24OEL250 INDIAN FINANCIAL SYSTEM 3 0 0 3

Course Objective:

To analyze the structure and functioning of the Indian financial system, including its components, regulatory framework, and recent developments, and evaluate the roles and impacts of primary and secondary markets.

Course Outcomes:

The student will be able:

CO1: To identify the components of the Indian financial system and explain the role and functions of financial institutions and markets.

CO2: To explain the methods of the new issue, such as IPO, FPO, public issue, bonus issue, and rights issue.

CO3: To analyze the different types of speculators and their strategies in the stock market.

CO4: To illustrate the structure and management of mutual funds in India.

CO5: To explain the different types of derivatives: forwards, futures, options, and swaps.

	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PO9	PO10	PO11	PO12	PO13	PO14	PO15
CO1	1	0	0	1	0	0	0	0	0	1	1	0	1	1	0
CO2	1	1	0	1	0	0	0	0	0	1	2	1	1	0	0
CO3	1	0	0	1	0	0	0	0	0	1	1	0	1	0	0
CO4	1	0	0	1	0	0	0	0	0	1	1	0	1	0	0
CO5	1	1	0	1	0	0	0	0	0	1	1	1	1	1	0

Unit 1

The Indian Financial System-Components - Role and Functions-Interactions among the Components- Recent Developments in the Indian Financial System- Financial Markets-Classification- Capital Market and Money Market - - SEBI- -Objectives- functions.

Unit 2

Primary Market- Functions of New Issue Market - Methods of New Issue - IPO - FPO - Public Issue - Bonus Issue- Right Issue- - ESOP - Intermediaries in the New Issue Market- -Innovative Financial Instruments.

Unit 3

Secondary Market- Role and Functions of Stock Exchanges - Stock Exchanges in India - Online Trading Depositories - Stock Market Indices - Type of Speculators - SEBI regulations- Foreign Institutional Investors in Securities market- Foreign Portfolio Investment- Private Equity.

Unit 4

Mutual Funds -Meaning- Objectives- Advantages - Classification of Mutual Funds–Exchange Traded Fund- Constitution and Management of Mutual Funds in India – Advantages and limitations of Mutual Funds.

Unit 5

Derivatives - Features of Derivatives -Types of Derivatives– Forwards – Futures -Options-Swaps.

References:

1. Khan, M.Y. - Indian Financial System - McGraw Hill
2. Singh, Preethi - Dynamics of Indian Financial System - Ane Books
3. Guruswami, S - Capital Markets, McGraw Hill
4. Avadhani, V. A. - Investment and Securities Market in India - Himalaya Publishing House.

Syllabus ↑

points you often forget:

Indian Financial Systems -

SEBI -

- Securities exchange board of India.
- Its the regulator of securities and the capital market of India.
- established in 1988
- It became a regulatory body through act (1992).
- They control the overall activities of stock exchanges & securities.

Objectives

1) To protect the interest of the investors to guide & educate them.

2) To promote efficient services of bankers & merchant bankers to make them competitive & professional

3) Ensure fair practices of issuers on securities, to raise resources at minimum costs.

Functions

1) Regulatory (Rules):

2) Development:

I) Regulatory functions

1) Register brokers, sub-brokers & underwriters.

2) Prohibit unfair trade practices & fraudsters.

3) To carry out audit of share market.

4) Prohibit insider trading of securities.

5) Regulates the activities in stock

exchange

Development Functions_

1) To post - a lot of info on Magazines & journals.

2) To promote fair trade pratices.

3) To impart training to intermediaries.

4) Undertaking measures to develop capital market.

5) To carry out research work

Brokers, Sub-brokers & Underwriters

Brokers: People who helps in the buying & selling of securities on behalf of investors. They are the members of stock exchange.

{Securities → (shares, bonds)}

Sub-brokers: Agents who work under the brokers helping them to buy & sell securities, and they are not a member of stock exchange.

Underwriters → financial intermediary who guarantees to buy unsold shares of new issue.

Financial intermediaries → It acts

as a middlemen between savers (people who have money) & borrower (people who need money)

They collects funds from public, and invest or lend them to others.

Financial Markets

A place where people buy & sell financial securities (bond, shares & currency). It helps to connect people who have money (investors) and people who need Money (Companies & govt).

2 types:

Capital Market	Money Market
○ High return value	Less return than Cap Market
○ Shares, debentures & bonds	○ Treasury & Trade Bills Commercial Paper
○ Banks, Foreign investors & investors from public	Banks, financial institutions & Co.

○ High risk	Minimum risk
○ Long & Medium investment	Short term investment

Points of difference

- Return
- Instruments
- Participants
- Risk
- Type of investment

Objectives & functions of Capital Market -

1) Provide long term investment to companies & govt.

2) Facilitate the buying & selling of securities (shares, bonds, etc)

3) Ensure economic growth & wealth creation.

4) Helps to convert savings to long term investments for efficient services.

Objectives & Functions of Money Market:

1) Provides short term investment to banks, companies & govt.

2) Ensures liquidity & smooth flow of money.

3) Helps in managing cash activities of participants.

4) Provides safe & short term investment options for surplus funds.

Indian financial System

It is a network of financial institutions, markets, instruments & services that allocates funds from the savers to the borrowers.

IFS plays a crucial role in the development & stability of India.

Components of IFS -

I) financial institutions:

These are the organised bodies like banks, insurance Cos, mutual funds etc that collect savings from people & provide funds to those who need it.

i) Banking Institutions

They accept deposits from the people and provide loans to Cos, individuals & govts.

These are the most common credit

system in India.

eg:- RBI, SBI, HDFC banks.

Key point: They provide both short & long term investments and also supports the payment systems.

ii) Non Banking Institutions -

These institutions provide loans, leasing, insurance & investments to public, but they cannot accept the demand deposits like the banks.

eg: LIC, NABARD.

Key point: It fills the gap formed by the bank & provides specialised financial needs.

iii) Development financial Institutions

They provide long term investment to agricultural, industrial & infra-structure sectors of the country. It helps in the expansion of these sectors.

eg: IDBI, EXIM Bank.

Key point: They focus on development of country than the profits esured.

iv) <u>other institutions:-</u>

They manage the savings &
investments of the people. These
institutions is not bis or other
institutions but plays a crucial
role in IFS.

eg: Mutual funds, Pension
Companies.

2) <u>Financial Markets</u>

Capital Market

Money Market

Foreign exchange Market

o Foreign exchange Market

Foreign exchange Market or FOREX Market is a place where foreign currency are been bought & sold. A currency of one country can be converted into another country here. The RBI, foreign investors & commercial Banks are the participants of this market.

financial instruments -

The financial instruments are the tools or the contracts that represent a claim over money or assets. They help to provide funds from investors to borrowers.

Types are:

1) Equity Instruments -

This instrument shows the ownership of the Company.
The purpose is to make the investors participate in the profits of the Co.

es: Ordinary shares, Preference shares.

The return from this are variable.
It depends on the performance of the Co, risk higher than the debt instrument.

2) <u>Debt instruments</u>-

These instruments shows the loan provided by the investors to the borrowers. The main purpose is to provide an income to the investors and adequate funds to the borrowers.

eg: shares, bonds.

The return here is fixed. The risk is comparatively lower than the equity instruments.

Hybrid Instruments-

There are the instruments which is a combination of both debt & equity instruments. They provide a balance between the risk & return

eg: Convertible debentures.

Financial Services -

These services are provided by the financial instutions to facilitate free flow of money, credit & investment in the economy.

Fee based services

No direct use of fund

They offer advise, or some servies and set a fee/ commision in return of the job.

eg: Underwriting
Portofolio Management
Credit Ratings
Advisory service

Fund based services

Directuse of fund and money.

They invest and provide finance to individuals, govt and companies.

eg: Leasing
venture capital
Factoring
Consumer finance

Financial Regulators:-

They are the authorities who supervise, control & guide the financial system to facilitate transparency, stability & to protect investors.

Major regulators are:-

1) SEBI (1st page points)

2) RBI → Reserve Bank of India:
(formed 1935)

- Known as banker's bank.
- They are the central authority bank of the country that guides & controls the banks (pvt & public/govt banks).
- Issues currency. (nationalised → 1949)
- Provides credit to banks
- Put forward monetary policies
- Overall controller of all activities in banks.

(Another regulators → IRDAI, PFRDA.)

Role of IFs –

1) Encourage entrepreneurship

2) Support Trade & Commerce

3) Facilitate Foreign investment

4) Support Govt Policies

5) Facilitates flow of funds

Functions of IFs:

1) Provides liquidity & smooth flow of money

2) Provides short & long term investments & supports payment systems

3) Helps in the economic growth & wealth creation

4) Facilitates the development of sectors of economy

5) Ensure good interaction among financial components

Interaction among the financial components

All the financial components are interdependent to each other and work together for the smooth flow of the system.

1) Financial Institutions ⟷ Markets

The Institutions provides loans, NBFCs & mutual funds to the Cap & Money Market. (raise & invest too)

2) Financial Institutions ⟷ Services

Institutions provide services to the customers like loans, advisory services, leasing, underwriting etc.

3) Financial institutions ⟷ Instruments

Institutions require instruments like shares, bonds, etc. to raise & mobilise funds for the economy.

4) Regulators ⟶ All components

They guide & control all the other functioning components of the economy. (RBI, SEBI,

IRDAI - Insurance Regulatory & Development Authority of India.

PFRDA → Pension Fund Development & Regulatory Authority.