Financial Services

Topics

- Credit rating Business
- Investment Banking
- Personal Financial Planning
- Wealth Management Services

Credit rating Business

- Whenever a financial institution is approached by a corporate entity or an individual to finance their needs it is imperative for the financial institution to consider the creditworthiness of the corporate entity or the individual before approving their financing request.
- This is where the financial institutions rely on credit rating agencies whose primary job is to assess the ability of an entity to pay the interests on principal amount and the principal itself on time. These agencies also assess the probability of default by the entity.
- Apart from equity, companies and other entities like government raise capital by means of debt from investors. The investors evince interest if they are confident enough of receiving returns as committed by the issuer of debt.
- The investor confidence is exhibited based on the debt issuer's ability to pay the interest as well as the principal amount or face value of the debt. The issuer of debt should seek the help of Credit rating agencies in getting their debt quality rated before it is issued to the investors. The rating of debt quality is assessed by these agencies only for the debt issued by the entities but not individuals. The entities issuing debt can be corporate companies, government entities like Countries, State and Local self governments and others.

List of Credit Rating Companies in India

1. Credit Rating Information Services of India Limited (CRISIL)
2. ICRA Limited
3. Brickwork Ratings (BWR)
4. Credit Analysis and Research limited (CARE)
5. India Rating and Research Pvt. Ltd.
6. Small and Medium Enterprises Rating Agency of India (SMERA)

Credit Rating Companies Contd..

ICRA Limited

ICRA was established as Investment Information and Credit Rating Agency of India Limited in 1991 at Gurgaon (Now Gurugram), Haryana.

At the time of its establishment, it was formed as a joint venture between Moody’s and few Indian banking and financial institutions. Moody’s is reputed US based credit rating agency. Later the company went public in the year 2007.

Apart from credit rating business, the company also provides Data and Knowledge process Outsourcing services, Consulting Services and Analytics related services. The company also has its operations in NEPAL and Srilanka, which are operated as subsidiaries.

Moody’s still remains the Single largest shareholder of ICRA. This association with Moody’s helped ICRA’s credit rating business to span across the following segments

- Structured Finance, Insurance, Market Linked Debentures, Mutual funds, SMEs, Project Finance, Corporate Debt, Public finance, Infrastructure and Financial Ratings

Credit Rating Companies Contd..

Credit Analysis and Research limited (CARE)

CARE was established in the year 1993 with headquarters in Mumbai. Apart from rating CARE is also into Valuation Services. The portfolio of its valuation services consists of valuation of the following products

- Debt, Equity & Market Linked Debentures

CARE is known for rating of bank loans. It segments the loans into long-term debt and short-term debt and rates accordingly. The portfolio of CARE's rating business is huge and covers the following segments and Entities

- Segments like Debt, IPOs, Corporate Governance, Infrastructure & Recovery
- Entities like Energy Service Companies (Renewable and Non-Renewable), Educational Institutions, Ship Yards, Real Estate, Financial Institutions and Issuer

The company is also into sovereign ratings of the countries. These services are offered by its international credit rating arm "ARC Ratings"

Brickwork Ratings (BWR)

Brickwork ratings (BWR), a Bengaluru based Credit rating agency was established in the year 2007. Canara Bank happens to be the promoter of this credit rating agency.

RBI recognized this agency as External Credit Assessment Agency for carrying out credit rating operations in India.

Though a late entrant in the Indian credit rating Market, it has interesting portfolio which covers the rating of the following entities and segments

- SMEs, Municipal Corporations, Financial Institutions, Bank loans, Capital Market Products, Corporate Governance

BWR also offers grading services. So far it graded the following entities and products

- Educational Institutions, Hospitals, NGOs, Micro Finance Institutions, Real Estate Investments and others

Credit Rating Companies Contd..

Small and Medium Enterprises Rating Agency of India (SMERA)

- SMERA was established in the year 2005 as a joint venture of Dun & Bradstreet India, Small Scale Industries Development Bank of India (SIDBI) and few other Indian Banks.
- As the name itself suggests it is primarily into rating of Small and Medium Enterprises and helps these SMEs to get access to capital after they are rated.

Credit Rating Information Services of India Limited (CRISIL)

- CRISIL was found in the year 1987. It is considered as one of the oldest credit rating agencies in India.
- The company is famous for its ratings of Mutual funds and Unit Linked Insurance Plans.
- The latest addition in its portfolio of ratings is Infrastructure rating. The company has its headquarters in Mumbai and has been a public limited company since 1993.
- CRISIL also holds non-controlling stake in another rating agency called CARE, which it acquired in 2017.

Credit Rating Companies Contd..

India Rating and Research Pvt. Ltd.

- Fitch Ratings, one of the US based largest credit rating agencies of the world owns India Rating and Research Pvt. Ltd. as a wholly owned Subsidiary.
- It is one of the rating firms which is approved by all three entities RBI, SEBI and National Housing Bank.
- This rating form has some interesting portfolio of rating the following entities and products
  - Issuers
  - Banks
  - Insurance Companies
  - Municipal Corporations
  - Financial Institutions

Investment Banking

- Investment banking is a segment of banking which involves in the capital raising process for entities like corporate companies, government and others.
- They also assist these entities in providing Mergers and Acquisitions and advisory services. They play the role of intermediary by bringing together the entities that possess capital to invest and the entities that are in need of capital to finance not only their day-to-day operations but also the growth plans.
- An Investment bank can operate as a full-service investment bank or as a division of a bank with multiple banking divisions. The difference is simple. Investment bank as a division of a bank largely assists the entities in capital raising process and advisory services related to Mergers and Acquisitions whereas a full-service investment bank is engages itself into the following basket of services
  - Capital Raising services
  - Advisory services related to Mergers and Acquisitions (M&A)
  - Sales and Trading
  - Equity Research and Analysis

Services offered by Investment Banking companies

- **Capital raising services:** An Investment bank assists the companies in raising the capital from Primary markets by acting as an intermediary between investors and companies. The capital can be raised either in the form of Initial Public Offer (IPO) or Follow-on Public Offer.
- **M&A Advisory:** Whenever a company is planning to go for an acquisition or a merger the first step is to estimate the fair value of the target company. Since Investment banks are continuously assisting various entities on Mergers and Acquisitions, companies unlike these Investment banks are not as professional as them in the company valuation process.
- So these companies take the help of these investment banks in estimating the fair value of the target company. Some companies take the help of these investment banks in completing the end-to-end acquisition process. In an M&A transaction the seller and buyer can associate with two different investment banks or a single investment bank to save the transaction costs.
- At times Investment banks themselves reach out to companies who are actively seeking expansion opportunities through M&A route.

Services offered by Investment Banking companies

- **Sales & Trading:** These services address the needs of the investors who are interested in investments in secondary markets.
- The investment banks either advises their clients on the possible companies to invest in or sell the shares in those companies where the investments were already made based on thorough research and understanding of the market and the concerned company's performance.
- The investment banks either act as an agent in executing the transactions on behalf of its clients or completely manage the capital of the client with predefined investment objectives.
- **Equity Research services –** These services are targeted at the investors who possess capital to invest, want to keep to total control of their investment activity but at the same time don't have any understanding of the market conditions and the performance of the company.
- Investment banks do a complete research of the equities the client wants to invest and comes out a recommendation of Buy, Sell or Hold.

Personal Financial Planning Services

- Individuals are often flooded with various investment alternatives from Insurance companies, Banks, Agents and mutual fund companies.
- He is also exposed to the lure of high returns in equity markets. But not every individual has an understanding of each of these products.
- His choice of investments in this case may be based on either experiment, reference from family, friends or colleagues.
- This type of investment behavior may or may not fetch desired results to the individual which necessitates the need for professional management of his financial plans.
- Personal financial planners or firms, who are experienced in financial planning process comes in handy for the naïve and inexperienced individuals.
- Personal financial planning services offer financial advisory services to individuals or entities.
- The focus of personal financial planning is to provide a secured and manageable financial future.
- Personal financial planning process is long-term in nature as it is planned based on the goals and needs of the individual at different timelines in his life

Services offered by the personal financial planners

- To understand and prioritize the financial targets at different timelines in an individual's life
- To highlight the concept of time value of money and plan for increase in expenses in future
- To plan for uncertainties like loss of job, death etc where the income sources suddenly stop
- Planning for health and living expenses post retirement
- To plan and assist for transfer of property to children or legal heirs

Some of the reputed firms in India offering personal financial planning services include

- Karvy
- Kotak Mahindra
- Motilal Oswal
- Way2Wealth Advisors
- Arthayantra

Wealth Management Services

- Wealth management refers to the managing the wealth of an individual or an entity.
- The target audiences for these services are people owning huge wealth like rich businessmen and High Networth Individuals.
- Wealth management firms assist these individuals in preserving and increasing the wealth by identifying avenues for making profits.
- Their role is not just limited to identification of profit making avenues but also assess the risk associated with them, possible capital income and capital gains and the underlying tax implications

Personal Financial management Vs Wealth Management

There is a thin line of difference between wealth management and personal financial management though both look inherently similar.

- Irrespective of the wealth status of the individual or an entity financial planning process is a must for everyone
- In order to go for wealth management services one should have enough of wealth either in the form of fixed or current assets.
- One need not have assets to start financial planning but should some established sources of income.
- Financial planning process eventually leads to creation of wealth and wealth management can be planned thereafter.
- In financial planning process active participation from an individual is not necessary whereas in wealth management, for both preservation and accumulation of wealth, active participation of the individual is very much needed.

Key phases of Financial Planning and Wealth management processes

- Now that there's a fair understanding of financial planning and wealth management processes it is pertinent to note that both the processes are interrelated.
- There is precedence in adopting these two, which can be put into three important phases. They are
  - Learning Phase
  - Accumulation Phase
  - Retirement Phase

Phases of Financial Planning and Wealth management processes

- **Learning Phase:**
  - This is beginning phase where an individual starts financial planning process.
  - He gets exposed to planning of his expenses, investments, savings and provisions for creation of asset classes.
  - There is no wealth management process involved here but the seeds of wealth management are sown in this phase
- **Accumulation Phase:**
  - In this phase the individual is about to reap the investment strategies he adopted in the learning phase.
  - As a part of it he starts amassing the assets and is about to create his own wealth.
  - There is no active wealth management involved here as the wealth is about to be created. His focus shall remain on preserving the wealth.
- **Retirement Phase:**
  - Now that the wealth has been created and preserved it should be actively managed not only to create additional wealth but also to safeguard it from losses.
  - In this phase the main focus is on wealth management process.

Thank You