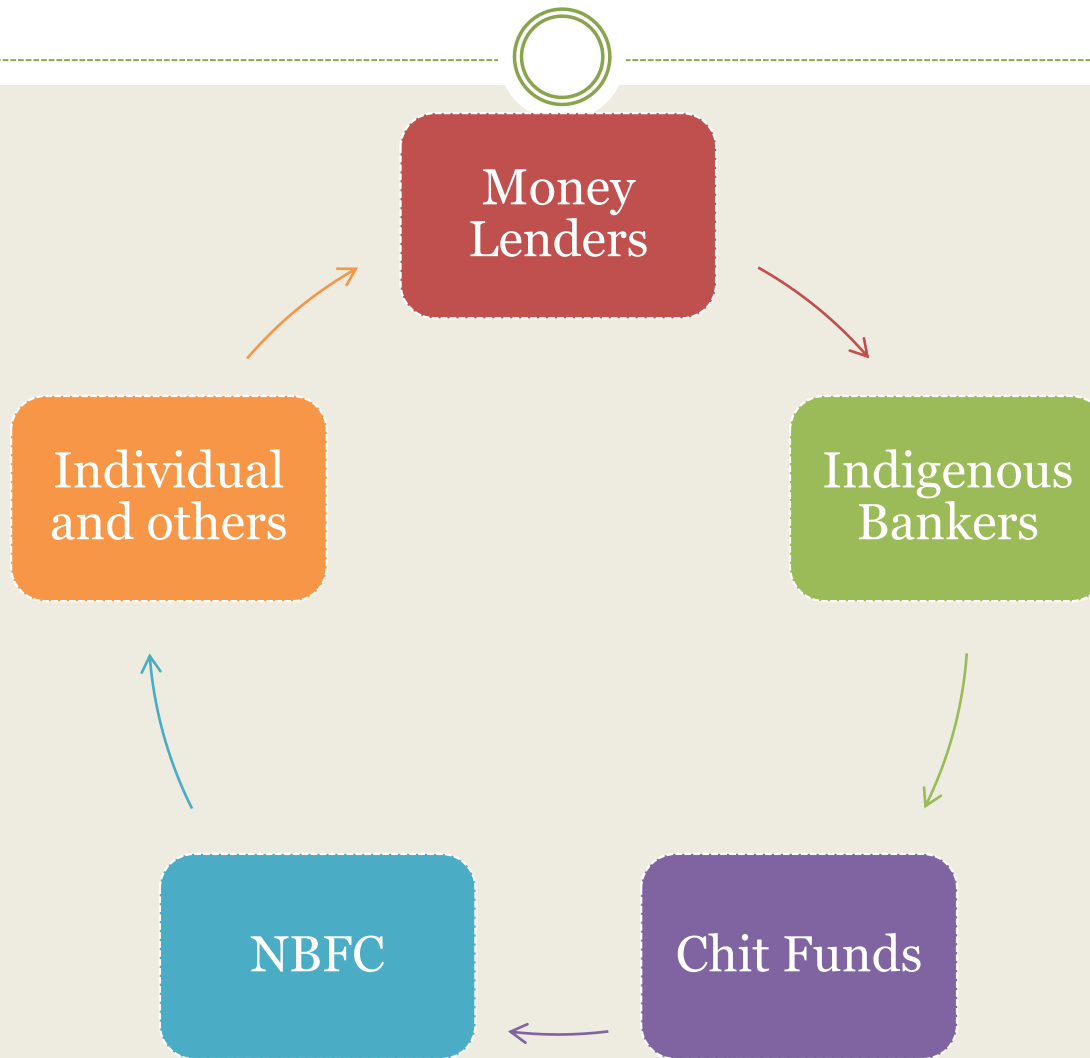
- Capital Market

- Corporate Securities Market
- Government Securities Market
- Term Loans

Long term funds
more than 1 year

SEBI

Unorganised Market



Organized Money Market



- **Treasury Bills** - Issued by RBI, purchased by Commercial Banks, 91 day, 182 day and 364day
- **Certificate of Deposit**- Issued by Commercial banks, Purchased by individuals, companies trust etc. 7 days to 1 year
- **Commercial Paper**- Issued by Companies listed on stock exchange, purchased by banks, and other investors.
- **Call Money Market**- inter bank call money market one day loans can be renewed next day.
- **Commercial Bill Market**-deals with bills of exchange

Capital Market



- **Corporate Securities Market**
 - Primary market (Rights issue, Public issue, Private Placement)
 - Secondary Market
- **Government Securities Market**
 - Called as Gilt edged securities market
 - Free from risk and are highly liquid
 - Issued by Central and State Governments
- **Long term loans Market**
 - More than 1 year
 - Used for fixed assets at the time of expansion and modernisation
 - Term Loans Market, Mortgages Market and Financial Guarantees Market

Procedure for Demat



- Opening Demat Account with ***Depository Participant*** (DP) (DP gives DRF)
- Submission of DRF and share certificates
- Forwarding of DRF and share certificates to the ***Depository***
- Confirmation from Depository
- Verification and updation of record by ***registrar of companies***
- Recording by Depository
- Updating by DP
- Confirmation to Demat account holder
- Operation of Demat account

Procedure for IPO



1. **IPO Process initialisation**
 - Appointment of Lead Manager
 - Appointment of Registrar
 - Appointment of syndicate members (Brokers, underwriters etc.)
2. **Lead Manager's Pre Issue Part I**
 - Prepare Draft Prospectus
 - File with SEBI
 - Promote IPO if needed
3. **SEBI – Prospectus Review**
 - Reviews draft Prospectus
 - Informs Lead Manager for changes, if any
 - Approves draft prospectus and this now becomes OFFER PROSPECTUS

Procedure for IPO



4. Lead Manager Pre Issue Part II

Submission of Offer Prospectus to Stock Exchange

Decision on issue date and price issue

Modification of Prospectus with date and price band is now called
RED HERRING PROSPECTUS

Red Herring Prospectus and IPO application forms are printed and posted to syndicate members and they distribute to investors.

5. Bidding for Public Issue by Investors

Public issue opens for investors

Investors fill application form

Syndicate members provide info to BSE/NSE and send application forms to registrar of companies

Investors can revise bidding

Stock exchanges are informed of changes if any

Public issue closes for investors bidding

Procedure for IPO



6. Price fixing by Lead Manager

Lead Managers fix prices

Send the final price to SEBI and Stock Exchange

7. Processing of IPO applications by Registrar

Receives all application forms

feeds applicant data on computer systems

Sends cheques for Clearance

Finalizes allotment pattern

Prepares allotment list

Transfers shares in demat account

8. Share Listing by Lead Manager

Role of Depositories



- An organisation that holds securities in electronic form and assists investors in trading of securities
- Two Depositories
 - NSDL-National Securities Depository Limited
 - CDSL-Central Depository Services Limited
- It is responsible to keep securities safe.
- Transfer of ownership is done by Depositories

Importance of Depository system



- **Benefits to investors**

- Quick transfer of shares
- Less paper work
- No risks
- Less Costs
- Quick Receipt of Payment
- Quick Receipt of dividend
- Bank Loan
- Complete Record

- **Benefits to Companies**

- Accurate Data of shareholders
- Reduction of investor complaints
- Quick Correspondence
- Less expenses
- More funds
- Reduction in secretarial work

Introduction to NSDL



- NSDL was registered by SEBI in 1996 as India's first depository
- to facilitate trading and settlement of securities in demat form
- Promoted by IDBI, UTI and NSE
- Uses innovative and flexible technology systems
- Helps to ensure safety settlement solutions to increase efficiency, minimize risk and reduce cost

Introduction to CDSL



- Second largest Indian Central securities depository based in Mumbai.
- Holds securities in certificate or demat form to enable transfer of securities.
- NSDL-NSE and CDSL-BSE
- Promoted by Bombay Stock Exchange (BSE) jointly by SBI, Bank of India, BOB, HDFC, Standard Chartered, Axis Bank and Union Bank of India

Benefits of NSDL/CDSL



- Elimination of all risks related to physical certificates
- Elimination of bad deliveries
- Immediate transfer and registration of securities
- Faster Settlement cycles
- No Stamp duty

Services of NSDL/CDSL



- **Basic Services**

- Account maintenance,
- Demat
- Remat
- Inter – Depository Transfer

- **Value Added Services**

- Public Issue
- Dividend Distribution
- Pledging

- **CAS- Consolidated Account Statement**

Securities and Exchange Board of India (SEBI)



- Set up in India on 12th April 1988.
- Purpose - to develop and regulate stock market in India
- SEBI Act was passed in 1992

Objectives

- Protect interest of investors
- To bring Professionalism in working of intermediaries in capital markets
- To create a financial Climate to raise long term funds through issue of shares and debentures

Functions of SEBI



- Protection of Investors Interest
- Regulates working of Mutual Funds
- Prohibition of Insider Trading
- Regulates Merchant banking
- Regulates Stock Brokers activities
- Portfolio Management
- Regulates Take -over and Mergers
- Research and Publicity
- Monitoring of Stock Exchange
 - Submission of Annual Report
 - Submission of Periodical Returns

Investors Protection Measures by SEBI



1. Investor Education and Protection Fund (IEPF)

- Set up for promotion of investors awareness and protection of interest of investors
- A company who has completed 7 years should handover all unclaimed fund dividends, matured deposits etc. to the Government through IEPF.

2. Investor Awareness Programme

- Covers major areas like portfolio mgmt, mutual funds, tax provisions.

3. Regulations of mutual funds

- Association of Mutual funds in India (1995)

Investors Protection Measures by SEBI



4. Investor Grievance Cell
5. Representatives for allotment process
6. Due Diligence Certificate by Merchant Bankers
7. IPO Grading
8. Redressal of Investor Grievance by Merchant Banker

Stock Exchange



Stock Exchange is an association, organization or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.

-Securities Contract Regulation Act 1956

Functions of Stock Exchange



Acts as a Clearing House of Securities

- Facilitates quick and easy clearance of transactions between buyer and seller

Regulation and Control of contracts

- Every stock exchange make their own bye-laws for regulation and control of contracts (with prior approval of SEBI)

Listing of Securities

- Companies that issue shares can be listed in one or more stock exchanges in the country

Suspension of Securities from trading

- Suspension is done when companies do not follow the rules and regulations

Functions of Stock Exchange



Settlement of claims or disputes

Imposes fines or penalties

- To brokers who do not follow rules and to maintain discipline

Registration of brokers

- Companies that issue shares can be listed in one or more stock exchanges in the country

Maintaining records and filing returns with SEBI

Speculators



- Speculator is a person who trades derivatives, commodities, bonds, equities or currencies
- higher than average risk and higher than average profit potential.
- Anticipate future movements
- Hope to make large profits.

Kind of Speculators



- **Bull**
 - Optimistic (positive)speculator
 - Expects rise in future
 - Enters into purchase transactions with a view to sell them at a profit in the future
 - Also known as Tejiwala

- **Bear**
 - Pessimistic (negative) speculator
 - Expects fall in future
 - Enters into selling contracts in certain securities
 - He will sell the securities if the price falls at a future date
 - Also known as Mandiwala

Kind of Speculators



- **Stag**
 - Called as a short term speculator
 - A day trader who attempts to profit from short term market movements
 - He makes a profit when the sale price is higher than the purchase price of securities
 - Also known as Tejiwala
- **Lame Duck**
 - When a bear is unable to meet his commitment he is said to be a struggling lame duck

Credit Rating Agencies



- An opinion expressed by an independent rating agency about the credit quality of the issuer of a debt instrument.
- It reflects timely payment of interest and repayment of principal amount.

Advantages of Credit Rating Agencies

To the Investors

- Investment Decision
- Benefits of Rating Reviews
- Assurance of safety
- Clarity of investment proposal
- Choice of instruments
- Saving time and effort

To the Company

- Corporate Image
- Lower cost of Borrowing
- Wider Audience for borrowing
- Benefits to not so popular firms
- Credit rating as a Marketing tool

CRISIL



- Credit Rating Information services of India Ltd.
- First Credit Rating agency in India
- Established in January 1987
- Commenced its operations from 1988
- Largest Rating Agency in India
- AAA rating has changed to CRISIL AAA that implies highest degree of safety to investors

Role of CRISIL



Specific Roles

- Ratings (60000 entities in India)
- Research
- Advisory
- Risk Management

General Roles

- Collection of information
- Supply of information
- Basis for investment
- Corporate Discipline
- Greater Credibility
- Protects investor interest
- Facilitates growth of Capital Markets

CARE



- Credit Analysis and Research Limited
- Commenced operations from April 1993
- 2nd Largest Credit Rating Agency in India
- Head Office at Sion, Mumbai
- Regional offices in various cities
- CARE AAA as highest degree of safety and CARE D as lowest Degree-Medium and Long term Debentures
- CARE A1 as very strong and CARE D as very weak-Short term Debentures

(Role same as General Role of CRISIL)

ICRA



- Investment Information and Credit Rating Agency
- Set up in 1991
- ICRA is a public limited company with shares listed on BSE and NSE.
- International Moody's Investor Service is ICRA's largest shareholder
- Undertakes rating of the following
 - Financial sector Debt ratings
 - Micro finance Institutions
 - Solar Power Grading
 - Construction Companies
 - Real estate Companies
 - SME etc.

ROLE OF ICRA= GENERAL ROLE OF CRISIL



THANK YOU