



INVESTMENT IN INDIAN SCENARIO

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Abstract

Emerging strong even during the scariest phase of global financial meltdown, India has become one of the favorite investment destinations for the foreign investors across the globe. The investment scenario in India is getting better and better due to high confidence level of the investors. Today, India is considered the 4th biggest economy in the world. Its impressive GDP rate, especially in the field of purchasing power, has catapulted it to second position among all the developing nations.

Key Words: Mutual Funds, Private Equity, Derivatives, Wealth Management and Investment Banking.

Introduction

India is becoming top investment destination today, it has a vast potential for foreign investment and foreign players. India is the fourth largest economy in the world and it has the second largest GDP among developing countries in terms of purchasing power. Various research studies carried out across the globe confirm the fact that India and China will rule the world in the 21 century. The wealthy countries of Europe had seen supreme decline in global GDP share by 4.9% points, followed by the US and Japan with a decline of about 1 percent points each. Recent studies shows the share of the US in world GDP is expected to fall from 21 percent to 18 percent and that of India to rise from 6 % to 11% in 2025 and hence India will emerge as the third pole in the global economy after the US and china.

By 2025 the Indian economy is projected to be about 60% of the size of the US economy. The transformation into a tri-polar economy will be complete by 2035, with the Indian economy only a little smaller than the US economy but larger than that of Western Europe. By 2035 India is likely to be a larger growth driver than the six largest countries in the EU though its impact will be a little over half that of the US. India which is now the fourth largest economy in terms of purchasing power parity, will overtake Japan and become third major economic power within 10 years.

Success in investing in India will depend upon the following factors –

1. Accurate estimation or at least feasible estimation of the India's potential
2. Proper risk assessment while investing in India
3. Proper understanding of the India financial system
4. Careful strategic planning backed by thorough research on investment industry.

Failure in investing in India can depend on the following factors -

1. Underestimation of India investment intricacies
2. Overestimation of investment potential in India
3. Complexities and reservation of Indian system.

Various form of Investment

A. Mutual Fund

Mutual fund is a professionally managed form of collective investments that pools money from many investors and invest it in stocks, bonds, short term money market instruments, other securities. Fund manager who is also known as portfolio manager, trades the funds, realizing capital gains or losses and collects the dividend or interest income. The value of a share of the mutual fund known as the Net Asset Value per share is calculated on daily basis on the total value of the fund divided by number of share currently issued and outstanding.

Mutual funds is easy and less costly for investors to satisfy their need for capital growth and income It brings the benefits of diversification and money management to the individual investors providing an opportunity for financial success that was once available only to a selected few investors. Mutual fund is divided into equal portfolio called units. The price of the units is calculated regularly by the manager rather than being determined by supply and demand in the market. The prices are quoted for units. The higher offer price being the price the investor pays to buy units, and the lower bid price being the price he will receive for units sold back to the manager.

Types of Mutual Fund

1. Open and close ended funds

If the period and target amount of the fund is definite the fund is called closed ended, if indefinite it is called open ended.

2. Income and Growth fund

Income fund aims at distribution of income periodically amongst investors. The investment strategy conforms to the fund objective by deployment of investors money into fixed income yielding securities. Growth fund meets the investor's need for appreciation, high risk bearing capacity and ability to defer liquidity. The fund, which meets the needs for income and growth, are called Balanced or income cum growth fund.

3.Area,Industry, Customer group fund

The funds may have at the international level, investment in securities of specified area e.g. Japan fund, Thailand fund. Like that certain fund may invest their resources in specified industry like rail, road or petroleum. Certain mutual fund may be confined to a high tech and high growth industry.

4. Taxation funds

Certain funds are designed to avail certain tax exemptions whether in the domestic or foreign capital markets. Tax saving Magnum of SBI capital markets Limited is an example.

Investing in mutual fund has various benefits -

1. Professional management
2. Diversification
3. Low cost
4. Convenience and flexibility
5. Liquidity
6. Transparency
7. Variety
8. Well regulated
9. Return potential

B. Private Equity

A Private equity fund is a collective investment scheme that invests in companies/entire business units with the intention of obtaining a controlling interest so as to be in the position to restructure the target company reserve capital, management and organizational infrastructure. When one or more of these objective are accomplished the target company is delisted from public stock exchange, held private restructured over a period of 3 to 7 years and then again relisted through an IPO. Restructuring may be done through leveraged buyouts, venture capital, growth capital, angel investing (individual who provides capital for a business start up, usually in exchange for convertible debt or ownership equity), mezzanine debt (refers to unsecured, highyield, subordinated debt or preferred stock that represents a claim on a company assets that is senior only to that for a company shareholder), management share participation programmes and others. Major investors in this industry include Goldman Sachs private equity group, Kohlberg Kravis Roberts and company, Apollo management, Brain capital, Blackstone group, Hellman and Friedman, Carlyle and Texas Pacific group.

PEs are being globally recognized as a separate asset class attracting a huge corpus of funds from investors like pension and insurance companies, trust and organization that are looking for investment avenues. PE is huge successful in Europe and US, it contributes heavily to M&A globally. PEs firms invested almost USD 5 billion in 2006 in India, which is almost 10% of the PE in Asia. PE investments in India have been restricted through FEMA which control and limit FDI in some sectors like telecom, aviation, real estate, media, banking and insurance. Even though the government latest move to limit foreign direct investment in real estate has had a cascade (fall) effect on private equity.

PE is faced with some resistance from Indian companies who are cautious of sharing financial information, which ultimately restricts the choice for investment. PE is gaining ground in India as real estate, pharma, biotech, retail, IT and infrastructure are opening up to such investment through the choice of investments is based solely on their return potential.

PE could play a more constructive and penetrative role with investments in India small and medium enterprise similar to the alternative investment market of the London stock exchange. PE could draw of these resources to drive their expansion plan and reach out to international markets. A visible positive role played by PE investments in India so far has been in generating employment opportunities, BPOs have benefited tremendously as PEs and venture capitalists put their money in these ventures. PE can also drive a company into good governance bringing in transparency and professionalism across industry.

C. Indian Equity Market

Stock market in India comprises equity, debt, foreign exchange and derivative markets, including future markets in commodities. The stock market is one of the most important sources for companies to raise money. This allows business to go public or raise additional capital for expansion. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investment. The forces of market depend on monsoons, global funding flowing into equities and the performance of various company.

SENSEX today rose from 1000 levels to 20000 levels providing a profitable business to all those who had been investing in the IEM. There are about 22 stock exchanges in India. Generally the bigger companies are listed with the NSE and BSE, but there is OTCEI, which list the medium and small sized companies. SEBI, which supervises the functioning of the stock market in India.

Some of the Dos and Don'ts in generating investors who are dealing in stock markets.

Do's

1. Always deal with the market intermediaries registered with SEBI
2. Give clear and unambiguous instructions to your broker/agent/DP
3. Always insist on contract notes from your broker.
4. Always settle the dues through the normal banking channels with the market intermediaries.
5. Before placing an order with the market intermediaries please check about the credentials of the companies, its management, its fundamentals and recent announcements made by them and various other disclosures made under various regulations.
6. Adopt trading/investment strategies commensurate with your risk bearing capacity as all investments carry risk the degree of which varies according to the investment strategy adopted.
7. Please carry out due-diligence before registering as client with any intermediary. Further the investors are requested to carefully read and understand the content stated in the risk disclosure document, which forms part of investor registration requirement for dealing through brokers in stock market.
8. Be cautious about stock, which shows a sudden spurt in price or trading activity especially low price stocks.
9. Please be informed that there are no guaranteed returns on investment in stock market.

Don'ts

1. Don't deals with unregistered brokers/subbrokers, intermediaries.
2. Don't deals based on rumours generally called lips.
3. Don't fall prey to promises of guaranteed returns.

4. Don't get misled by companies showing approvals/registrations from government agencies as the approvals could be far certain after purposes and not for the securities you are buying.
5. Don't leave the custody of your demat transaction slip book in the hands of any intermediary.
6. Don't get carried away with onslaught of advertisements about the financial performance of companies in print and electronic m3edia.
7. Don't blindly follow media reports on corporate developments as they could be misleading.
8. Don't blindly imitate investments of others who may have profited from their investment decisions.

D. Derivatives

Derivatives are financial instrument whose value is derived from the value of something else. It is in the form of contracts under which the parties agree to payments between them based upon the value of an underlying asset or other data at a particular point in time .The main type of derivative are futures, forwards, options and swaps.

The emergence of the market for derivative products most notably forward, future and option can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out to fluctuations in asset prices. By their very nature the financial markets are marked by a very high degree of volatility. Through the use of derivative product it is possible to partially or fully transfer price risks by locking in asset prices; derivative product minimizes the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors. The following factors have been driving the growth of financial derivatives.

1. Increased volatility in asset prices in financial markets.
2. Increased integration of national financial markets with the international markets.
3. Market improvement in communication facilities and sharp decline in their costs.
4. Development of more sophisticated risk management tools providing economic agents a wider choice of risk management strategies.
5. Innovations in the derivatives market which optimally combine the risks and return over a large number of financial assets, leading to higher return, reduced risk as well as transaction costs as compared to individual financial assets.

Types of derivatives

Forwards – A forward contract is a customized contract between two entities, where settlement takes place on a specific date in the future of today's pre-agreed price.

Future – A future contract is an agreement between two parties to buy or sell an asset of a certain time in the future at a certain price. Future contract are special types of forward contracts in the sense that the former are standardized exchange traded contracts.

Option – Options are of two types – calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date.

Swaps – Swaps are private agreement between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. They two commonly used swaps: These entails swapping only the interest related cash flows between the parties in the same currency. Currency swaps: These entail swapping both principal and interest between the parties with the cash flows in one direction being in a different currency that those in the opposite direction.

Warrants- Option generally have lives of up to one year, the majority of options traded on options exchanges having a maximum maturity of nine months. Longer dated options are called warrants and are generally traded over the counter.

Leaps – the acronym Leaps means long term equity anticipation securities.

These are options having a maturity of up to three years

Basket – Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average or a basket of assets. Equity index options are a form of basket options.

Swaptions – Swaptions are options to buy or sell a swap that will become operative at the expiry of the options. Thus a swaption is an option on a forward swap. Rather than have calls and puts, the swaptions market has receiver swaptions and payer swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed receives floating.

E. Wealth Management

It is a term that originated in the 1990s in US with the broker dealers, banks and insurance companies. It has generally evolved from high net worth financial consulting for persons who are top clients of any firms. It is classified as an advanced type of financial planning that provides individuals and even families with private banking, estate planning, assets management, legal service resources, trust management, investment management, taxation advice and portfolio management. Wealth management encompasses asset management, client advisory services and the distribution of investment product.

Person engaged in wealth management usually work for law firms, accounting firms, brokerage firms, large banks, trust departments, or investment and portfolio management firms. Smaller firms such as registered investment advisor also tend to provide a wide array of family office services. It is high level of form of private banking that provides various types of investment, insurance and bank products and services.

Target client of wealth management are typically known as high net worth individuals or mass affluent retail banking customers. Banks define the target clients are having minimum net worth or asset base (US\$150000 and US\$ 1000000) which make them attractive customers for retails banks.

Services and product provided by wealth management are

Service	Product
Portfolio management and portfolio rebalancing	Stock and stock trading
Investment management and strategies	Equity linked investment
Trust and estate management	Structure saving product
Private banking and financing	Structured investment products and derivative
Tax advice	Foreign exchange
Family office structure and management	Mutual fund and unit trust

F. Investment Banking

Investment banks help companies and governments raise money by issuing and selling securities in the capital markets (both debt and equity). It offers strategic services for merger, acquisitions, divestiture or other financial services for clients such as the trading of derivatives, fixed income, foreign exchange commodity and equity securities.

More commonly used today to characterize what traditionally termed investment banking is sell side. This is trading securities for cash or securities (facilitating transactions, market making) or the promotion of securities (underwriting, research etc.) The buy side constitutes the pension funds, mutual funds, hedge funds and the investing public who consume the products and services of the sell-side in order to maximize their return on investment. Many firms have both buy and sell side components.

Investment banking is one of the most global industries and is hence continuously challenged to respond to new developments and innovation in the global financial markets.

Conclusion

Indian economic reforms, annual growth rate, curbing inflation rate etc are conducive for the domestic and foreign investment in the recent years. So investors should understand about investing in India is that India is an investment goldmine for long term growth. While short term profits may be churned out from time to time but they are not of penny worth in the longer run. India has a vast potential for foreign investment and foreign players find it as next investment destination. India's investment has been predicted as the propelling (boost) force towards the country's attainment of self-sustained growth by rapid industrializations.

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