F.S Unit - 5

Venture Capital, Micro Finance & Cr Rating

Venture Capital

- Venture capital is the capital that is available to finance a nev venture
- The venture capitalist earns his returns primarily in the form gain
- Generally V.C finance new firms/new ideas and entrepreneu
- V.C does not involve financing the enterprise which is e trading, broking, investment or financial services and agenc
- It is generally considered as high risk capital
- It is not only capital but generally injection of a lot of marketing, strategies, management etc
- Origin of venture capital

- Bank of England defines Venture capital as:

  "Venture capital investment is defined as an activity investors support entrepreneurial talent with fina business skills to exploit market opportunities and thu long term capital gains"

Features of Venture capital

- New ventures - use new technology, produce new expectation of high gains
- Continuous involvement - by providing loans or manageri
- Mode of investment - equity financing method or loan fin
- Wealth maximisation - capital gain or regular return on de
- Hands-on approach - value added services – skills, n investment
- High risk- return ventures - huge capital gain at the time o
- Nature of firms - Small and medium – new, high te oriented firms
- Liquidity – depends on success of new venture product.

Objectives venture Capital

- Encourage technology and its commercial application
- Adopt the imported technology to suit the Indian enviro
- Setting up of pilot projects
- Technological innovations and modernisation
- Developing appropriate technology
- Meeting the cost of market surveys and market p programmes

Private Equity

- Investments in equity of private compani public limited company
- They may invest in private placement offers o limited companies
- Highly illiquid investments and gestation pe high.
- Usually tend to engage in management of the firms
- Differs from venture capital with respect to s development of the firm in which they inve comes in early at seed/start-up stage while PE in at later stage investments.

Investment Banking perspective in Private Equity

- Deal Origination
- Due diligence
- Deal negotiation
- Deal closing
- Post-acquisition monitoring
- Exit
- Repeat

Private Equity VS Venture capital

- Meaning
- Type of investment
- Company type
- Percentage acquired
- Size
- Structure
- Stage
- Risk and Return

Micro Finance

- Provision of financial services to poor income groups including consumers ar employed
- Services include loans, insurance, deposits poor entrepreneurs who would not qual bank finance
- According to NABARD, microfinar "provision of thrift, credit and other fi services and products of very small amo the poor in rural, semi urban or urban ar enabling them to raise their income leve improve living standards"

Characteristics of Micro Finance

- Is a part of rural finance and a developmental tool
- Deals with small loans meant for working capital
- Informal appraisal of borrowers and investments is don
- MFIs go to clients
- Procedure for loan is very simple
- Rate of interest is reasonable
- No restrictions on purpose of loan
- Repayment through income from business and other so
- Number of accounts are manageable
- Collateral substitutes – Group or relationships
- Access to repeat loan depends on repayment performan
- Provides an opportunity for self employment
- It is more service oriented and less profit oriented

Future and growth of Micro Finance

- Micro finance has been a major success and is grow across country
- Helped in providing social and economic empower
- But eradication of poverty is difficult by itself
- Good governance, security, health, education and f inclusion work hand-in-hand in eradication of pove
- Availability of credit may be a trigger for growth
- MFIs operate in 588 districts in India spread ac states
- 166 MFIs with a branch network of 12,221 employ reached out to an all time high of 39 million clients outstanding loan portfolio of Rs 63,853 crore.
- The average loan outstanding per borrower stoo 11,425 and 94% of loans were used for income ge purposes.

Advantages of Micro Finance

- Financial services are made available to poor people.
- Microfinance helps in the development of an eco giving the chance to establish a sustainable means of i
- Promotes community building and mutual accountabi
- A culture of responsibility and encouragement can be
- Microfinance programmes can be self-funding.
- Taking out loans, buying insurance, and saving money people how to be future oriented.
- Microfinance helps women. Almost all micro-borrowe women, who develop home businesses. Women are ge more responsible than men. They use their profits to f educate their children, instead of spend more on booze gambling.

Dis-advantages of Micro finance

- Some borrowers have become dependent on loans for expenditures rather than capital investments.
- There are some microfinance institutions charging excessi rates.
- Studies of micro-credit programs have found that women c collection agents for their husbands and sons, such tha spend the money on themselves while women are burde credit risk.
- Microfinance helps women. That's good, but not good transform communities. Communities are formed of equ men and women, who have a strong affinity for forming l each other. Development that helps women but doesn't in has a natural self-limitation.
- Microfinance is small scale. Small businesses beco businesses sometimes. But more often they don't.
- Some argue that there's too much focus on microfinance be motivating less spending in other helping assistances health, welfare and education.

Credit Rating

- Credit rating refers to assessment of the credit worth individuals and corporations. It is based on history of borro payments as well as availability of assets and liabilities.
- Credit rating started in USA in 1909 by John Moody ar across the globe
- In India it started in 1993 by the establishment of CRISI Rating Information Services of India Ltd.)
- Followed by establishment of IICRA (Investment Inform Credit Rating Agency) promoted by IFCI
- Credit Analysis and Research (CARE) as a subsidiary o 1995
- Duffs and Phelps Credit Rating (DCRI) was established NBFC for fixed deposits in 1995
- According to Moody "Credit rating is an opinion on t ability and legal obligation of the issuer to make timely pay principal and interest on a specific fixed income security."
- Rating is represented by an alphabetical symbol like AAA etc

Features of credit Rating

- **Based on information:** It is based on published informatio limitations. Privileged and confidential information is ha which decides success of rating system
- **Many factors affect rating:** There is no formula. Rating upon many factors like management quality, corporate economic outlook, international environment. Committee o experts in finance and rating.
- **Rating by more than one agency:** Debt issues are usually or more agencies and the ratings may differ e.g AA, AA+ or
- **Monitoring the already rated issues:** Agencies have to m debt servicing capabilities on a periodic basis and upgrade/d
- **Publication of ratings:** Ratings done at the behest of is accepted and then published. Changes have to be irrespective of acceptance
- **Right to appeal:** Issuer can furnish additional relevant in and appeal for a revision which the rating agency will consi
- **Rating of rating agencies:** Rating agencies are assessed on of public opinion based on quality of services offered, co and integrity.

- **Rating is for the instruments and not the compa** instruments issued by the same company may have ratings depending upon term, guarantees, etc.
- **Rating is not applicable to equity shares:** Ther obligation of servicing of debt in equity context and he is no rating done
- **Credit v/s financial analysis:** Rating is much broader financial analysis. Rating done by experts based on a n factors.

Objectives of Credit Rating

- To restore the Confidence in capital mark
- Provides assessment of credit worthiness
- Information to investors
- Provide a basis for risk-return decision
- Helps in framing public policy guidelin institutional investments

Types of Credit Rating

- Financial instruments rating including b and Commercial papers
- Customer rating refers to assessment of c worthiness of customers to whom goods sold on credit
- Borrower rating is to assess the ability borrower to repay the debt. If the borrowe country the evaluation of creditworthine such country is made referred as sover rating.

Benefits of Credit Rating

For investors

- Information service
- Systematic risk assessment
- Professional competency
- Easy to understand
- Low cost
- Efficient portfolio management
- Information and research

For the Company

- Easy to raise resources
- Reduced cost of borrowing
- Reduced cost of public issues
- Builds up image
- Facilitates growth
- Recognition to unknown companies

Credit Rating Information Services of India Limited (CRI

- The Credit Rating Information Services of India Limit promoted in 1987 by ICICI and UTI. It has its head o Mumbai.
- The principal objective is to rate debt obligation of Indian co
- The rating provides guide to the investors as to the de certainty of timely payment of interest and principal on a pa debt instrument.
- CRISIL's business operate from 8 countries including Argentina, Poland, UK, India, China, Hong Kong and Singa

Services offered by CRISIL

- Credit Rating Services
- Advisory Services
- Training Services

Link for you tube video

https://www.youtube.com/watch?v=J2THOI-IF6U

Credit Rating Agencies

Investment Information and Credit Rating Agencies of India

- CARE was incorporated on April 21, 1993, and commenced its in October, 1993.
- It undertakes rating of all types of debt instruments like c paper, fixed deposits, bonds, debentures, and structural o involving an independent and professional assessment of deb capabilities of companies.

Onida Individual Credit Rating Agency (ONICRA)

- A private company, Onida Individual Credit Rating Agency ha up by Onida Finance.
- It undertakes rating for credit cards, leasing, hire/purchase t housing finance, and bank finance.
- The main objective of these agencies is primarily to restore the in the capital market and to provide unbiased assessme creditworthiness of the companies issuing debt instrument

Duff Phelps Credit Rating (DPCR)

- Duff Phelps Credit Rating India Pvt. Ltd. Is another sector credit rating agency set up in 1996.

Fitch Ratings

- Fitch Ratings India Ltd. Is the latest agency to d rating from the foreign sector.
- In addition to debt instruments, it also rates compa countries on request.

Brickwork Rating

- Brickwork Rating Private Ltd was initiated in the ye by Sangeeta Kulkarni, the company was formed v and task to rate credits.
- The top rated areas of operation for the company ar for NSD, Commercial Papers, MSME rating base interest payment of debtors.

Rating Symbols for different Companies

- The rating symbols are symbolic expressions of the op assessment of the credit rating agency regarding the inv credit quality, grade of the debt, obligation, instrument, et
- Separate symbols have been assigned for long-term a term instruments.

Rating for FDs	CRISIL	ICRA	CARE
Highest Safety	FAAA	MAAA	CARE AAA
High Safety	FAA	MAA	CARE AA
Adequate Safety	FA	MA	CARE A
Moderate Safety	-	-	CARE BBB
Moderate Default Risk	-	-	CARE BB
High Default Risk	FB	MB	CARE B
Very High Default Risk	FC	MC	CARE C
Default	FD	MD	CARE D

Credit Rating Symbols(For Long Term Instrumen

CRISIL	ICRA	CARE	FITCH	Meaning
CRISIL AAA	LAAA	CARE AAA	AAA	Highest Safety
CRISIL AA	LAA	CARE AA	AA	High Safety
CRISIL A	LA	CARE A	A	Adequate Safety
CRISIL BBB	LBBB	CARE BBB	BBB	Moderate Safety
CRISIL BB	LBB	CARE BB	BB	Moderate Risk
CRISIL B	LB	CARE B	B	High Risk
CRISIL C	LC	CARE C	CCC, CC & C	Very High Risk
CRISIL D	LB	CARE D	D & RD	Default