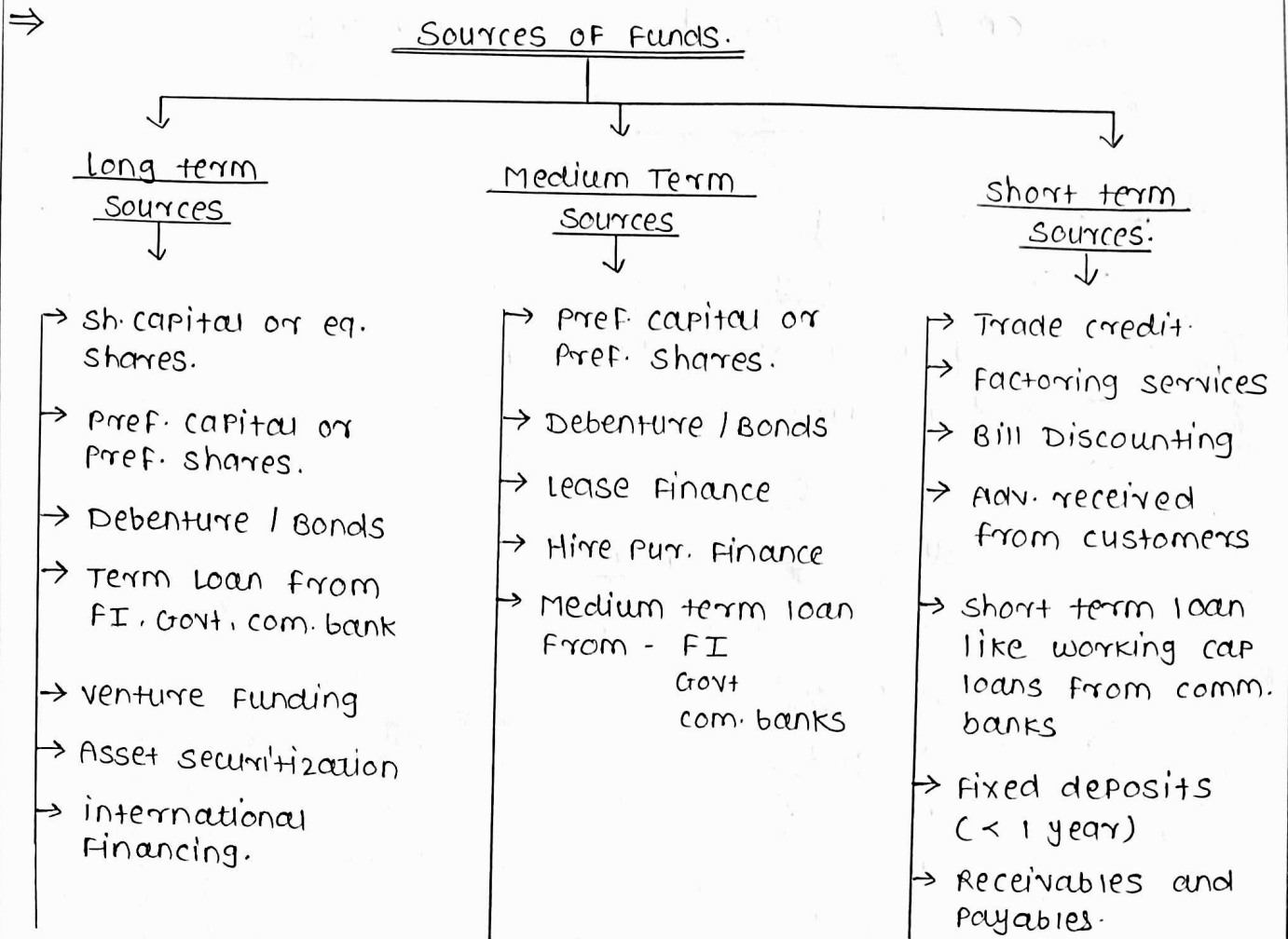


ch-7 Sources of corporate Funding.

SYNOPSIS.

- * → Sources of CF
- Sh. capital - Reg. Framework
- * → Equity sh. capital - condⁿ for DVR
- pref. sh. capital - Types
- Types of Issue (ch.8)
- Debenture - Types (ch 14)
- Green Debt securities (ch-14)
- Bonds (ch-14)
- Masala Bond
- Municipal Bond
- AIF (ch-11)
- REIT (ch-9)
- INVIT (ch-10)
- Bank Finance (ch-14)
- Foreign Funding (ch-16)
- ECB (ch-16)
- * → FDI - entry route
- * → Foreign portfolio investor
- * → Securitization - SDI
- * → Security receipts.



⇒ Governing Regulatory Framework for sh. capital and debt securities

- The companies Act, 2013 & the companies (share capital and Debentures) Rules, 2014.
- SEBI (Issue and Listing of non-convertible securities) Reg 2021, (NCS Regulation).
- SEBI (Listing obligation and Disclosure Req) Reg, 2015
- RBI Guidelines.
 - Banks
 - NBFCs
- SEBI (Issue of capital and Disclosure Req.) Reg, 1 2018

⇒ conditions for issuing shares with diff. voting rights



Rwe-4 - companies (share capital and Debenture) Rules, 2014

- Authorization in Article of Association.
- passing ordinary Resolution at General meeting
- Voting Power in respect of shares with DVR shall not exceed 74% of total voting power in respect of equity sh. with DVR.
- No default in.
 - Filing F.S. and A.R. - 3 F.yrs imm. Pre. fy.
 - sub. default (X) - Payment of declared dividend
 - Repayment of matured deposit
 - Redⁿ of debenture
 - Payment of div. on Pref. sh. or repayment of any term loan Pub. Fin inst. or sch. comm bank
 - crediting the amount in IEPF to the central Government.
- The co. has not been penalized by court or tribunal during the last 3 years of any offence under RBI Act, 1934, SEBI Act 1992, SCRA - 1956, FEMA - 1999
- conversion of existing equity shares into eq. sh (DVR) and vice-versa - Not possible.
- The holders of equity shares with DVR enjoys all other rights such as bonus shares, Right shares

⇒ Pref. share capital means that part of the issued share capital of the company which carries pref. right with respect to -

- payment of dividend.
- Repayment in case of a winding up

- TYPES -
- cumulative and Non-cumulative.
 - convertible and non convertible
 - participating and non-participating
 - Redeemable and non-redeemable

⇒ Municipal Bonds.

→ Issued by -

- Govt. bodies.
- Urban Local Govt.
- Govt. Local agencies
- Municipal corpo.

→ Raised money for.

- Airports, railways, roads
- Schools, ports etc.

→ First Municipal Bonds.

- By banglore municipal corpo 1997.
- later by Ahmedabad and various other munici. corpo.

→ SEBI issue guidelines in 2015 for muni bond

⇒ Foreign currency convertible Bonds.

→ optionally convertible Bonds issued in a currency other than Indian Rupees.

→ Is a mix betⁿ debt and equity instrument.

→ Give the Bondholder the option to convert the bond into shares at the expiry the term of the bond

Benefits to the issuer company

- coupon rate on FCCB is particularly lower than pure debt instrument
- it saves risks of imm. ea. dilution
- it can be raised within a month while pure debt takes longer period

Benefits to the investors

- it has advantage of both eq. & debt.
- Assured return on bond in the form of fixed coupon rate
- Lower tax Liability.
- significant yield to maturity is guarant. at maturity.

ECB guidelines.

- Having maturity of the FCCB not less than 5 yrs.
- The call & put option shall not be exercised prior to 5 yrs.
- issuance of FCCBs only without any warrant attached.
- max 4% - issue (exP)

→ Securitization.

→ Meaning.

It is a process of converting the illiquid assets to marketable securities.

→ US 1970

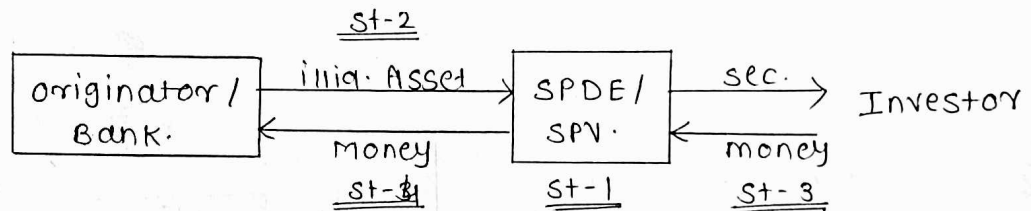
→ Steps in securitization.

STEP-1 - SPDE is created.

STEP-2 - Illiquid asset of the originator is transferred to SPDE.

STEP-3 - SPDE will issue securities to investor and raise money

STEP-4 - SPDE will transfer the money to the originator.



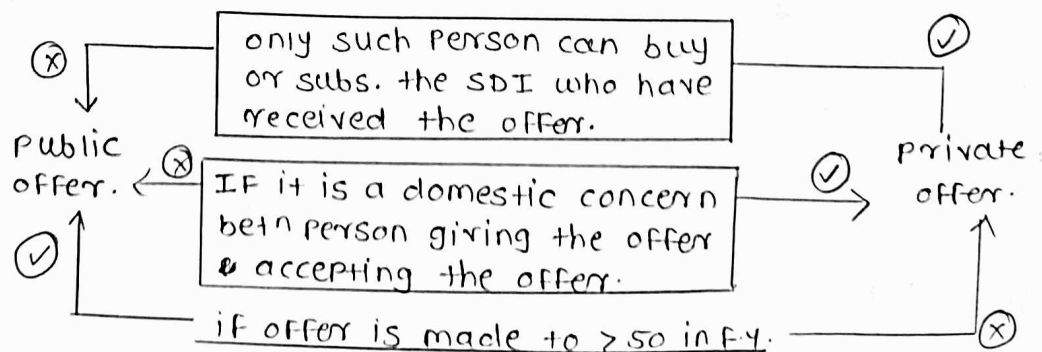
→ Sec. Debt instrument are regulated under:-

- SARFAESI, 2002
- RBI Guidelines, 2012
- SEBI (Issue and Listing of SDI and SR) Reg 2008

→ Eligibility to issue or list SDI.

- SPDE to be formed.
- All the trustees to be reg. under SEBI (Issue and listing of SDI and SR) Reg. 2008
- Comply with this Reg. and SEBI Act.

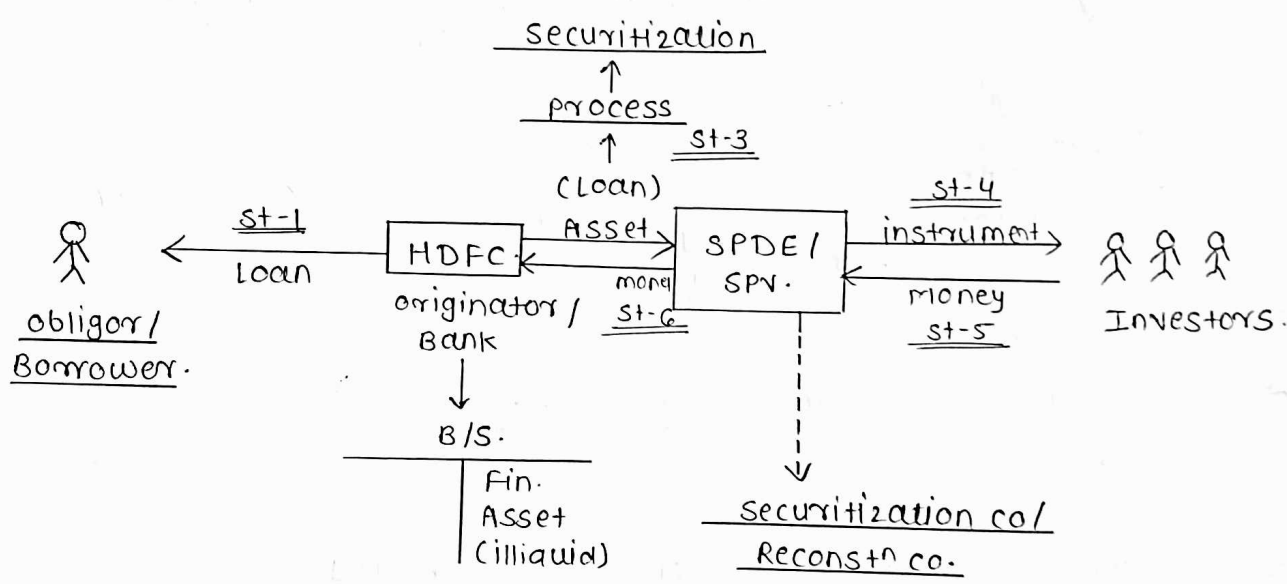
→ Public offer of SDI



→ other provisions.

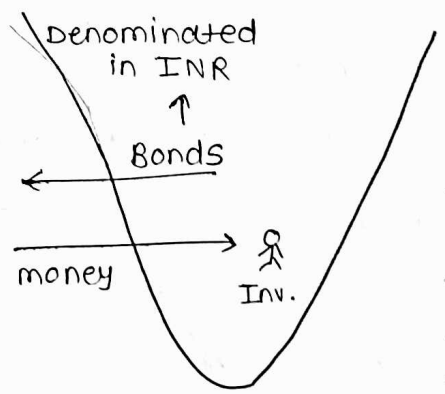
- Mandatory listing.
- Application to SE for listing
- Enter in to listing agreement with SE
- credit rating to be obtained for SDI which are privately placed
- ensure news paper advt. was given for 2 days & SDI allowed to applicants.
- cont. listing conditions to be complied.
- SDI traded and settled in RSE

concept - securitization.



→ Masala Bond.

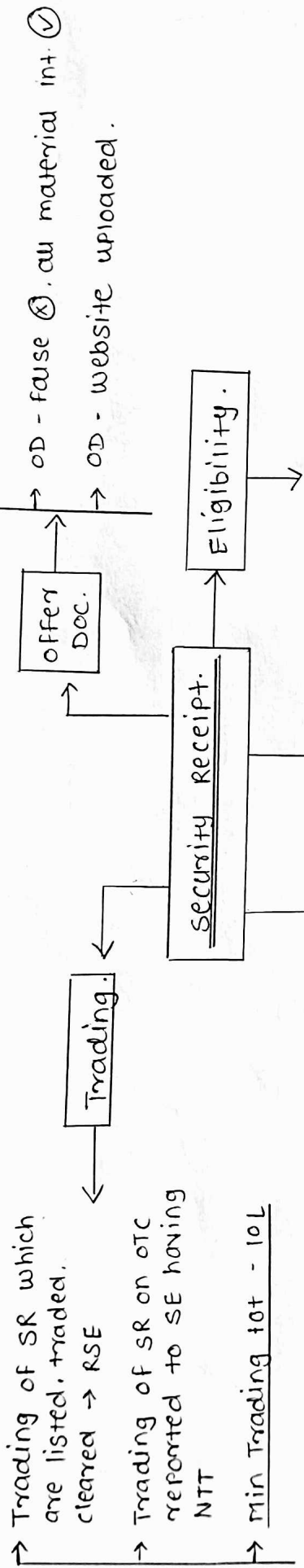
Issuer does not carry exchange rate risk.
To compensate, the issuer has to offer higher interest rate.
<u>Maturity period-</u> 3 yrs - up to 50 m. \$ 5 yrs - beyond 50 m \$
<u>All in cost ceiling.</u> Govt. yield + 300 basis p. rate
only Recog. investors who is not R.P. can invest



If the Bonds are issued in F.C. then issuer in India have to bear ex. rate risk.
↓
To avoid this
↓
Issuer issues the bonds denom. in ₹

→ Discl. as per RBI guidelines and SEBI (I. 4 L SDI and SR) Reg. 2008.

→ OD - false (X) all material int. (✓)
 → OD - website uploaded.



Private Placement.
 → comply with RBI rules, guidelines
 → comply with Reg. 2008

Holder of SR. → SR (CSEI) → listed. → SR (CSEI) → qualified Buyer.

Holder of SR
 Not less than 50% of SRs

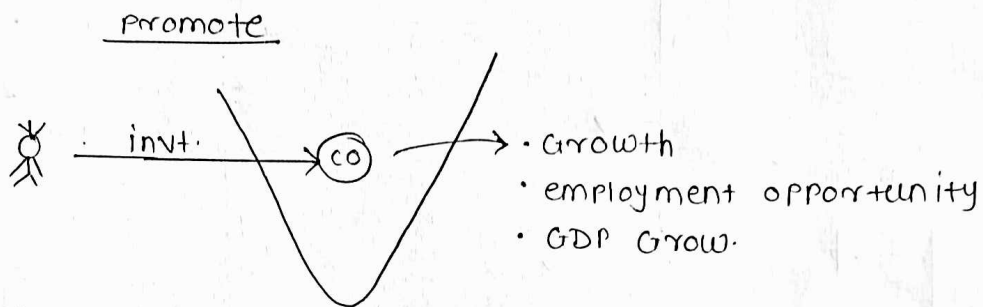
→ Trading of SR which are listed, traded, cleared → RSE
 → Trading of SR on OTC reported to SE having NTT
 → Min Trading tot - 10L

Listing conditions.

- Private Placement.
- Compliance with app. Laws
- can not be offered to more than 200 inv. in a yr.
- Min allotment to @. Buy - 10L
- Demat form
- Valuation (w. last 3m)
- credit rating (w. last 3m)
- disclosure (2008 Reg)

→ Importance of FDI

- Govt. brings in various promotional policies / incentives, which boosts FDI
- policy is reviewed → ongoing basis
- apart from small negative list, FDI is allowed 100%
- Investor friendly policy.



⇒ Foreign Portfolio Investor.

- Investor who has obtained registration under SEBI (FPI) Reg. 2019 and shall be deemed to be an intermediaries under SEBI Act, 1992
- Categories

<u>category - I</u>	<ul style="list-style-type: none"> • Govt. or Govt. related investors, int • agency / entity → controlled by / 75% owned by such entities. • Pension fund / Univ. Fund. • APP. regulated entities (IC, RC, B, AMC, IM) • <u>Entities from:</u> <ul style="list-style-type: none"> → FATF mem country → CG order cov. → CG treaty enter with such country • APP. Reg. Funds • Unreg. Funds but IM is app. regul. • Univ. endorsement in exist. for 5 yrs • entity whose IM is reg. as cat I and from FATF mem country. • Entities which is 75%^{or} above controlled by entities covered above.
<u>category II</u>	<ul style="list-style-type: none"> • Entities not covered under cat I • Incl. ch. orgⁿ, corpo. bodies, family ofc. etc