Capital Market Interview Questions And Answers Guide.

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Capital Market Job Interview Preparation Guide.

Question # 1
Explain Profitability Index (PI) /Benefit Cost Ratio (B/C Ratio)?

Answer:-
Profitability index (PI) is also known as profit investment ratio (PIR) and also termed as value investment ratio(VIR) which tells that a proposed project will have the ratio of payoff to investment. It is like a tool which is used for ranking projects and it allows quantifying the amount of value created per unit of investment. If the value of profitability index is less than 1 then accept the project and if it is greater than one then reject the project. Another way to calculate the profitability index is future cash flows divided by the initial investment.

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Question # 2
What is Accounting rate of return?

Answer:-
Accounting rate of return is also know as Average rate of return which gives the financial ratio used in capital budgeting. The ratio takes time value of money factor which calculates the return and the net income can be generated from the proposed capital investment. It is used to show the percentage return. The formula of computation is:
ARR= Average profit/average investment

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Question # 3
What are the techniques available for evaluation of capital expenditure proposals?

Answer:-
The techniques which are available for the evaluation of capital expenditure proposal depend on the management which has to select and have the profitable proposal out of different proposal under study. The technique which is used are as follows:-
1) Degree of urgency method
2) Pay back method
3) Rate of return method which is not adjusted properly
4) Present value method which is adjusted through time and it also includes net present value method.

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Question # 4
Explain Discounted cash flow?

Answer:-
Discounted cash flow:- in finance it is the analysis of a method which talks about the value of the project, company and the asset which is being used using the time value of money. In this all estimation has been taken and discounted for the present value as it shows both incoming and outgoing. This kind is used for investment of the finance and used for financial management.

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Question # 5
What is capital budgeting? What is its importance?

Answer:-
Capital budgeting is a process making system which is used to select and evaluate long term investments that is fixed assets investigation. It requires initial outlay and it also expect to produce the benefits and result over a period of over a year. The importance of capital budgeting is that the proper decision can be made after seeing the capital budget increases the firm's value and also the shareholders' wealth. It is a critical measuring tool for a company which helps the firm to stay in competition as the expansion of the business takes place for example purchasing of equipments to produce additional and new products.

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Question # 6
What are the different types of venture capital financing?

Answer:-

The different types of venture capital financing depends on the investment of specific purpose within the life of target company as the high return rate of the company remains constant and it has no effect on it. There are three types of venture capital financing:-
Early Stage Financing which is divided into three parts of its own they are as follows:-
1) Seed financing- in this small amount is required for the purpose of starting up the loan. The amount which is been used in this is received by the entrepreneur.
2) Start up financing- in this finished developed products and services are given to the companies as this can also be used under the initial marketing where the development of products and services takes place.
3) First stage financing- in this companies which has spent all their starting capital and which are requiring further finance to begin their business activities at full scale are used.
Expansion Financing is also subdivided into three parts namely as:-
1) Second stage financing- in this companies begin their expansion this is also termed as mezzanine financing as it is used for the purpose of providing the assistance to a particular company to expand the company.
2) Bridge financing
3) Third stage financing
Acquisition or Buyout Financing- in this acquisition and management finance are used which assist the company to have certain parts or entire company under themselves. It is also termed as leveraged buyout financing. This also helps in the management group to obtain a particular product from another company by collaboration.

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Question # 7

What are the advantages and risks associated with Secured premium notes?

Answer:-

Secured premium notes are issued with the warrant which is kind of detached. This can be redeemed after a notice period of 4-7 years. This way it ensures the holder right to apply and get the allotted equity shares. Secured premium notes has lock-in periods during which the interest is not necessarily to be paid for the invested amount. It also has many options to do the sell back to the holders at par or face value after the lock-in period. As in this only it contains lots of risks as the holder gets one equity share after a fixed period of time.

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Question # 8

What are the advantages and limitations of credit rating?

Answer:-

The advantage and limitation of credit rating are as follows:-
1) People with good credit will have their ability enhanced for the borrowing. Lenders will be able to rewarded or punished by the people with their reports on the habits of their credit responsibility
2) The limitation can occur when the credit information which is been reported or when the identity of the consumer's is stolen. It is really difficult for the lenders to get the information if it is lost or it is very difficult and exhausting process.

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Question # 9

Which agencies are authorized to perform credit rating in India?

Answer:-

There are many agencies which perform credit rating in India they are as follows:-
1) ONICRA Credit Rating Agency of India Ltd.
2) Credit Rating Information Services of India Limited (CRISIL)
This company provide the credit rating information about the companies and allow to give the worthiness of a company and corporation.

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Question # 10

What is Equity Warrants?

Answer:-

Equity warrants are the kind of warrants which can be put or called. It is like an option which gives the holder to buy the security related to its option at a certain price, quantity and time. It is issued by the company. The two warrants which come under this are as follows:-
1) Call warrants :- it gives the rights to the holder to buy the securities which are related to their warrants or the shares which are specified in number.
2) Put warrants:- it gives the rights to the holder to sell back to the issuer at a specified price on or before the date which has been stated while purchasing.

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Question # 11

Explain Bankers to the issue?

Answer:-

Bankers to the issue is the collection of activities which are performed by the banker to an issue such as submission of application, application with money from investors. To adhere to the rules a certificate has to be obtained by a person from SEBI which grants the registration on the basis of all the activities performed by the banker to an issue. The requirements are as follows:-
1) The application must be complete and the applicant must have the infrastructure, communication and data processing facilities to run those activities effectively.
2) Directors of applicant are not involved in any of this application and don't have any securities market.
3) Banker to an issue also has to take care of some information like number of issues which is coming to the banker, number of application with the money, dates on which the application is been received and date on which the refund is done to the investors.

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Question # 12

What are the per-requisites for a company to make the public issue of FCDs/ PCDs/ NCDs?

Answer:-

The pre-requisites which a company has to follow to make the public issue of FCDs/PCDs/NCDs are as follows:-
1. For NCDs which is known as Nonconvertible Debentures and PCDs which is known as Partly convertible debentures the maturity period should be less than 18 months in this duration it is not necessary to create a charge or appoint a trustee. If the charge is not created on the debentures then they are called as unsecured and will be treated as deposits. In PCDs, premium account during conversion has to be stated and predetermined in the prospectus. Everything from redemption amount to the maturity period has to be stated in the prospectus.
2. For FCDs and PCDs which has to be issued in the past and the conversion has to be made at a price which has to be determined by the Controller of the capital and SEBI.
3. Equity shares of all the companies are listed which are having nationwide trading terminals for atleast 1 year. Warrant and the security must be issued for a period of time. In case of NCDs the holder of the equity warrants is been given an option to buy specific number of shares from company to a predetermined price.
4. In case of FCDs the interest won't be paid to the investors and fully paid FCDs will be converted automatically into shares.
5. Warrants must be issued as a security by the company granting the right to the holder to purchase specified number of shares at specified price any time prior to the exipry date.

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Question # 13

Unlisted Company?

Answer:-

Promoters in the unlisted companies contribute at most 20% of post-issue capital. Promoters also help in shareholding which offers for sale and it shouldn't be less than 20%. In the unlisted companies also securities which are issued to promoters at a low price which is lower than the equity gets offered to public and it doesn't remain eligible for promoters contribution. Contribution of the promoters are considered by post-issue capital where the promoter contributes through some optional convertible security and it is also been there to public.

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Question # 14

For how many days are right issue of shares kept open?

Answer:-

The days for right issues of shares which kept to be opened are 15 days of the clousure of the issue where the allotment and refund of shares takes place and it takes 15-30 days for the issue to be kept open to see and settle down everything.

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Question # 15

Do you know Internal rate of return?

Answer:-

Internal rate of return is used to calculate the even break point which is also an alternative way to calculate the cost of capital and it includes the risk premium. It is the rate of return which is used in capital budgeting which gives the indication of the profitablility of investments. This is also called as discounted cash flow rate of return. This can't be used for mutually exclusive projects where the selection can be done to only one project rather than both the projects.

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Question # 16

What is time value of money? What are the techniques used for this?

Answer:-

Time value of money is the value which is earned over a given amount of time in terms of interest. For example if Rs. 200 money will be invested for about 1 year then the earning will be of 5% interest which will be worth 205 after one year. So using this time value of money terminology the future value can be predicted.

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Question # 17

What are its advantages and disadvantages?

Answer:-

The advantages and disadvantages are as follows :-
Until the offer is accepted the offer can't be said as complete so it provides a security which brings the attention of the contract into existence at the moment of acceptance.
Advantage of it is that when the offer of acceptance is being made and the receiving party sends the confirmation to the party which sent the offer than the offer will be considered as valid.
The disadvantage of it is that the offer can be terminated or rejected on the part of the person who is offering the offer. So it is totally dependent on the offerer rather than the the person who is involved in it.
Another disadvantage of this is that if the offeree rejects the offer then offerer can't be accepted at future time

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Question # 18

What methodology does CRISIL follow for credit rating?

Answer:-

CRISIL is a methodology of the credit rating which reflects its current opinion on the likability of the payment of interest and principal. This methodology is an unbiased, objective, and independent opinion which is designed to met the financial obligations of the issuer. This methodology includes non-convertible debentures/bonds, commercial certificates, fixed deposits, debt and loans. It is based on clear and robust framework, which ensures the standard, comparable and effective communication of ratings which are assigned.

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Question # 19
What are the advantages and risks associated with Deep Discount?

Answer:-
Following are the advantages:
1. In this the bond it doesn't require any assistance of brokers or underwriters because of their inexpensiveness and there consumption of time.
2. For risky business private placements might be the only source of capital available.
3. Picking of the investors with the specific goals and interest is the job of this kind of bond as it also enables small business owners to choose for the same.
The Risks are as follows:-
1) Investors in this case will have difficulty in locating themselves as they might be having the limited funds to invest.
2) Private companies place the securities and sell them below their market value or on deep discount.

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Question # 20
Explain the advantages and risks associated with Equity warrants?

Answer:-
The advantages of equity warrants are as follows:-
1. Through this warrant a holder can buy and sell the securities and shares in the market.
2. Prices of these warrants are low so the leverage and the gearing which it provides is high.
3. Due to these prices there are larger capital gains and losses.
4. These warrants can offer gains and protection in the market.
The risks of it are as follows:-
1) The high price of leverage and gearing of warrants is not good for investors as they have to take more losses then gains as the percentage of loss of the warrant increases.
2) The risk which is involved with the value of the certificate which will be provided is that the certificate value can drop to zero due to which the warrant may loose the redemption value.
3) Holder can't have the opinion in voting, shareholding and dividend rights. So, the holder becomes isolated in overall functioning of the company but the holder is affected by the decisions which will be made by the company.

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Question # 21
What functions does the Merchant bank perform when a company wants to raise funds from intermediaries?

Answer:-
Merchant bank is used in the case of private equity investment where unregistered securities of either privately or publicly held companies are also involved in it. Bank offering different services to the public/private companies is known as merchant bank. It includes both commercial and investment banks. The functions which are performed by the merchant bank when the company wants to raise funds from intermediaries as follows:-
1) Portfolio management
2) Loan sanction
3) Financing the project
4) Management of issue
5) Lease management

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Question # 22
Explain Debenture Redemption Reserve (DRR)?

Answer:-
Debenture Redemption Reserve is non-convertible debentures which has to be created by seeing the profits and the shares as more it grows more the amount will be collected. For this an upto date commercial project finance has to be produced and provided so that creation of the DRR can be done. If there is a profit and the utilization of the profit has to be done then the DRR can be created either in higher amounts or in equal instalments for a long duration of time. If residual profits after transfer to DRR are not enough to distribute the dividend then companies are allowed to distribute the dividend from general reserves for certain years. DRR takes only 50% of the amount of debenture issue which has been created through the process.

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Question # 23
What does a company need to do if the issue is greater than Rupees 100 crore?

Answer:-
Reserve bank issue under the denominations, includes the issue of rupees and all the Non Bank Finance Companies (NBFCs) are also come under Reserve Bank of India, and also the need to do the issue which is greater than Rupees 100 crore are subject to the financial standards, which can be reported the requirements which will be considered as fair practice. The company which has to also maintain records and see that the system is robust and can be taken further without any complications.

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Question # 24
What does a company have to do if the issue of debentures has a maturity period of 18 months?

Answer:-
If the issue of debentures has a maturity period of 18 months then the company has to remove all the creation of Debenture Redemption Reserve (DRR) account which has not been provided under the company's guidelines or rules. The company is not allowed to make any public issue or right issue until it has one or more debenture trustees which comes under the SEBI guidelines as it is needed and required when the maturity period is of 18 months or more.

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Question # 25

For how many days are public issues of shares kept open?

Answer:-

The days for public issues of shares which has to be kept open is around 3 weeks after the closure of the book built issue. As the book built public issue takes around 3-7 working days which can be extended by 3 days if any how any price band case happens against it.

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Question # 26

What "rights issue" do the shareholders of a company have under Companies Act, 1956?

Answer:-

The rights and duties of shareholders are defined from time to time of issue of shares. The rights of shareholders are fixed which can't be altered unless the Companies Act gets modified.
Right issue which shareholders hold of a company under Companies Act, 1956 are as follows:-
1) Rights attached to shares of any class can be varied with the consent of shareholders holding not less then 75% of issued shares.
2) Rights of Dissenting Shareholders: Protection by Companies Act is given to the shareholders who doesn't consent to or vote for variation of their rights. If there is any variance in any rights of any class of shareholders then holders of not less than 10% of shares of that class can apply to the court to have the variation cancelled. It won't have any affect till it is been approved by the court.
3) Voting rights of the members: - Every member of public company which have the shares holding equity have votes in proportions to his share in paid up equity capital.
4) Preference shareholders don't have any voting rights. They can vote only on matters which are directly related to the rights attached to preference share capital.

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Question # 27

What is promoter's contribution in public issue by following?

Answer:-

i.) Listed Company
Promoters in the listed company participate either at least of 20% of proposed issue or holding the post-shares to the extent of 20% of the post-issue capital. In this the participation of the promoter is done when the issue is being passed publicly.
ii.) Unlisted Company
Promoters in the unlisted companies contribute at most 20% of post-issue capital. Promoters also help in shareholding which offers for sale and it shouldn't be less than 20%. In the unlisted companies also securities which are issued to promoters at a low price which is lower than the equity gets offered to public and it doesn't remain eligible for promoters contribution. Contribution of the promoters are considered by post-issue capital where the promoter contributes through some optional convertible security and it is also been there to public.

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Question # 28

What are the steps taken for proper control on capital budgeting process?

Answer:-

Steps which are taken to control the capital budgeting process are as follows:-
1) Indentify the proposals which are already involved in capital budgeting.
2) Do the screening of the proposal for future estimation.
3) Evaluate the different type of proposals
4) Fix the priorities of the proposals
5) Final approval and planning of the capital expenditure
6) Implement the proposal
7) Review the proposal.

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Question # 29

What is Discounted pay back period?

Answer:-

Period is not involved with the time value of money and it doesn't even get considered whereas discounted pay back period is another form which involves this and have the real value of cash inflows which are measured in current amount of money which are given as a discount amount. The rate with which they are given at any interest rate are called as Discount rate.
Payback period= year before recovery+ unrecovered cost at the start of year/ cash flow during the year

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Question # 30

What are the exit routes available to VCF?

Answer:-

The exit routs of VCF are as follows:-
1) Trade sale it is a sale of shares and business assets which has been invested by the investors and the assets are of the investee. Company uses by the way of private sale agreement.
2) IPO (Initial public offering) is used to publicly share the offering which will be followed by the listing of shares on stock exchange.
3) Recycling- it is a sale to the sub-investors which are working under the investors or other equity houses.
4) Company buying-back the shares.

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Question # 31
Explain secured premium notes?

Answer:-

Secured premium notes are issued with the warrant which is kind of detached. This can be redeemed after a notice period of 4-7 years. This way it ensures the holder right to apply and get the allotted equity shares. Secured premium notes has lock-in periods during which the interest is not necessarily to be paid for the invested amount. It also has many options to do the sell back to the holders at par or face value after the lock-in period.

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Question # 32
Who decides rate of interest for debentures?

Answer:-

Company decides the rate of interest for debentures where debenture is just a simple document which is used to create either debt or acknowledge the debt. When the company issues it then it does it in the form of a certificate which acknowledge's indebtedness. The debentures are issued to the lenders under the Company's Common Seal and against the charge on the assets of the Company. Whoever holds the debentures doesn't have the right to hold the meeting with the company. The rate of interest with which the debentures gets issued are called as coupon rate. They are of two types:
- Fixed Rate
- Floating rate of interest are in accordance with the rate of bank and reward of risk.

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Question # 33
What is the minimum application if equity shares are being issued at par?

Answer:-

Minimum application which is required if equity shares are being issued at par is that the company should have a nationwide trading terminal for the duration of at least 1 year. The other applications which are necessary for doing this are as follows:
1. Issue of prospectus: For a company to raise capital by issue of shares for public requires the public to accept the offer to buy shares
2. When the prospectus is being read by the public then according to the public satisfaction they can apply to company for purchase of the company's share.
3. When the shares are used through cash then the issued at par share can have the discounted and this can be payed either in lump sum along with the application or in installments at different stages.
4. Issues are at par when their price is equal to the face value. For example if share is of Rs. 30 is issued at Rs. 30 then it is been said that they have been issued at par.

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Question # 34
Can a company make public issue of equity shares if partly paid shares are not fully paid up?

Answer:-

Yes, a company can make public issue of equity shares if partly paid shares are not fully paid as equity shares are that part of share capital of company which is not been included in the preference shares. The condition which has to be considered for this is that at any time after 2 years of expiray from the date of starting of company or after 1 year of shares allotment, public company shares the issues within the authorised area, and directors must decide to offer shares to existing holder of equity shares in proportion to capital which has been paid up on the holder's shares at the time of further issue.

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Question # 35
What is Zero coupon bonds?

Answer:-

Zero coupon bonds is also termed as discount bond or deep discount bond which is been bought at a price lower than its face value which will be given back at the time of maturity. This type of bond doesn't make payments of interest in periods. It has already been paid when the bond reaches to the maturity level and its investors are in great advantage of receiving huge about of sum equal to the initial investment Example includes U.S. Treasury bills. It is used or both long term and short term investments.

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Question # 36
What is Deep discount bonds?

Answer:-

It is also been explained above in the zero coupon bonds but this kind of bond is used to sell in discount from par value. In this the bond which is selling at a discount from par value has less rates of fixed income and securities then other bonds and it also has risk profile as well. This also contains the market price of 20% or more but it is below its face value. They are a bit riskier than other similar bonds. They are also termed as low-coupon bonds and are used in long term.

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Question # 37
What are the limitations of capital budgeting?

Answer:-

Capital budgeting limitations are as follows:-
1) It has long term implementations which can't be used in short term and it is used as operations of the business. A wrong decision in the early stages can affect the long-term survival of the company. The operating cost gets increased when the investment of fixed assets is more than required.
2) Inadequate investment makes it difficult for the company to increase it budget and the capital.

3) Capital budgeting involves large number of funds so the decision has to be taken carefully.
4) Decisions in capital budgeting are not modifiable as it is hard to locate the market for capital goods.
5) The estimation can be in respect of cash outflow and the revenues/saving and costs attached which are with projects.

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Question # 38
Explain pay back period technique for evaluation of capital expenditure proposal?

Answer:-
In the case of pay back period technique which is used for evaluation of capital expenditure proposal in which the cash inflows are even and constant and the period can be computed by dividing the original investment to the annual cash-inflow. This can be also represented in number of years which are required to recover the original cash which has been invested in the project. This the method which is used to measure the period of time as it takes for the original cost of the project which has to be re3covered from the earning which are additional to the project.

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Question # 39
Explain Calculation of the present value?

Answer:-
Calculation of the present value :- in this the worth of the future sum is given and the specified rate of return is been shown. It has lots of variations in this is that the future cash flow are discounted at the discount rate and it also represents the low present value of future cash flow.

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Question # 40
What are the provisions of buy back of shares as per Companies Act, 1956?

Answer:-
The provision of buy back of shares as per Companies Act, 1956 the shares must be bought by the company due to following reasons they are as follows:-
1) Promoters hold increment and increment in earning per share
2) Support of share value and to pay surplus cash won't be required by the business
The resources which have to be used in buy back can be purchased from:-
1) Free reserves :- in this company purchase its own shares out of the left out, then by doing this sum equal to nominal value of share which has been purchased gets transferred to the capital redemption reserve.
2) Security premium account :- in this company can't buy back its own shares or other security related issues.
The buy back period by which it has to be finished is within 12 months from the date of passing the case. In this also the company is not liable to directly or indirectly purchase its own shares or other securities issue.

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Question # 41
What is Floating rate bonds?

Answer:-
Floating rate notes (FRNs) are the bonds which have a comparable ratio with the money market reference rate and they are also termed as variable coupon. It is made up of federal funds rate and spread which is the rate that remains constant. FRNs got the coupons where the holders can pay out the interest every three months and this is also called as quarterly coupons.

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Question # 42
What functions do the registrars to the issue perform?

Answer:-
Registrar is the person who finalizes the list of eligible allottees after removing the invalid applications. Registrar also make sure that corporate actions are credited per share and demat account of the application is done and refund orders has been sent to the particular person to whoever it was concerned. In this process lead manager coordinates with registrar and they in turn look up in things to see that everything has been followed up properly and the finalization of application collected from bank branches and processing of those applications are getting done.

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Question # 43
Explain Listed Company?

Answer:-
Promoters in the listed company participate either at least of 20% of proposed issue or holding the post-shares to the extent of 20% of the post-issue capital. In this the participation of the promoter is done when the issue is being passed publicly.

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Question # 44
Explain minimum subscription?

Answer:-
Minimum subscription is the term which is used to represent the amount of the issue which has to be subscribed or else the shares can't be issued if it is not being subscribed. Company which is offering the shares to the public then they set a specific amount for the subscription which can be taken by the public in order to issue the shares.

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Question # 45

What are the eligibility criteria for an unlisted company to make public issue?

Answer:-

The eligibility criteria which have to be satisfied by the Unlisted Company to make public issue are as follows:
1. Pre-issue networth of company should not be less than Rs. 1 crore and it should be maintained for last 3 out of 5 years with minimum networth.
2. The networth should be met for upcoming 2 years.
3. Tracking of the records of profits has to be maintained for at least 3 years out of immediately upcoming 5 years.
4. Issue size should not be more than 5 times its pre-issue networth.
5. Incase these requirements are not satisfied then the company can issue through book-building process, it has to allot at least 60% of issue size to Qualified Institutional Buyers.

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Question # 46

How to compute the cash flows?

Answer:-

Cash flow is the movement of the money in and out of the business which results in high availability of the cash. The cash flow calculation is simple and it is calculated by adding the after tax income and bookkeeping expenses that result in deduction of the items which has not be paid out in cash. The cash flow in few months will be negative only which should not be taken as a negative sign as it won't effect the business much. The cash balance should not go below zero as it will be same as negative balance in the account.

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Question # 47

What factors are taken into consideration while computing cash outflows and cash inflows?

Answer:-

The factors which has to be taken into consideration while computing the cash outflows and cash inflows are as follows:-
1) Net income which is provided by the operations.
2) Non-cash expenses
3) Loss and gain on sales on assets.
4) Non-cash current assets and liabilities except payable notes and dividends payable.
5) Cash collection which is the major principle component of the cash flow and it is the actual cash which is
being received during accounting period which has to be taken from the customers
6) Financing which result in the change in size and composition of the equity capital and it also show the activities result of the borrowings of the enterprise.
7) It also includes issue shares and equity instruments.

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Question # 48

What is acceptance rule?

Answer:-

The acceptance rule is the rule which is used for the communication purpose and it is used in unilateral contracts which makes an offer and will be accepted by some act. This rule also determines whether the agreement is from both sides or not. The offer may only be accepted if the offerer is the person for whom the offer is made. If the offer is accepted then the offer can be accepted without any modification.

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Question # 49

What is venture capital? What is its importance?

Answer:-

Venture capital is a capital which provides high potential interest generating returns from the growing companies at very early stages. The return which will be generated is through the sale of the company. This term usually generated from the institutional investors and high net worth individuals which has been working together on a dedicated investment firms. The main importance of it is that it generates high interest returns at very early stages and at a growing pace. It also has high-end companies which supports it in reaching the peak.

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Question # 50

When is credit rating obligatory?

Answer:-

Credit rating is obligatory when the lenders need to share some information about you and it is also been done to protect their interest that the client will one day repay the loan. In this what happens is that all the lenders remain in the sync with each other and keep the information of the client with each other so that they can share the information together because if a lender gives money to the client then tomorrow if another client gives the money to the same client then it becomes difficult for the client to pay it off the loan which has been taken so they both can collaborate together to prevent this misunderstanding.

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Question # 51

Who decides the amount of premium on redemption & period of conversion for debentures?

Answer:-

Company decides the amount of premium on redemption and period of conversion for debentures as the period of conversion which has been there in SEBI is restricted to only 36 months. If any conversion has to be made then the credit rating is required. The premium on redemption and period of conversion for debentures has to be stated clearly and it should be predetermined in the prospectus. The company is then free to determine the rate of interest which will be payable according to the company guidelines.

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Question # 52

What is underwriting?

Answer:-

Underwriting is a process in which there are those financial service provider such as bank, investments and inusrers which uses these to find out the eligiblity of a customer to receive the products which is owned by them such as equity capital, insurance and credit. In this process there are risks which are involved and mostly financial provider participates in those kind of risks and remain prepared to tackle them.

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Question # 53

Who decides the denomination of shares in the public issue by a company?

Answer:-

There are many responsible personalities who take up the decision in the denomination of shares in public issue of the company and they people are as follows:-
1. Company directors : take decision on the basis of the profits and return of the company. They also gets involved in the discussion where they see all the positives and negatives regarding the issue which is having with the company.
2. Company secretaries: company secretary can be also called as joint secretary of the company as it is a person who appears to the directors to have the knowledge and ability to fulfil the functions of a secretary.

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Question # 54

How is the pricing of the issue done by following?

Answer:-

a.) Listed Company : Listed company issues the pricing by making it free for the equity shares securities through the public/rights issue. It makes composite issue of capital (public and right basis which is been made through the offer document in which allotment for both public and rights components is proposed which are used to issue securities at different prices.
b.) Unlisted Company : Unlisted company also does the same as the listed company does as it is used to exachange within the recognised stock. It is also not easy to find rights issues as shareholders are unable to raise funds to take the rights which might not have the aletrnate available as the firm's shares are also not listed. In this a company has to rely on the profits which they have got as their main source of equity or they can seek to raise venture capital or can also take debt from others.

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Question # 55

What does capital market mean? How does the company raise funds in capital market?

Answer:-

Capital market is the market in which financial securities have been traded between the individuals and the institutions. These institutions sell securities on capital markets in public and private sectors to raise funds. This market is composed of both primary and secondary markets. The parts of capital markets are both stock and bond markets.
Large Corporation grow by doing innovations and by raising the capital to finance expansion. Corporations have five primary methods which are used to raise funds in capital market.
1) Issue of bonds : - Bond is an amount of money which has to be given at a certain date or dates in future. Bondholders receive interest payments at fixed rate and specific dates. Corporate issues bonds because interest rates which must pay investors are lower than rates of borrowing and holders can sell bonds to someone else before they due.
2) Issue of preferred stock : - company choose this to raise capital. If a company have financial trouble the buyers of shares gets special status. If profits are limited then owners will be paid the dividend after bondholders receive the interest payments.
3) Sell of common stock : - if financial condition of the company is good then it can raise the capital issue the common stock. Bank helps the companies to do the investment and issue stock. Investors' gets interested if the company pays large dividends and offers steady income. Value of shares increases if investor expects the corporate earning to rise.
4) Borrowing:- companies used to raise short term capital by getting the loans from banks or other sources. After good market run the profits which the company gets can be used to finance their operating by retaining their earnings.

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Question # 56

What is net present value? What are its acceptance rules, their advantages and disadvantages?

Answer:-

Net present value (NPV) is a financing term which shows the cash flow worth for both inflow and outflow and it is been defined as the sum of the present values of cash flow. NPV is formulated as future cash flow subtracted from the purchase price. It is also the tool to calculate discounted cash flow and is a standardized method for the analysis of capital budgeting. The advantages and disadvantages of it are as follows:-
The advantage of NPV is needed for long term projects and it measures the excess or shortfall of cash flows as it is used for the reinvestment at the discount rate which is used for this.
The advantage is that the adjustment for this is a bit risky and it adds a bit of difficulty in making the cost higher.

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Question # 57

What is the process of capital budgeting?

Answer:-

The process of capital budgeting involves long term investment generation where they are more consistent with the long term objectives. It estimates the incremental cash flow which has been a proposals given to the project which is been considered after taking tax. After this the cash flows estimations takes place and then selection of the project takes place which maximize the shareholders' wealth.

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Question # 58

What is credit rating? What are its main features?

Answer:-

Credit rating is the rating which gives the estimate of the individual company, corporation of country's worth. Credit bureau makes an evaluation of borrower's credit history and then according to that the actions on it take place. Credit rating shows the ability of the borrower to pay the debt to the lender on request to the credit bureau. The calculation of it depends on the financial history, current assets and liabilities. The probability of a borrower to pay back of its loan can be seen by this which tells a lender or investor about it.
The main features which are involved with the credit ratings are as follows:-
1) It is used to estimate the worthiness of the credit for the company, country or any individual company.
2) Credit rating is been done after considering various factors such as finacncial, non-financial parameters, and past credit history.
3) The rating which gets done is simple and it facilitates universal understanding. Credit rating also makes it widely accepted as the symbols which are used are generalized and made common for all.
4) The process of credit rating is very detailed and it involves lots of information such as financial information, client's office and works information and other management information. It involves in-depth study.

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Question # 59

What are the SEBI guidelines for the issue of debt instruments?

Answer:-

SEBI guidelines for the issue of debt instruments are as follows:-
1. Issuer should be from the trust and the trustees of the company has to get registered themselves from SEBI. The registration which will be approved by SEBI will be permanent and it will be in synchronization with SCCR.
2. If any trustee is registered with SEBI then the issuer without any registration from SEBI won't be required to register.
3. Debt instruments which gets issued to the public or listed companies should acknowledge the benifts interest of investors which are assigned to the issuer. Security can be issued to the issuer for debt instruments to public for subscribing through the offer document which contains the disclosures of the relevant facts which includes financia of issuer.

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Question # 60

What is the minimum subscription required for a company to utilize funds?

Answer:-

The minimum subscription which is required for a company to utilize funds as follows:-
1. Infrastructure company won't have to have the requirement of 25% of its securities as public offer.
2. If the infrastructure company offers the requirement for the shareholders in that case Rs. 1 lakh can be waive off.
3. Infrastructure companies which are having public issues for them minimum subscription of 90% is not necessary and it should be given by the alternate source through that fund is coming to the company.
4. Infrastructure company can keep the issue open for 21 days only which would give the sufficient amount of time to get the funds for their issues.

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Question # 61

What role does it play?

Answer:-

Underwriting is a process which refers to the services which have been given to the client without finding out that the client is eligible to receive those services or not from the large financial institution. It also shows the risk management which might be useful in financial activities. It is used in professional field to describe the methods which are related to loan or insurance or to the bank that buys up new insurance or debt. It is basically based on the actuarial science which is a study of risk assessment by the use of various mathematical and statistical methods under the finance industry. The two important terms under which this is used are as follows:-
1. Bank Underwriting is also termed as conventional banking which is used to explain the behaviour of the borrower and its ability to pay. For private people it is a credit report which gives all the details about their finances.
2. Insurance Underwriting under this it is used as a risk assessment. In this evaluation of the person or the project takes place where the receiving of the insurance and their payment related terms are handled.

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Question # 62

What are the eligibility criteria for a listed company to make public issue?

Answer:-

The eligiblity criteria which need to be satisfied by the listed company to make a public issue are as follows:-
1. If the issue size which is a collective combination of offer document, firm allotment, and promoters' contribution is less than 5 times its pre-issue net worth.
2. The listed company goes through the book building process and allot 60% of the issue size to Qualified Institutional Buyers if issue size is more than or equal to 5 times of pre-issue net worth.

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