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B.Com Honours | Semester V | Calicut University

MANAGEMENT OF FINANCIAL SERVICES

Course Code: COM5EJ301 • Module 2 Notes

Module II: Fee-Based Financial Services

Covers advisory and fee-generating services: Merchant Banking, SEBI ICDR Regulations, Credit Rating methodology, and Securitization of debt assets under SARFAESI Act.

Unit 4: Merchant Banking Functions & SEBI Guidelines

1. Core Functions: Issue Management (Pre-issue due diligence, DRHP drafting, pricing, underwriting, allotment), Corporate Advisory, Syndicated Loans.
2. SEBI ICDR Regulations 2018: Mandatory 90% minimum subscription, Book Building Process (floor price & price band), and Green Shoe Option for price stabilization.

Unit 5: Credit Rating Concept, Process, & Rating Agencies

Independent evaluation of debt instruments. Agencies: CRISIL, ICRA, CARE, India Ratings. Process: Request → Team analysis → Management meeting → Rating Committee decision → Rating communication & surveillance review.

Unit 6: Securitization of Debt Assets & Mechanism

Converting illiquid loans into liquid securities. Process: Originator transfers loan pool → Special Purpose Vehicle (SPV) issues Pass Through Certificates (PTCs) to Investors. Governed by SARFAESI Act, 2002 and Asset Reconstruction Companies (ARCs).

Practical Case Framework 1 (Credit Rating Symbols & Investment Grade Classification Table): Map standard credit rating grades and default risk probabilities across CRISIL/ICRA rating scales.

Credit Rating Scales & Investment Grade Classification Table:

Rating Symbol	Grade Category	Safety & Credit Risk Interpretation	Investor Eligibility Status
AAA	Highest Safety	Lowest credit risk; Exceptional interest & principal repayment capacity	Investment Grade (Institutional)
AA	High Safety	Very low credit risk; High degree of financial stability	Investment Grade
A	Adequate Safety	Low credit risk; Adequate capacity but vulnerable to economic shifts	Investment Grade
BBB	Moderate Safety	Moderate credit risk; Lowest investment grade threshold	Investment Grade (Speculative border)
BB / B	Inadequate Safety	High credit risk; Substantial speculative characteristics	Junk / Speculative Grade
D	Default	In default or expected to be in default shortly	Defaulted Asset

Practical Case Framework 2 (Securitization Transaction Stakeholders & Process Flow): Define the role of each key participant in an asset securitization transaction structure.

Securitization Process Stakeholders & Roles Reference Matrix:

Securitization Participant	Primary Operational Role in Securitization Structure
Originator (Bank / NBFC)	Sells pool of illiquid financial assets (e.g. Home Loans / Auto Loans) to SPV
Special Purpose Vehicle (SPV)	Bankruptcy-remote trust that buys asset pool and issues PTC securities to investors
Credit Rating Agency	Evaluates credit quality and assigns rating to Pass Through Certificates (PTCs)
Servicer / Collection Agent	Collects monthly EMIs from underlying borrowers and remits funds to SPV
Institutional Investors	Mutual funds, insurance firms, and QIBs purchasing PTC securities for yield