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MONEY MARKET AND CAPITAL MARKET IN INDIA: INSTRUMENTS AND DYNAMICS

There is need and demand for funds for a short period of time- less than one year. The need may be for a large amount but the period is short. The need is for working capital requirements, repayment of loans, consumption etc. That is the reason for a structured entity called money market. It is a part of the financial markets involved in short-term borrowing, lending, buying and selling with original maturities of one year or less. Trading in money markets is done over the counter. Over-the-counter (OTC) trading is done directly between two parties, without the supervision of an exchange.)

Money market can be defined as a market for short-term funds with maturities ranging from overnight to one year and includes financial instruments that are considered to be close substitutes of money. Money market transactions could be both secured (with collateral) and unsecured (clean, without collateral).

Banks and financial institutions (IDBI, LIC etc.) individuals, mutual funds, companies and government are the main lenders and borrowers. The informal market operates through small-scale money-lenders as well as others outside the RBI control.

Money market instruments broadly are: call money; bill market (both commercial bills and treasury bills) Certificates of Deposit (CD); Commercial paper (CP).

Call Money

Call/Notice money is money borrowed or lent for a very short period. If the period is more than one day and up to 14 days it is called 'Notice money' otherwise the amount is known as Call money'. No collateral security is required to cover these transactions and goodwill and reputation are the basis apart from the documents like promissory notes. The call market enables the bank and institutions to even out their day to day deficits and surpluses of money.

Commercial banks, both Indian and foreign, co-operative banks, Discount and Finance House of India Ltd.(DFHI), Securities trading corporation of India (STCI) participate as both lenders and borrowers and Life Insurance Corporation of India (LIC), Unit Trust of India(UTI), National Bank for Agriculture and Rural Development (NABARD)can participate only as lenders.

Interest rates in the call and notice money market are market determined.

A primary dealer is a firm that buys government securities directly from a government, with the intention of reselling them to others, thus acting as a market maker of government securities.

Government Securities

The Government securities comprise dated securities issued by the Government of India and state governments as also, treasury bills issued by the Government of India.Reserve Bank of India manages and services these securities through its public debt offices located in various places as an agent of the Government. T-Bills are a money market instrument.

Treasury Bills

Treasury bills (T-bills) are short-term investment opportunities, generally up to one year. They are thus useful in managing short-term liquidity. At present, the Government of India issues three types of treasury bills through auctions, namely, 91-day, 182-day and 364-day. There are no treasury bills issued by State Governments.Treasury bills are available for a minimum amount of Rs.25,000 and in multiples of Rs. 25,000. Treasury bills are issued at a discount and are redeemed at par. Treasury bills are also issued under the Market Stabilization Scheme (MSS).While 91-day T-bills are auctioned every week on Wednesdays, 182-day and 364-day T-bills are auctioned every alternate week on Wednesdays. They are available in primary and secondary market. Treasury bills are available for a minimum amount of Rs.25,000 and in multiples of Rs.25,000. Treasury bills are issued at a discount and are redeemed at par.Treasury bills are zero coupon securities and pay no interest. They are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs.100/- (face value) may be issued at say Rs.98.20, that is, at a discount of say, Rs.1.80 and would be redeemed at the face value of Rs.100/-. The return to the investors is the difference between the maturity value or the face value (that is Rs.100) and the issue price.The usual investors in these instruments are banks, insurance companies, FIs etc. T-bills auctions are held on ***the Negotiated Dealing System (NDS)*** and the members electronically submit their bids on the system.

Cash Management Bills (CMBs)

Government of India, in consultation with the Reserve Bank of India, has decided to issue a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government. The CMBs have the generic character of T-bills but are issued for maturities less than 91 days. Like T-bills, they are also issued at a discount and redeemed at face value at maturity.

Inter Bank Term Money

Inter bank market for deposits of maturity beyond 14 days and upto three months is referred to as the term money market.

Certificates Of Deposit

Certificate of deposit (CD) is issued by scheduled commercial banks and Financial institutions (FI). Regional rural banks and Local area banks can not issue CDs.

CD is a negotiable promissory note, secure and short term (up to a year) in nature. A CD is issued at a discount to the face value, the discount rate being negotiated between the issuer and the investor. Minimum amount of a CD should be Rs.1 lakh. The maturity period of CDs issued by banks should be not less than 15 days and not more than one year. The FIs can issue CDs for a period not less than 1 year and not exceeding 3 years from the date of issue. CDs can be issued to individuals or firms.

Inter Corporate Deposits Market

Apart from CPs, corporates also have access to another market called the inter corporate deposits (ICD) market. An ICD is an unsecured loan extended by one corporate to another. Existing mainly as an avenue for low rated corporates, this market allows fund- surplus corporate to lend to other corporates.

Commercial Paper

It represents short term unsecured promissory notes issued by top rated corporates, primary dealers (PDs),satellite dealers (SDs) and the all-India financial institutions (FIs). CP can be issued for maturities between a minimum of 7 days and a maximum of up to one year from the date of issue. However, the maturity date of the CP should not go beyond the date up to which the credit rating of the issuer is valid. CP can be issued in denominations of Rs.5 lakh or multiples thereof.

The main features of these papers are:

- corporates having tangible net worth of not less than Rs.4 crore can issue them
- All CPs require credit rating from a credit rating agency
- Minimum amount invested by single investor is Rs. Five lakh or multiple thereof.
- CPs are issued at a discount to face value.

Ready Forward Contracts (Repos)

Repo is an abbreviation for Repurchase agreement, which involves a simultaneous "sale and purchas" agreement. When banks have any shortage of funds, they can borrow it from Reserve Bank of India or from other banks. The rate at which the RBI lends money to commercial banks on the basis of government securities is called repo rate.

Commercial Bills

Bills of exchange are negotiable instruments drawn by the seller (drawer) of the goods or services on the buyer (drawee) of the goods for the value of the goods delivered. These bills are called trade bills. These trade bills are called commercial bills when they are accepted by commercial banks for discounting. If the bill is payable at a future date and the seller needs money immediately, he may approach his bank for discounting the bill. The bank or any other discounting body takes a commission for it.

Discount and Finance House of India (DFHI)

It wet up in 1988 by RBI to strengthen the bill market. It has been established to deal in money market instruments in order to provide liquidity. Thus the task assigned to DFHI is to develop a secondary market in the existing money market instruments. The main objective of DFHI is to facilitate the smoothening of the short term liquidity imbalances by developing an active money market and integrating the various segments of the money market. At preset DFHI's activities are restricted to:

- Dealing in Treasury Bills
- Re-discounting short term commercial bills.
- Participating in the inert bank call money, notice money and term deposits and
- Dealing in Commercial Paper and Certificate of deposits.
- Government dated Securities

Libor

The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that they would be charged for what they borrow from other banks. It is usually abbreviated to BBA Libor (for British Bankers' Association Libor). It is the primary benchmark, along with the Euribor, for short term interest rates around the world. Many financial institutions, mortgage lenders and credit card agencies set their own rates relative to it.

Mibor - Mumbai Inter-Bank Offer Rate

The Committee for the Development of the Debt Market that had studied and recommended the modalities for the development for a benchmark rate for the call money market. Accordingly, NSE had developed and launched the NSE Mumbai Inter-bank Bid Rate (MIBID) and NSE Mumbai Inter-bank Offer Rate (MIBOR) for the overnight money market in 1998. The **MIBID/MIBOR** rate is used as a bench mark rate for majority of deals.

Money Market Reforms

On the recommendations of the Sukhmoy Chakravarty Committee on the Review of the Working of the monetary system (1985) and the Narasimham Committee Report on the Working of the Financial System in India, 1991, The Reserve Bank of India initiated a series of money market reforms basically directed towards the efficient discharge of its objectives.

Reforms made in the Indian Money Market are

- Deregulation of the Interest Rate
- Money Market Mutual Fund (MMMFs) are allowed to sell units to corporates and individuals
- Discount and Finance House of India (DFHI) was set up in 1988 to impart liquidity in the money market. It was set up jointly by the RBI, Public sector Banks and Financial Institutions.
- Liquidity Adjustment Facility (LAF) LAF adjusts liquidity in the market through absorption and or injection of financial resources by the RBI.
- In order to impart transparency and efficiency in the money market transaction the electronic dealing system has been started. It is useful for the RBI to watchdog the money market.
- Establishment of the CCIL: The Clearing Corporation of India limited (CCIL) in 2001.
- Development of New Market Instruments like CMBs
- MSS since 2004 that came to great use in 2016 post-demonetisation.

Capital Market

It refers to market for funds with a maturity of 1 year and above called as term funds that include medium and long term funds. The demand for these funds comes from both the government for its investment purposes and also the private sector. Banks, public financial institutions like LIC and GIC; development financial institutions, mutual funds are the main participants in the market. The components of the capital market in India are the following:Government securities, industrial securities that include the shares and debentures of Indian companies- both the primary and secondary market, DFIs (IFCI, IDBI, State Financial Corporations (SFCs); UTI, ICICI (private sector) Financial intermediaries: merchant banks; mutual funds; leasing companies; venture capital companies and others.

G-Secs (Gilt Edged Securities)

A Government security is a tradable instrument issued by the Central Government or the State Governments through RBI. It acknowledges the Government's debt obligation. Such securities are short term (usually called treasury bills or Cash Management Bills with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more). In India, the Central Government issues both, treasury bills and bonds (dated securities) while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). Government securities carry zero risk of default and, hence, are called risk-free gilt-edged instruments. Government of India also issues savings instruments (Savings Bonds, National Saving Certificates (NSCs), etc.) or special securities (oil bonds, Food Corporation of India bonds, fertiliser bonds, power bonds, recapitalization bonds etc.). They may not be tradable and are, therefore, not eligible to be SLR securities. They are not issued through the RBI.

Dated Government securities are long term securities and carry a fixed or floating coupon (interest rate) which is paid on the face value, payable at fixed time periods (usually half-yearly). The tenor of dated securities can be up to 30 years. The G-Sec instrument is in the nature of a bond.

GOI Dated Security can be held by any person, firm, company, corporate body or institution, State Governments, Provident Funds and Trusts. Non-Resident Indians (NRIs, viz., Indian citizens and Individuals of Indian origin), Overseas corporate bodies predominantly owned by NRIs and Foreign Institutional Investors registered with SEBI and approved by Reserve Bank of India are also eligible to invest in the government stock. G-Sec are issued both in demat and physical form. The minimum investment in G-Secs is Rs 10,000. G-Secs could be of the following types:

Dated Securities: They have fixed maturity and fixed coupon rates payable half yearly and are identified by their year of maturity.

Floating Rate Bonds: They are bonds with variable interest rates with a fixed percentage over a benchmark rate. There may also be a cap and a floor rate attached, thereby fixing a maximum and minimum interest rate payable on it.

Capital Indexed Bonds: They are bonds where the interest rate is a fixed percentage over the inflation rate: WPI or CPI depending on the terms.

Reserve Bank of India sets limits to FPI investment in GOI securities, state development loans (SDLs) and corporate bonds.

State Development Loan (SDL)

State Governments also raise loans from the market through the RBI. SDLs are dated securities issued through an auction similar to the auctions conducted for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date. Like dated securities issued by the Central Government, SDLs issued by the State Governments qualify for SLR. They are also eligible as collaterals for borrowing through market repo as well as borrowing by eligible entities from the RBI under the Liquidity Adjustment Facility (LAF).

DFIs or Development Banks

Financial institutions assume a critical role in the provision of long term credit. A development finance institution (DFI) can be broadly categorised as All-India or State / regional level institutions depending on their geographical coverage of operation. Functionally, All-India institutions can be classified as

- term-lending institutions (IFCI Ltd., IDBI, IDFC Ltd., IIBI Ltd.) extending long-term finance to different industrial sectors
- refinancing institutions (NABARD, SIDBI, NHB) extending refinance to banking as well as non-banking intermediaries for finance to agriculture, SSIs and housing sector, respectively
- sector-specific / specialised institutions (EXIM Bank, TFCI Ltd., REC Ltd., HUDCO Ltd., IREDA Ltd., PFC Ltd., IRFC Ltd.)
- investment institutions (LIC, UTI, GIC, IFCI Venture Capital Funds Ltd., ICICI Venture Funds Management Co Ltd.). State / regional level institutions are various SFCs, SIDCs etc.

Historically, low-cost funds were made available to DFIs to ensure that the spread on their lending operations did not come under pressure. DFIs had access to soft window of Long Term Operation (LTO) funds from RBI at concessional rates.

(Industrial Development Bank of India (IDBI), IFCI Ltd., Industrial Investment Bank of India Ltd. (IIBI), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), National Bank for Agriculture and Rural Development (NABARD), Export Import Bank of India (EXIM Bank), Tourism Finance Corporation of India Ltd. (TFCI), Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC); Infrastructure Development Finance Company of India Ltd. (IDFC). All these institutions operate on all-India basis. Other institutions comprise Export Credit and Guarantee Corporation (ECGC) and Deposit Insurance and Credit Guarantee Corporation (DICGC). The state level institutions consist of state financial corporations (SFCs) and state industrial development corporations (SIDCs))

Merchant Banks / Investment Banks

MBs are those who manage and underwrite (Underwriting an issue means to guarantee to purchase any shares in a new issue(IPO) or rights issue not fully subscribed by the public.) new public issues floated by companies to raise funds from public. They advise corporate clients on fund raising. They are also called investment banks (I banks) .They deal only with corporates and not general public, essentially.

Lehman Brothers was a global financial services firm. Before declaring bankruptcy in 2008, Lehman was the fourth-largest investment bank in the US (behind Goldman Sachs, Morgan Stanley, and Merrill Lynch), doing business in investment banking, equity, trading (especially U.S. Treasury securities), research, investment management, private equity and private banking.

On September 15, 2008, the firm filed for bankruptcy protection following the massive exodus of most of its clients, drastic losses in its stock, and devaluation of its assets by credit rating agencies.

Collective Investment Schemes (CIS)

According to the Securities Laws (Amendment) Act 2014, a CIS is any scheme or arrangement which pools funds from investors and involves a corpus amount of ₹ 100crore or more. It is an arrangement where investors pool in their funds to derive some return on investment. The pool of funds is, in turn, used for purposes of the scheme or arrangement.CIS is governed by the Securities and Exchange Board of India (SEBI) Regulations.

While they are useful for the unbanked people, many CISs emerged as Ponzi schemes(fraud).

Alternative Investment Funds

AIFs is a newly created class of pooled-in investment vehicles for real estate, private equity and hedge funds. Angels are the new category introduced in 2013. AIFs are basically funds established or incorporated in India for the purpose of pooling in capital from Indian and foreign investors for investing as per a pre-decided policy. Sebi regulates them. It excludes Mutual funds or collective investment Schemes, family trusts, Employee Stock Option etc.

REITs

Securities and Exchange Board of India (SEBI) regulates Real Estate Investment Trusts (REITs). Like mutual funds, REITs will pool in money from investors and issue units in exchange.

Most of the money so collected is invested in commercial properties which are completed and generate income. The REIT will have to first get registered and raise funds through an initial public offer or IPO. Units of REITs will have to be compulsorily listed on exchanges and will be traded like securities. The minimum requirement for asset sizes permitted to be listed in India is Rs 500 crore. The minimum issue size of the initial public offer shouldn't be less than Rs 250 crore. Therefore, like stocks, investors will be able to buy units of REITs from both primary and secondary markets which are based on commercial real estate without actually having to buy those assets.

Mutual Funds

Mutual funds raise money from public and invest them in stock market securities; bonds etc. SEBI regulates mutual funds.

Hedge Fund

A hedge fund is like a mutual fund (MFs): both are investment vehicles which pool investors' money which invested as per the fund`s mandate and returns are distributed among unit holders for a commission. However, hedge funds use strategies far more complex than a typical MF which mostly focuses on generating returns through simple asset allocation. Hedge funds use various strategies such as long-short, derivatives, leverage and so on and aim to give return with minimum risk.SEBI (Securities and Exchange Board of India) regulates them under alternative investment fund (AIF) .

Venture Capital

Venture capital is money provided by financial institutions who invest in startups generally that have the potential to develop into significant economic contributors.

Angel Investors

An angel investor or angel (also known as a business angel or informal investor) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. They invest their own money unlike a venture capitalist who invests public money. They became popular after the web-based enterprises came up in the 1990's.With an aim to encourage entrepreneurship in the country by financing small start-ups, market regulator SEBI in 2013 notified norms for angel investors, who provide funding to companies at their initial stages. Angel investors are allowed to be registered as Alternative Investment Funds (AIFs) - a newly created class of pooled-in investment vehicles for real estate, private equity and hedge funds.

In order to ensure investment by angel funds is genuine, the Securities and Exchange Board of India (Sebi) has restricted investment by such funds between Rs. 50 lakh and Rs 5 crore. Among other norms included, angel funds can make investments only in those companies which are incorporated in India. These funds need to be invested in a firm for at least three years, can invest in companies not older than 3 years.Angel funds are required to have a corpus of at least Rs 10 crore and minimum investment by an investor should be Rs 25 lakh. The regulator also stipulated that the fund must not have any family connection with the investee company.

The new norms would help in encouraging entrepreneurship in the country by financing small start-ups at a stage where such start-up finds it difficult to obtain funds from traditional sources of funding such as banks, financial institutions among others.

In 2016, GOI introduced a start-up policy which can get a stimulus from the angels.

Private Equity

A company can sell some of its shares- in significant quantity, to a PE firm which obliges the PE to be a part of the management and make the company profitable in a few years or so after which the PE firm exits. The company may be listed or not. The placement of equity is private and not through an IPO. It generally has a lock in period during which they are not publicly traded on a stock exchange. Capital for private equity is raised primarily from institutional investors.

Hundi

Hundis were legal financial instruments that evolved in India. These were used in trade and credit transactions; they were used as remittance instruments for the purpose of transfer of funds from one place to another. In the pre-modern era, Hundis served as travellers cheques. They were also used as credit instruments for borrowing and as bills of exchange for trade transactions. Technically, a Hundi is an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order. Being a part of an informal system, hundis now have no legal status and were not covered under the Negotiable Instruments Act, 1881.

Chit Funds

A chit fund is an arrangement that a group of people arrive at to contribute money in a defined manner at periodic intervals into a pool. It is a kind of savings scheme.Such chit fund schemes may be conducted by organised financial institutions, or may be unorganised schemes conducted between friends or relatives. Chit funds played an important role in the financial development of people of south Indian state of Kerala, by providing easier access to credit. In Kerala, chitty (chit fund) is a common phenomenon practiced by all sections of the society. A company named Kerala State Financial Enterprise exists under the Kerala State Government, whose main business activity is the chitty. During the process of collection, any member can draw a lump sum through various ways like a lucky draw, an auction or a member can even fix a payout date based on a known expenditure. These schemes are very popular in tier II and III towns in India and even in rural India, because under-penetration of banking services, as they are a way of raising quick money or catering for sudden liquidity needs or even a planned expenditure. They thrive as bank loans are very cumbersome and many are not eligible. Chit funds are governed by state or central laws. There is a central Chit Funds Act of 1982, apart from a number of state chit fund Acts. There is an office of "Registrar of Chit Funds" in every state that monitors operations which are quite stringent.

Securities Laws (Amendment) Act, 2014 provides Securities and Exchange Board of India (SEBI) with new powers to effectively pursue fraudulent investment schemes, (ponzi schemes) and gives guidelines for the formation of special fast trial courts.

QIPs

QIPs are eligible under "Qualified Institutional Placement "(which includes public financial institutions, mutual funds, foreign institutional investors, venture capital funds and foreign venture capital funds registered with the SEBI) to be sold shares/ fully convertible debentures/ partly convertible debentures or any securities which are convertible into or exchangeable with equity shares at a later date. Since the beginning of 2009, Indian companies are raising billions of dollars from the QIP route.

NBFC

NBFC means Non-banking financial company. A non-banking financial company (NBFC) is a company registered under the Companies Act, 1956 and is engaged in the business of loans and advances, housing finance, acquisition of shares/stock/bonds/debentures/securities issued by government or local authority or other securities of like marketable nature, leasing, hire-purchase, insurance business, chit business, but does not include any institution whose principal business is that of agriculture activity, industrial activity, ale/purchase/construction of immovable property. NBFCs are similar to banks; however they do not accept demand deposits.

Some microfinance companies are registered as NBFCs and are regulated by the RBI while other MFIs are either registered as money lenders or Societies. An RBI-appointed panel headed by Y H Malegam had recommended setting up of a special category of NBFCs operating in the micro finance sector in 2011.These are called Non Banking Financial Company-Micro Finance Institution (NBFC-MFI).

The Reserve Bank of India (RBI) introduced a new category called Non-Banking Financial Company-Factors. Factoring is the business of selling invoices (receivables) to a factoring company (Factor) at a discount. Consequently, the selling corporate can get cash quickly and avoid risk of collecting debt. Factoring can be of two types: domestic and export oriented, the latter being called forfaiting. Forfaiting is the purchasing of an exporter's receivables (the amount importers owe the exporter) at a discount by paying cash. The forfaiter, the purchaser of the receivables, becomes the entity to whom the importer is obliged to pay its debt.The factoring mechanism mostly assists smaller companies, which run relatively shorter fund flow cycle. Factoring bails them out by supporting their fund system instantly.

ECBs

ECB (External Commercial Borrowings) is an instrument used to facilitate the access to foreign money by Indian corporations and PSUs (Public Sector Undertakings). ECBs include commercial bank loans, buyers' credit, credit from official export credit agencies and commercial borrowings from the private sector window of Multilateral Financial Institutions such as International Finance Corporation (Washington), ADB and Investment by Foreign Institutional Investors (FIIs) in dedicated debt funds. ECBs cannot be used for investment in stock market or speculation in real estate. The DEA (Department of Economic Affairs), Ministry of Finance, Government of India along with Reserve Bank of India, monitors and regulates ECB guidelines and policies. External Commercial Borrowings provide an additional source of funds to Indian corporates and PSUs for financing expansion of existing capacity and as well as for fresh investment, to augment the resources available domestically. ECBs can be used for any purpose (rupee-related expenditure as well as imports) except for investment in stock market and speculation in real estate.Applicants are free to raise ECB from any internationally recognised source like banks, export credit agencies, suppliers of equipment, international capital markets etc. ECBs help diversify risk for the companies. Also, the interest rates are softer abroad. They help Indian companies with foreign funds.Country benefits as it has access to forex.

ECBs can be raised through two routes: Automatic Route and the Approval Route. The former does not require permit from the Regulator whereas the latter requires. RBI policy allows corporates registered under the Companies Act, 1956, except financial intermediaries such as banks, financial institutions (FIs), housing finance companies and Non-Banking Finance Companies (NBFCs) to access ECBs. NGOs engaged in micro-finance activities have been permitted to raise ECB up to certain limits. Financial institutions dealing exclusively with infrastructure or export finance such as IDFC, IL&FS, Power Finance Corporation, Power Trading Corporation, IRCON and EXIM Bank are considered on a case-by-case basis.

The priority end use of ECBs includes investment (such as import of capital goods, new projects, modernization/expansion of existing production units) in real sector - industrial sector including small and medium enterprises (SME) and infrastructure sector, power exploration, telecom, railways, roads & bridges, ports and exports.ECB Policy helps source loans cheap; domestic liquidity constraints are eased; country gets forex; rupee slide could be contained; infrastructure benefits.

Euro Issues

Indian companies are permitted to raise foreign currency resources through issue of Foreign Currency Convertible Bonds (FCCBs), ordinary equity shares through Global Depository Receipts (GDRs) to foreign investors i.e. institutional investors or individuals (including NRIs) residing abroad. That is, Euro-issues include Euro-convertible bonds and GDRs.

Stock Market

(Given as a separate chapter)

Credit Default Swap

It is a form of insurance against debt default. When an investor buys corporate (or government) bonds he/she faces the risks of default on the part of the issuing agent. The investor can insure its investment in such bonds against default through a third party. The investor pays a premium to the party providing insurance. In the event of default by the bond issuer, the insurer would step in and pay the investor. A CDS is just like insurance, which is bought by those who fear default.

Corporate Debt

Corporate debt is necessary for their investment, acquisitions etc.
The following are some of the different types of corporate debt securities issued:

- Non-Convertible Debentures
- Partly- Convertible Debentures
- Fully-Convertible Debentures (Convertible into Equity shares)
- Bonds

Infrastructure Debt Funds (IDFs)

IDFs are investment vehicles which can be sponsored by commercial banks and NBFCs in India in which domestic/offshore institutional investors, specially insurance and pension funds can invest through units and bonds issued by the IDFs. They can be set up either as a Trust or as a Company. A trust based IDF would normally be a Mutual Fund (MF), regulated by SEBI, while a company based IDF would normally be a NBFC regulated by the Reserve Bank. IDF-MFs can be sponsored by banks and NBFCs. Only banks and Infrastructure Finance companies can sponsor IDF-NBFCs. By 2017, while all IDF-NBFCs have asset base of over ₹ 9,000 crore, IDFs under the MF route (IIFCL, ILFS,) have assets of t about ₹ 2,000 crore.

FIIs Investment in Debt

FIIs can invest in government and corporate debt- primary and secondary market. These limits and the rules are relaxed from time to time depending on the needs of the economy. FII debt is rupee debt.

Take-out Financing

It came into effect in 2010. It is a method of providing finance for longer duration projects (for example, 15 years) by banks by sanctioning medium term loans (like 5-7 years). It is the understanding that the loan will be taken out of books of the financing bank within pre-fixed period, by another institution thus preventing any possible asset-liability mismatch.

Under this process, the institutions engaged in long term financing such as IDFC, agree to take out the loan from books of the banks financing such projects after the fixed time period when the project reaches certain previously defined milestones. On the basis of such understanding, the bank concerned agrees to provide a medium term loan- 5-7 years. At the end of the period, the bank could sell the loans to the institution and get it off its books. This ensures that the project gets long-term funding through various participants. Banks otherwise cannot lend for infrastructure as their deposits are for a short period and the loans are for a long period- asset liability mismatch.

External Sources of Finance For India

- Stock market(partly touched above under Euro issues) like ADRs and GDRs
- ECB(see above)
- IBRD and IFC
- Private equity
- Bilateral loans by Governments abroad
- Masala bonds(in rupee)

International Finance Corporation's (IFC) and Masala Bond

IFC floated the first ever global rupee bond in 2013. The first tranche of International Finance Corporation's (IFC) rupee bond saw unprecedented demand from global pension funds, banks, asset management companies and central banks. It paved the way for Indian corporates to raise cheaper funds as the currency risk will be borne by the investor.