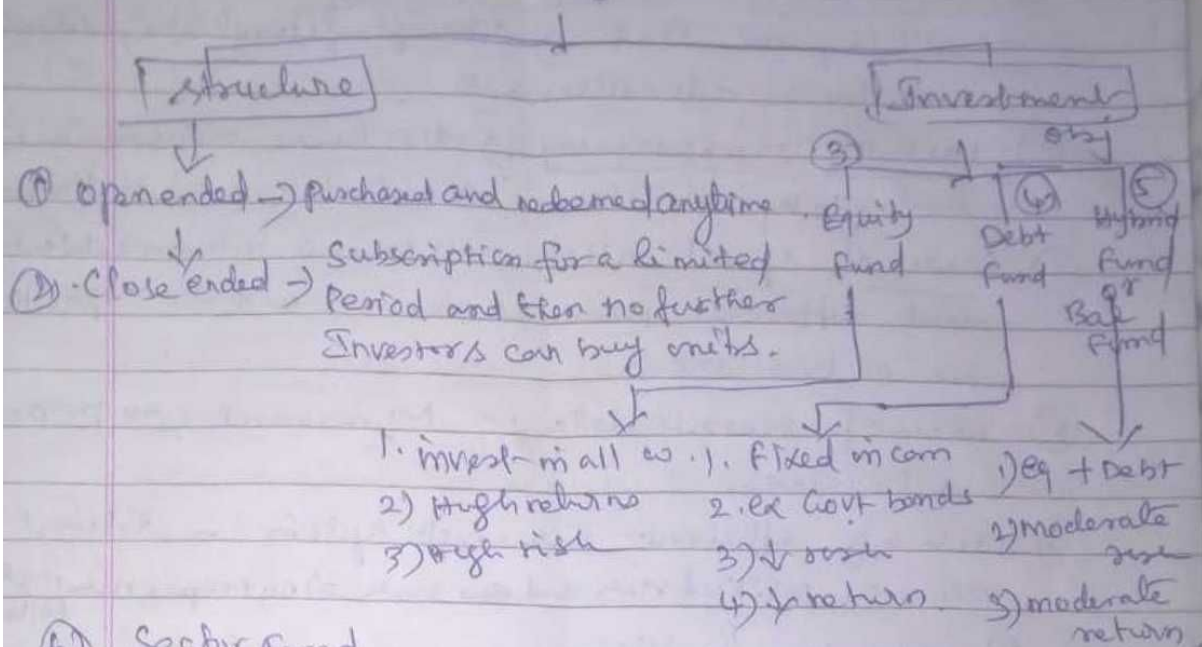


## Unit III

### Mutual Fund

- 1) Collect the Savings from small investors
- 2) invest it Govt & other Corp securities.
- 3) earn  $\rightarrow$  Int, DD and Capital gains.

#### Types of MF



#### 6) Sector Fund

- ↳ Invested in Particular Sector
- ↳ risk varies sector to sector.

6) Index Fund  $\Rightarrow$  invest in specific index  
return based on the movement of index

7) Tax saving fund  $\rightarrow$  invested in majority equity shares  
1) and eligible to claim tax deductions.

#### 2) $\uparrow$ return $\uparrow$ risk

#### 1) Importance of Mutual Fund

- 1) Channelising saving for invt  $\Rightarrow$  various scheme classes of customers.
- 2) offering wide PF investment  $\Rightarrow$  wide PF
- 3) providing better yield  $\Rightarrow$  buy cheaper, Diversify the risk, low brokerage, DD, Capital gains.
- 4) Rendering expertised mvt service at low cost.  $\Rightarrow$  adequate experience, quality service
- 5) providing research service  $\Rightarrow$  indepth study  $\Rightarrow$  Corp sec.
- 6) offering tax benefits = Sec 80 L, Sec 88 A, wealth tax act
- 7) liquidity = quick access to liquid cash.
- 8) Simplified record keeping  $\Rightarrow$  proper record of div mt, bonus issue, price movements.

### III General Guidelines of mutual funds.

- 1) General → money mkt MF - RBI  
→ other fund - SEBI  
→ established - Indian Trust act ⇒ SEBI  
→ MF - operated ⇒ AMC ⇒ 50%  
→ AMC - net worth ≥ 5 cr
- 2) Business activities → AMC + Trustee ⇒ 2 sep legal entities  
→ AMC not permitted other than MF  
→ AMC cannot act as trustee of AMC MF

- 3) Schemes → each scheme registered ⇒ SEBI  
Size - Op end - ≥ 50 cr cl. end 50 cr > 45 days  
↳ 45 days  
Continuous liquidity, each scheme ⇒ sep + responsible fund manager.

- 4) Investment Norms. Not exceed 10% - Growth fund  
40% - income fund  
MF should not invest Not more than 5% of its corpus of any scheme in any one co's share.

→ No scheme should invest in any other scheme under the same AMC

#### 5) Investment Expenses:

AMC - collect advisory fees → it is disclosed in prospectus - initial <sup>issue</sup> ex not exceed 6%.

- 6) Income distribution ⇒ MF distribute 90% profit

- 7) Disclosure and reporting. SEBI ⇒ wide power - to call any inf reg ⇒ operation, Scheme fund and AMC, trustee and sponsor etc.

Audited report for Annual, Six month unaudited report, Quarterly statements ⇒ send to SEBI.

- 8) Accounting norms. All mutual fund ⇒ segregate segregate their ⇒ earning current income, ST capital gains and LT capital gains.

Accounting for all schemes ⇒ done every year.

- 9) windup. Close ended ⇒ extended or wound up ⇒ get the permission from SEBI as soon as predetermined period is over.

Open ended scheme wound up ⇒ if the total no of outstanding ⇒ after repurchase at the time fall below 10%.

#### 10) Violation of guidelines.

SEBI - Investigation ⇒ impose Penalties on MF on violating the guidelines.

## IV credit rating

⇒ it is an unbiased and independent opinion as to issuer's capacity to meet its financial obligation.

⇒ it does not constitute a recommendation to buy / sell or hold a particular security.

## Benefits of credit rating

- ① Low cost information = collection, processing, and analysing relevant info is done by specialised agency. ⇒ low cost info to investors.
- ② Independent investment decisions. Investors ~~do~~ <sup>need</sup> not depend upon the advice of the financial intermediaries. He take own decision from ⇒ symbol, credit-worthiness. ⇒ it indicate risk.
- ③ Investors' protection. ⇒ rating agency can provide ⇒ increased disclosure, better quality standard and improved investor protection.

## Benefits to Rated companies.

- ① sources of additional certification ⇒ high rated co ⇒ enter into mkt with great confidence getting large amount from wide investors at a lower cost.
- ② ↑ the investor population. ⇒ credit rating system gives to name recognition ⇒ it helps to ↑ the investors.
- ③ Forewarns risks ⇒ lower rate co - get <sup>guide</sup> ~~advice~~ from credit rating. Those companies to take steps to change their operation and mkt risk. ⇒ it helps to change perception in the mkt.

- 1) Encourages financial discipline  
 Rating  $\Rightarrow$  encourage discipline among corporate borrowers to improve their financial structure and performance.
- 5) Merchant Banker's job made easy  
 $\Rightarrow$  Their sense very easy and relieved of the responsibility of guiding investors.
- 6) low cost of borrowing  $\Rightarrow$   $\uparrow$  rate  $\Rightarrow$   $\uparrow$  cost  
 borrow money with low int rate.
- 7) Rating as a marketing tool:  $\uparrow$  rate  $\Rightarrow$   
 $\Rightarrow$  get better image from customers, lenders and creditors.

### Credit-rating Agencies in India

- 1) CRISIL  $\Rightarrow$  credit rating info service Ltd
- 2) IICRA  $\Rightarrow$  invt information and credit rating agency of India.
- 3) CARE - Credit Analysis and Research.
- 4) DCR India - Duff Phelps credit rating Pvt Ltd.
- 5) ONICRA - Onida Individual credit rating Agency Ltd.

### CRISIL - functions and objectives.

- ① Public Ltd co, bank. and fin. org.
- ② It also provides advisory service and training services.
- ③ It helps individual and institutional investors in making informed investment decisions.
- ④ creates awareness about credit-rating amongst- merchant-brokers cooperation brokers, regulatory authorities and others

2) Care it was established in the year 1993. It is promoted by UTI, IDBI, Canara etc and other financial institutions. 2nd largest credit rating agency in India.

#### Functions and objectives.

- ① It helps the corporate to  $\uparrow$  capital for their various requirements.
- ② It also assist the investors in formulating an inform invt decision based on credit risk & return expectations.
- ③ Research + rate  $\Rightarrow$  based on financial health
- ④ Sector based studies  $\Rightarrow$  provide necessary advisories for valuation, credit appraisal system and financial restructuring.

3) ICRA  $\rightarrow$  April 2007.  $\rightarrow$  To provide informative consultation to institutional and individual investors, reg risk.

- 2) Promoting Transparency
- 3) Enhance the ability of borrowers/ issuers to access the money market.

#### 4) PER India

- $\rightarrow$  It is a leading International rating Agency.
- $\rightarrow$  It is to give cr rating to debt instruments.
- $\rightarrow$  Symbol D<sub>1</sub>, D<sub>2</sub>, D<sub>3</sub> etc.

#### 5) ONICRA

- 1) credit analysis work of corporate bodies only.
- 2) It has been sponsored by the ONIDG Finance Ltd.
- 3) In all cr transactions relating to credit cards, Housing finance, HP agreements Personal loan etc.