Part 1:-Sources of Long Term Finance

**Long term finance: -** Sources- Equity capital, internal accruals, preference capital, term loans, debentures.

In the realm of corporate finance, securing adequate long-term financing is critical for sustaining growth and achieving strategic objectives. Long-term finance refers to funds acquired for a period extending beyond one year, which can be utilized for various purposes such as expansion, modernization, and new projects. This document explores the different sources of long-term finance available to businesses, including equity capital, preference shares, debentures, term loans, and retained earnings. Each source comes with its own set of features, advantages, and disadvantages, making it imperative for businesses to carefully evaluate their options to align with their financial strategies and goals.

## Equity Capital

### Definition

Equity capital refers to the funds that shareholders invest in a company. These funds represent ownership in the company and entitle shareholders to a portion of the company's profits and assets.

### Key Aspects

Advantages:

* Perpetual capital: No obligation to repay the investment.
* No interest payments: Reduces financial burden compared to debt.
* Ownership rights: Shareholders have a say in company decisions.
* Growth potential: Equity can appreciate over time.

Disadvantages:

* Dilution of ownership: Issuing more shares reduces existing shareholders' ownership.
* Loss of control: Significant equity financing can lead to loss of control for original owners.
* High costs: Issuing equity can be expensive due to underwriting and compliance costs.

Types:

* Common stock: Represents ownership in a company, with voting rights and dividends.
* Preferred stock: Has priority over common stock for dividends and liquidation, but typically no voting rights.
* Venture capital: Funds provided by investors to startups and small businesses with high growth potential.
* Angel investors: High-net-worth individuals who invest in startups for ownership equity.
* Private equity: Investments made by private equity firms in companies not listed on public exchanges.

Options:

* Initial public offering (IPO): First sale of stock by a company to the public.
* Secondary offering: Sale of new or closely held shares by a company that has already made an IPO.
* Private placement: Sale of securities to a relatively small number of select investors.
* Equity crowdfunding: Raising capital from a large number of investors, typically via online platforms.

## Preference Shares

### Definition

Preference shares are a type of equity security that gives holders preferential treatment over common shareholders in the distribution of dividends and assets.

### Key Features

* Dividend payout at a fixed rate: Preferred shareholders receive dividends before common shareholders.
* No voting rights: Typically, preference shareholders do not have voting rights.
* Fixed income: Provides regular income through fixed dividends.
* Redemption options: Some preference shares can be redeemed by the issuer after a certain period.

### Types

* Cumulative: Dividends accumulate if not paid in any year.
* Non-Cumulative: Dividends do not accumulate if not paid.
* Redeemable: Can be bought back by the issuing company after a specified period.
* Irredeemable: Cannot be bought back by the issuing company.
* Participating: Entitled to additional dividends based on certain conditions.
* Non-Participating: Limited to fixed dividends.
* Convertible: Can be converted into a specified number of common shares.
* Non-Convertible: Cannot be converted into common shares.

### Advantages and Disadvantages

Advantages:

* Fixed income and dividend priority: Stable income and priority over common shareholders.
* Higher liquidation claim: Preference in the event of liquidation.
* Convertible options: Flexibility to convert into common shares.

Disadvantages:

* Limited voting rights: Less control over company decisions.
* Fixed dividend returns: No benefit from company’s higher profits.
* Call risk: Risk of shares being redeemed by the issuer.
* Inflation risk: Fixed dividends may lose value over time.

## Debentures

### Definition

Debentures are long-term debt instruments issued by companies and governments that are not backed by physical assets or collateral but by the issuer's creditworthiness.

### Key Features

* Fixed maturity date: Specific date when the principal is to be repaid.
* Periodic interest payments: Regular interest payments, usually semi-annual or annual.
* No ownership rights: Holders do not have ownership rights in the issuing entity.
* Secured or unsecured: Can be backed by assets (secured) or not (unsecured).
* Transferability: Can be traded in secondary markets.

### Types

* Convertible: Can be converted into a specified number of shares.
* Non-Convertible: Cannot be converted into shares.
* Registered: Recorded in the name of the holder.
* Unregistered (Bearer): Transferable by mere delivery.
* Redeemable: Can be repaid before maturity.
* Irredeemable (Perpetual): No maturity date.

### Advantages and Disadvantages

Advantages:

* Regular income: Provides a steady income through interest payments.
* Safety of principal: Especially true for secured debentures.
* Diversification of portfolios: Adds a fixed income component.
* Liquidity: Can be easily traded.
* Fixed returns: Predictable income.

Disadvantages:

* Interest rate risk: Value may decrease if interest rates rise.
* Credit risk: Risk of issuer defaulting.
* Market risk: Price fluctuations due to market conditions.
* Lack of ownership rights: No control over the issuing entity.
* Risk of default: Issuer may fail to make interest or principal payments.

## Term Loans

## Definition

Term loans are loans from banks or financial institutions with fixed repayment schedules and interest rates, typically used for long-term capital investments.

### Key Features

* Fixed interest rate: Interest rate remains constant throughout the term.
* Fixed repayment term: Specific period over which the loan is repaid.
* Secured or unsecured: Can be backed by collateral (secured) or not (unsecured).
* Amortizing loan: Regular payments reduce both principal and interest over time.

### Types

* Short-term loan: Typically less than one year.
* Medium-term loan: Typically one to five years.
* Long-term loan: Typically more than five years.
* Fixed-rate loan: Interest rate remains constant.
* Variable-rate loan: Interest rate fluctuates with market rates.

### Advantages and Disadvantages

Advantages:

* Predictable repayments: Fixed payments make budgeting easier.
* Long-term financing: Suitable for capital investments.
* Tax benefits: Interest payments may be tax-deductible.

Disadvantages:

* Inflexible repayment: Fixed schedule may not suit cash flow variations.
* Risk of default: Failure to repay can lead to legal consequences.
* Collateral risk: Risk of losing collateral if unable to repay.

## Retained Earnings

### Definition

Retained earnings refer to the portion of net income that is retained by the company rather than distributed as dividends to shareholders. This is reinvested into the business for growth and expansion.

### Key Features

* Profits reinvestment: Profits are reinvested in the company.
* Shareholder equity component: Part of shareholders' equity in the balance sheet.
* Accumulated profits: Profits accumulated over time.
* Dividend distribution: Potential to be distributed as dividends in the future.

### Advantages and Disadvantages

Advantages:

* Growth and expansion funding: Provides funds for reinvestment in the business.
* Financial flexibility: No repayment obligation.
* Increased shareholder value: Potential to increase the value of the company and shareholder wealth.

Disadvantages:

* Opportunity cost: Funds could be used elsewhere.
* Inefficient use: Risk of misallocation of funds.
* Tax implications: May have tax consequences.

### Calculation

Retained Earnings = Current Year’s Net Income - Dividends Paid + Previous Year’s Retained Earnings

In conclusion, the choice of long-term financing significantly impacts a company's financial health and strategic trajectory. Equity capital provides ownership opportunities and potential growth but can dilute control. Preference shares offer fixed returns with limited voting rights, while debentures and term loans provide predictable payments with varying degrees of risk and collateral requirements. Retained earnings represent a reinvestment of profits, promoting growth without additional costs but carrying opportunity costs. A comprehensive understanding of these financing sources enables businesses to make informed decisions, balancing risk, cost, and control to achieve sustainable growth and financial stability.

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Part2:- Raising Long Term Finance

# Raising long term finance- Venture capital, Initial Public Offer, Follow on Public Offer, Rights Issue, Private Placement, Term Loans, Investment Banking.

# 1. Introduction

Raising long-term finance is essential for businesses looking to expand operations, invest in new projects, or enhance their financial stability. This section covers various methods of raising long-term finance, including venture capital, initial public offerings (IPOs), follow-on public offerings (FPOs), rights issues, private placements, term loans, and the role of investment banking.

# 2. Venture Capital

Description: Venture capital (VC) is a type of private equity financing provided by investors to startups and small businesses with high growth potential.  
  
Process:  
- Seed Stage: Initial capital for market research and product development.  
- Startup Stage: Funding to commence business operations.  
-Expansion Stage: Additional funds to scale up operations and expand market reach.  
  
Advantages:  
- Access to substantial capital.  
- Valuable guidance and networking from experienced investors.  
- No obligation to repay if the business fails.  
  
Disadvantages:  
- Dilution of ownership and control.  
- High expectations for rapid growth and returns.  
- Intensive scrutiny and due diligence.

# 3. Initial Public Offering (IPO)

Description: An IPO is the process through which a private company offers shares to the public for the first time to raise equity capital.  
  
Process:  
- Preparation: Company prepares financial statements, selects underwriters, and files a registration statement with regulatory authorities.  
- Roadshow: Management team presents the company's business plan to potential investors.  
-Pricing: Underwriters determine the offer price based on demand and market conditions.  
-Listing: Shares are listed on a stock exchange and become available for public trading.  
  
Advantages:  
- Access to significant capital.  
- Enhanced public profile and credibility.  
- Liquidity for existing shareholders.  
  
Disadvantages:  
- Expensive and time-consuming process.  
- Increased regulatory compliance and disclosure requirements.  
- Market pressure for short-term performance.

# 4. Follow-on Public Offering (FPO)

Description: An FPO is a process by which a company that has already gone public issues additional shares to raise more equity capital.  
  
Types:  
- Dilutive FPO: New shares are issued, increasing the total share count.  
- Non-Dilutive FPO: Existing shareholders sell their shares, not affecting the total share count.  
  
Advantages:  
- Access to additional capital without issuing debt.  
- Investors have an existing understanding of the company's performance.  
- Enhanced market liquidity.  
  
Disadvantages:  
- Potential dilution of existing shares in a dilutive FPO.  
- Market perception of the need for additional capital can impact stock price.

# 5. Rights Issue

Description: A rights issue is a method of raising capital where existing shareholders are given the right to purchase additional shares at a discounted price, usually in proportion to their existing holdings.  
  
Process:  
- Company announces the rights issue, detailing the price and ratio of new shares to existing shares.  
- Shareholders can exercise their rights to buy new shares or sell their rights to other investors.

Advantages:  
- Provides a way for companies to raise capital while rewarding loyal shareholders.  
- Relatively lower cost compared to an IPO.  
- Can help improve the company's debt-to-equity ratio.  
  
Disadvantages:  
- If existing shareholders do not take up the rights, their ownership can be diluted.  
- The share price may fall due to the increased number of shares in the market.

# 6. Private Placement

Description: Private placement involves selling securities directly to a small group of institutional or accredited investors rather than through a public offering.  
  
Process:  
- Company negotiates directly with investors to sell equity or debt securities.  
- Securities are sold without the need for extensive regulatory filings required in public offerings.  
  
Advantages:  
- Faster and less expensive compared to public offerings.  
- More flexibility in terms of negotiation and structure of the deal.  
- Privacy, as it does not require public disclosure of financial details.  
  
Disadvantages:  
- Limited to accredited or institutional investors, restricting the pool of potential investors.  
- Often sold at a discount to attract investors, which can be costly.  
- May include covenants that restrict the company’s operations.

# 7. Term Loans

Description: Term loans are a form of long-term debt provided by banks or financial institutions, typically for specific projects or capital expenditures.  
  
Process:  
- Company applies for a loan, providing detailed information on its financial health and the purpose of the loan.  
- The lender evaluates the creditworthiness and approves the loan based on the company's ability to repay.  
  
Advantages:  
- Fixed repayment schedule provides financial planning certainty.  
- Interest payments are tax-deductible.  
- Does not dilute ownership.  
  
Disadvantages:  
- Regular interest and principal repayments can strain cash flow.  
- Assets may be required as collateral, increasing risk in case of default.  
- Loan covenants may restrict business operations.

# 8. Investment Banking

Description: Investment banks assist companies in raising capital by underwriting and issuing securities, providing advisory services for mergers and acquisitions, and other financial services.  
  
Functions:  
- Underwriting: Assisting in the issuance of new securities, including pricing and selling to investors.  
- Advisory: Offering strategic advice on mergers, acquisitions, and other corporate transactions.  
- Trading: Facilitating buying and selling of securities for clients.  
  
Advantages:  
- Expertise in navigating complex financial transactions.  
- Access to a wide network of potential investors.  
- Ability to structure deals that meet specific needs.  
  
Disadvantages:  
- High fees for services.  
- Potential conflicts of interest between different roles.  
- Dependence on the investment bank's reputation and performance.

# 9. Conclusion

Raising long-term finance is a critical aspect of strategic financial management. Each method, from venture capital to investment banking, has its own set of advantages and disadvantages. Understanding these options allows companies to make informed decisions that align with their financial goals and operational needs, ensuring sustainable growth and financial stability**.**

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**Part 3:- Securities Market: Primary market vs. Secondary market, Trading and Settlements, Stock market quotations and Indices, Govt. securities market, corporate debt market.**

**Introduction to Securities Market**

The securities market stands as a cornerstone of global finance, facilitating the issuance, trading, and valuation of various financial instruments essential for among investors.

**Primary Market vs. Secondary Market**economic functioning. It encompasses two principal segments: the primary market, where new securities are issued, and the secondary market, where already issued securities are traded

**Primary Market:**

- Definition: The primary market serves as the initial venue where corporations and governments raise capital by issuing new securities, such as stocks and bonds, to investors.

- Process: Issuance typically occurs through Initial Public Offerings (IPOs) for companies going public or Follow-on Public Offerings (FPOs) for existing publicly traded entities.

- Participants: Involves issuers seeking capital and investors looking to participate in the growth and expansion of businesses or government initiatives.

-Importance: Plays a pivotal role in capital formation, allowing entities to fund operations, expansion projects, debt refinancing, and other strategic initiatives.

**Secondary Market:**

-Definition: The secondary market provides liquidity by facilitating the trading of existing securities among investors without the involvement of the issuing companies.

- Participants: Includes individual investors, institutional investors, and market makers who buy and sell securities based on market demand and supply.

- Functions: Enhances market efficiency by enabling price discovery, liquidity provision, and continuous trading opportunities.

-Exchanges: Operated by stock exchanges globally, such as NYSE, NASDAQ, BSE, and NSE, where securities are traded electronically or through designated market makers.

**Trading and Settlements**

- **Trading:** Involves the buying and selling of securities through brokerage firms or directly on exchanges, driven by investor demand and market conditions.

- Order Types: Investors utilize market orders, limit orders, and stop-loss orders to specify trade execution parameters and manage investment strategies.

- Execution: Trades are executed electronically or through market makers to ensure fair pricing and efficient allocation of securities.

-Trading Hours: Each exchange establishes specific trading hours tailored to regional time zones and market participant preferences.

- **Settlements:** Refer to the post-trade process of transferring securities and funds between buyer and seller after a trade is executed.

-T+2 Settlement: Common practice where transactions settle two business days after the trade date, facilitated by clearinghouses to mitigate counterparty risks and ensure transaction integrity.

-Clearinghouses: Critical infrastructure that supports settlement processes by validating trades, managing collateral, and ensuring financial obligations are met.

**Stock Market Quotations and Indices**

- **Stock Market Quotations:** Display real-time bid (buy) and ask (sell) prices of securities, providing investors with current market values and trading opportunities.

- Ticker Symbols: Identify securities and display essential trading information, including price changes, trading volumes, and market capitalization.

- **Index Calculation:** Computed as weighted averages of selected stocks, indices like the S&P 500, DJIA, Nifty 50, and Sensex serve as benchmarks for assessing overall market performance and investor sentiment.

**Government Securities Market**

-Definition: Government securities encompass debt instruments issued by national governments to fund public expenditures, manage fiscal deficits, and regulate money supply.

- Types: Include Treasury bills (T-bills), government bonds, and notes characterized by varying maturities, coupon rates, and liquidity profiles.

- Investor Base: Comprises institutional investors, banks, and retail investors attracted to low-risk investments backed by sovereign creditworthiness.

- Risk Profile: Generally perceived as low-risk investments due to the sovereign guarantee and minimal default risk associated with government issuers.

**Corporate Debt Market**

- Definition: The corporate debt market comprises bonds and debentures issued by corporations to raise capital for business operations, expansion projects, or debt refinancing.

- Types: Range from convertible and non-convertible bonds to secured and unsecured debentures, each offering distinct yield characteristics and risk-return profiles.

-Investor Base: Includes institutional investors, mutual funds, and retail investors seeking fixed income investments and diversification opportunities within their portfolios.

- Credit Ratings: Issued by credit rating agencies to evaluate the creditworthiness of corporate issuers, guiding investor decisions and influencing bond pricing in the secondary market.

**Conclusion:-**The securities market serves as a vital nexus within the global financial ecosystem, facilitating capital formation, investment diversification, and economic growth. By navigating the intricacies of primary and secondary markets, trading mechanisms, index performance, government securities, and corporate debt instruments, investors and stakeholders can make informed decisions that shape market dynamics and drive financial stability. Understanding these fundamental components empowers market participants to assess risks, seize investment opportunities, and contribute to the efficient allocation of capital across economies. As such, the securities market not only supports the growth objectives of issuers but also serves as a barometer of investor sentiment and economic health worldwide.

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