INTERNATIONAL FINANCIAL CENTRE

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Benefits of International Financial Centre (IFC):

1) oppurtunity for qualified professionals working outside India come here and practice their profession.

2) A platform for qualified and talented professionals to pursue global oppurtunities without leaving their home land.

3) stops Brain drain from India

4) Bring back those Financial Services transactions presently carried out abroad by overseas Financial Institutions/entities & Branches & subsidiaries of Indian Financial Market.

5) Trading of complicated Financial Derivative can be started from India.

CONSTITUENTS OF IFC:

1) Highly developed Infrastructure

2) Stable political Environment

3) Strategic Location

4) Quality Life

5) ~~Retationale~~ Rationale regulatory Framework

6) Sustainable Economy

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DIFFERENCE BETWEEN ISLAMIC FINANCE & CONVENTIONAL FINANCE:

	Islamic Finance	Conventional Finance
promotion	Islamic Finance promotes Just, Fair and balanced Society. Hence interest is prohibited.	Based on commercial objectives and interest must be paid irrespective of outcome of Business.
Ethical Framework	Structured on ethical and moral Framework of Sharia. Verses From Holy Quran and traditions from As-Sunnah are two divine guidance	No such Framework
speculation	Financial transactions should be Free From element of uncertainity (gharar) and gambling (maisir).	No such restrictions.
unlawful goods & services	Islamic Finance must not be involved in any transaction that relates to trading of Alcohol, armaments, pork and other Socially detrimental products which are not allowed as per Islamic principles.	No such restrictions.

ISLAMIC FINANCE INSTRUMENTS

1, ~~Mudarba~~ Mudaraba

2, Musharaka

3, Sukuk

4, IJara

5, Murabaha

6, Istisna

7, Salam

Mudaraba:

Mudaraba is a kind of profit sharing arrangement where in one party provides 100% of capital involved and other party provides specialized knowledge and entrusted with exclusive responsibility of working. incase there is profit, it will be shared between them in pre-decided ratio and if there is loss, only the Financier will boine the same.

Musharaka:

Musharaka is a kind of Joint business venture, where in all parties provide capital in the business in agreed ratio and also have a right to participate in Business. while the loss is strictly shared in the ratio of their Capital Contribution, the profit is shared as per pre-agreed ratio.

Sukuk:

It is one of the most popular Islamic Financial product. It is a kind of "Debt Certificate' representing ownership in the business & Assets and through this Instrument, Company borrows the money. Although it appears to be Conventional debt Instruments but it differs in following apects

-> To have share in profits of assets
-> To have share in underlying assets on realization of Assets.

Ijara:

It is a kind of Lease Financing arrangement where in one party transfer the asset to other party for specific time and for Specific Fee which includes capital cost of Assets and profit margin of lessor. In this arrangement the responsibility for maintanence of the leased Assets/items remains with the lessor.

Murabaha:

Murabaha is also known as cost plus contract. It is a kind of trade credit & Loans and mainly helps the exporters and Importers in meeting their Funding requirements. the main Feature of this arrangement is that

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the profit margin of financier is known to the buyer. In this arrangement, the financier buys the asset and sells to the client (buyer) and buyer pays to the financier in instalments consisting of following two elements

→ cost of asset financed
→ financier's profit on acquisition of Asset.

Istisna:

It is a kind a funding arrangements for long term construction contracts where in the client pays some initial amount and balance amount payable is repaid in instalments. The whole project is funded by financier and on completion of project it is delivered to client.

Salam:

It is analogues to forward contract in the conventional finance. Though cash is received by the seller immediately on sale but the goods as per pre decided quality, quantity and time shall only be delivered in future. This sale shall be at discounted price so that the financier could make some profit out of the deal. However, it is important to note that salam is prohibited in commodities such as Gold, Silver and other type of monetary assets.

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RISK MANAGEMENT

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TYPES OF RISK FACED BY AN ORGANIZATION:

- * Strategic Risk
- * Compliance Risk
- * Operational Risk
- * Financial Risk →
  - * Counter party Risk
  - * political Risk
  - * Interest Rate Risk
  - * Currency Risk

EVALUATION OF FINANCIAL RISK :

Financial risk can be evaluated from different point of views as follows.,

* From stake holder's point of view:

Major stake holders of a business are equity share holders they view Financial gearing i.e., ratio of debt in capital structure as risk since in event of winding up of a company they will be least prioritized.

Even for Lenders, existing gearing is also a risk since company having high gearing faces more risk in default in repayment of Interest and principal.

* From Company's view point:

From Company's view point, if a company borrows excessively or lends to someone who defaults, then it can be forced to go into liquidation.

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* From Government's view point:

From Government's view point, the Financial risk is a failure of any Bank & (Lehman Brothers) down grading of any Financial Institution leading to spread of distrust among society at large. *Even This risk also includes willful defaulters. It can also be extended to Sovereign debt crisis.

VALUE AT RISK: (VAR)

As per wikipedia, VAR is a measure of Risk of investment. Given the normal market conditions in a set of period, say, one day it estimates how much an Investment might lose. The Investment can be a portfolio, capital investment & Foreign Exchange etc., VAR answers two basic questions

(1) what is worst case scenario?
(2) what will be Loss?

FEATURES OF VAR:

The Following are the main feature of VAR:

(1) components of calculation:

VAR calculation is based on following three components

- → Time period
- → Confidence level - Generally 95% and 99%
- → Loss in percentage & in amount.

(2) Statistical Method:

It is a type of statistical tool based on standard deviation.

(3) Time Horizon:

VAR can be applied in different time horizons say one day, one week, one month and so on.

(4) probability:

Assuming the values are normally attributed, the probability of maximum loss can be predicted.

(5) Control Risk:

Risk can be controlled by setting limits for maximum loss

(6) Z score:

Z Score indicates how many standard deviations is away from a mean value of population. when it is multiplied with standard deviation, it provides VAR

Application of VAR :

VAR can be applied

(a) as a tool to measure the maximum possible loss on a portfolio or a trading position.

(b) to fix limits for individuals dealing in front office of Treasury department.

(c) as a benchmark for performance measurement of any operation or trading

(d) a tool for Asset and liability management especially for banks

(e) to enable management to decide trading strategies

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SECURITIZATION

The process of securitization typically invokes creation of pool of assets from illiquid financial assets such as receivables & loans which are marketable. In other words, it is the process of re-packing & re-bundling of illiquid assets into marketable securities. These assets can be automobile loans, credit card receivable residential mortages and any other form of future receivables.

FEATURES:

1> Creation of financial instrument

2> Bundling and unbundling

3> Tool of risk management

4> Structured finance

5> Trenching

6> Homogenity

BENEFITS OF SECURITIZATION:

FROM THE ANGLE OF ORIGINATOR:

Originator (entity which sells assets collectively to special purpose vehicle) achieves the following benefits from securitization.

1> Off-Balance sheet Financing

2> More specilization in main business

3> Helps to improve Financial Ratios

4> Reduced borrowing cost

FROM THE ANGLE OF INVESTOR:

Following benefits accrues to the investors of securitized securities

1> Diversification of Risk:

2> Regulatory requirement

3> protection against default

MECHANISM OF SECURITIZATION:

① creation of pool of assets

② Transfer to SPV

③ Sale of securitized papers

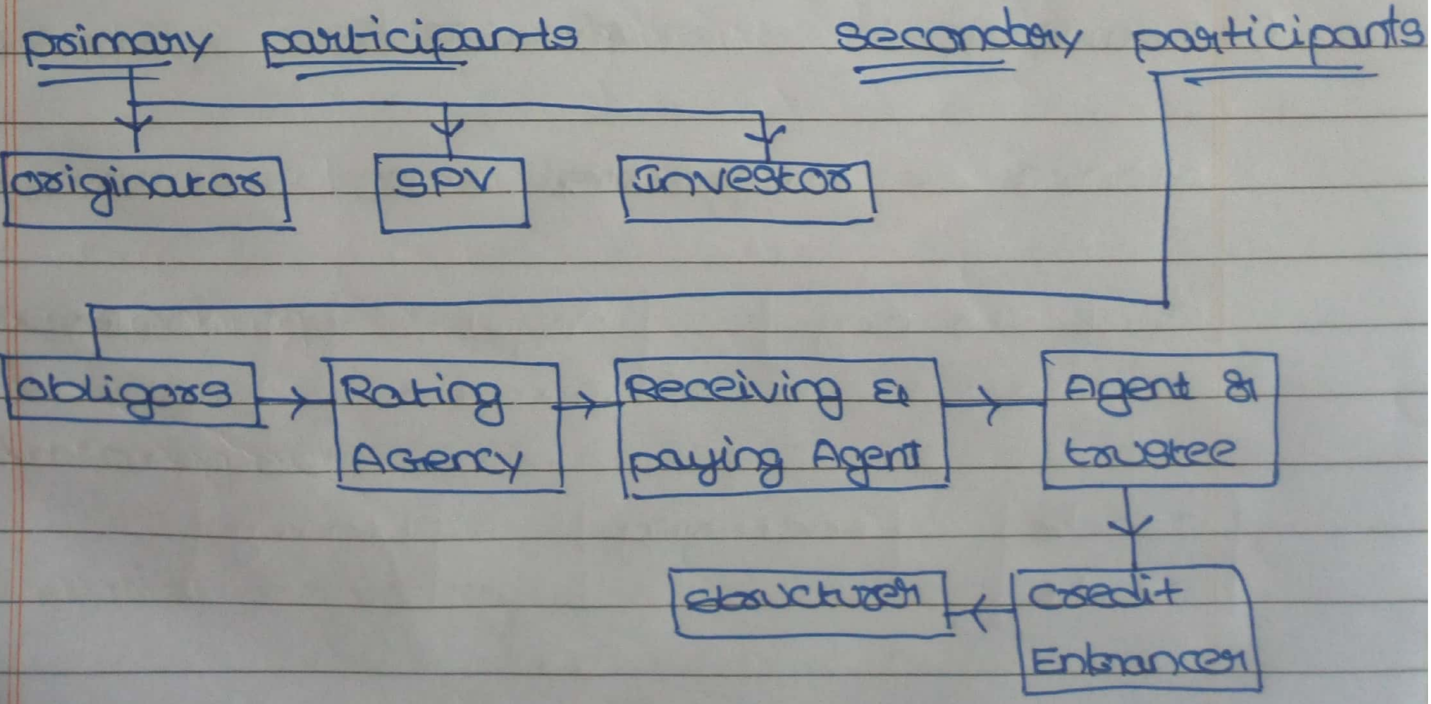
④ Administration of Assets

⑤ Recourse to Originator

⑥ Repayment of Funds

⑦ Credit rating to Instruments.

PARTICIPANTS IN SECURITIZATION:



PROBLEMS IN SECURITIZATION: STALII

(1) stamp duty

(2) Taxation

(3) Accounting

(4) Lack of standardization

(5) Inadequate debt Market

(6) Ineffective Foreclosure Laws

SECURITIZATION INSTRUMENTS:

pass through certificates
PTC

pay through Security
PTS

Stripped Securities
SS

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START UP FINANCE

Every startup needs acess to capital, whether for funding product development acquiring machinery and inventory, & paying salaries to employees. most of the entreprenuers think first of Bank Loans as the primary source of money, only finding out that the banks are the least likely benefactors of startups. So innovative measures include maximising non-banking Finance.

Some of the sources for funding a startup are as follows: PP FP CM VPF

(1) personal Financiang

(2) personal credit lines

(3) Family and Friends

(4) peer to peer lending

(5) Crowd Funding

(6) micro Loans

(7) Vendor Financing

(8) purchase order Financing

(9) Factoring accounts receivables.

Methods to Approach a pitch presentation:

I T P S M P C B F

(1) Introduction

(2) Team

(3) problem

(4) solution

(5) Marketing / Sales

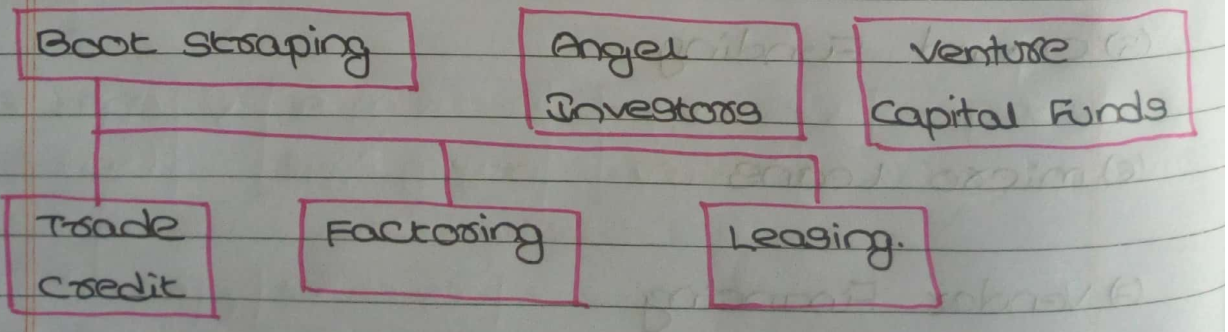
(6) projections & Milestones

(7) Competition

(8) Business Model

(9) Financing.

MODES OF FINANCING FOR STARTUPS:



Structure of Venture Capital Funds:

- Domestic Funds
- Offshore Funds
  - Offshore Structure
  - Unified Structure

Charecteristics of Venture Capital Financing:

HELL

1> High risk

2> Equity participation

3> Long time horizon (3 to 10 years)

4> Lack of Liquidity.

Stages of Funding For VC:

	Risk	Funds Locked (years)
1> Seed money	Extreme	7 - 10
2> Start - up	very high	5 - 9
3> First round	high	3 - 7
4> Second round	Sufficiently high	3 - 5
5> Third round	medium	1 - 3
6> Fourth round	Low	1 - 3

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VC investment process:

1> Deal origination

2> Screening

3> Due diligence

4> Deal structuring

5> post investment activity

6> Exit plan

SMALL AND MEDIUM ENTERPRISES.

Matters concentrated in MSMED Act, 2006:
(R1991)

(1) Remove impediments due to multiple laws.

(2) Introduce statutory consultative and recomendatory bodies in msme policies.

(3) Statutory registration procedures of msme's

(4) Statutory basis of purchase preference and credit policies.

(5) Improve realization of payments ~~to~~ OF msmes.

MSMEs

Manufacturing Enterprise → Investment in plant & machinery

Service Enterprise → Investment in Equipment

Limits:

micro	upto 25 Lakhs	upto 10 Lakhs
Small	25 Lakhs to 5 crores	10 Lakhs to 2 crores
medium	5 crores to 10 crores	2 crores to 5 crores.

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No msme can take off without monetary support. This need for finance can be classified into following types.,

(1) Long and medium term Loans

(2) short term & working capital requirement

(3) Risk capital

(4) Seed capital / marginal money

(5) Bridge Loans.

Above mentioned loans are available for msmes through variety of Institutions such as

- * Commercial / Regional rural / co-operative banks
- * SIDBI : Small Industries Development Bank of India
- * SFCs / SIDCs : State Financial corporation / State Industrial Development corporations.

To obtain loan, application shall be made along with following documentation:

(1) Balance sheet and profit loss statement of last three consecutive years of

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firms owned by promoters.

(2) Income tax assessment certificates of partners/Directors.

(3) proof of posession of Land & Building

(4) Architect's estimate for construction costs

(5) partnership Deed/Memorandum and Articles of Association of company.

(6) project Report

(7) Budgetary quotations of plant and machinery.

Benefits available to Micro, Small & Medium Enterprise:

(1) It enables reservation of certain items for exclusive manufacture of MSME's. It helps ~~to~~ them to protect their Interests.

(2) this policy helps in generating employment to the people and consequently, enhance the standard of living of the people.

(3) To encourage small scale units, SEZ's are required to allocate 10% space for small scale units.

(4) under MSME Act, protections are offered in relation to timely payment by buyers to MSME's.

(5) Assistance is also provided in obtaining Finance, help in marketing, technical guidance, training and technology upgradation etc.,

(6) Further, An enterprise, whose post issue Face value doesn't exceed ₹ 25 crores is entitled to obtain certain exemption From the eligibility requirements under the ICDR Regulation.

SME Listing:

Criteria For New Listing:

(1) **Incorporation:**

Company shall be incorporated under Companies Act, 2013.

(2) **Financials:**

(a) **post- issue paid up capital:**
atleast ₹ 3 crores

(b) **Net worth:**
Net worth (excluding revaluation reserve) shall be atleast ₹ 3 crores. as per latest audited Financial results

(c) Net Tangible Assets:

atleast ₹ 3 crores as per Latest audited Financial Results.

(d) Track Record:

Distributable profits interms of Section 123 of companies Act, 2013 for atleast 2 years out of immediately preceeding three Financial years(each Financial year shall be a period of atleast 12 months). Extraordinary income will not be considered for the purpose of calculating distributable profit.

other requirements:

(1) It is mandatory for a company to have a website.

(2) It is mandatory for the company to Facilitate trading in Demat securities and to enter into an agreement with both the depositories.

(3) There should not be any change in promoters of the company in preceeding Financial year from date of Filing the application to BSE for listing under SME segment.

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Disclosures:

A certificate from applicant company/ promoting companies stating the following..

(a) The company has not been referred to Board for Industrial and Financial Reconstruction (BIFR).

NOTE: cases where company is out of BIFR is allowed.

(b) there is no winding up petition against the company, which has been admitted by the court & a liquidator has not been appointed.

Migration from BSE SME platform to Main Board:

Guide lines for listing:

(1) **capital:** post issue face value shall not exceed ₹ 25 crores.

(2) **Trading lot size:**

* minimum trading lot - ₹ 100000

* minimum Depth ₹ 100000

* Investors holding Less than ₹100000- can offer to Market maker in one Lot.

* Market Lot will subject to revival after a stipulated time.

(3) **participants:**

Existing ~~mem~~ members of exchange shall be eligible to participate in SME Listing.

(4) **underwriting:**

The issues shall be 100% underwritten ~~by~~ and merchant bankers shall underwrite 15% in their own account.

Benefits of Listing in SME: [8 E's]

(1) Easy Access to capital

(2) Enhanced visibility and prestige

(3) Encourages Growth of SMEs.

(4) Ensures Tax Benefits

(5) Enables Liquidity For Shareholders

(6) Equity Financing through venture capital

(7) Efficient Risk Distribution:

(8) Employee Incentives