

Merchant Banking in India

Aishwarya Dhamane and Khushboo Maddeshiya

Shri G.P. M. Degree College, Vile Parle (E), Mumbai, Maharashtra, India

Abstract: *Merchant banking is a financial institution which provides service to their clients. Merchant banking provides not only financial services but also guides them to move on right path with the help of rules given by SEBI. Merchant banking provides share ownership instead of loans. Merchant banking covers wide range such as portfolio management, customer services, counselling etc Merchant banking offer fee-based and non-fee-based services like loan syndication, underwriting, project promotion, advisory to small and medium savers. Merchant banking has a long-term approach than investment. This study helps to understand the concept of merchant banking. This paper shows the linkage between intermediations function and economic development in India There should be collaboration between financial institution and finance company to a financial system in India. This study helps to understand the prime objective functions, role in the market and recent development in merchant banking*

Keywords: Merchant banking

I. INTRODUCTION



HISTROY OF INDIAN MERCHANT BANKING

The formal beginning of the merchant banking services in India began in 1967 when the Reserve Bank of India provided license to the Grindlays Bank. The Grindlays Bank was engaged in capital issue management and it provided diverse financial services to the emerging section of entrepreneurs, especially those belonging to the small and medium enterprise sector.

Citibank started the merchant banking services in 1970 and the State Bank of India followed the same in 1972. After few years, the national merchant banks started collaborating with their counterparts in different countries to start their merchant banking divisions abroad.

After that there were many banks which set up the merchant bank division such as;

- ICICI
- Bank of India
- Bank of Baroda

- Canara Bank
- Punjab National Bank
- UCO Bank

The Merchant Bank got more importance in the year 1983 when there was a huge boom in the primary market where the companies were going for new issue. Merchant banking activities are organized and undertaken in several forms. Commercial banks and foreign development finance institutions have organized them through formation divisions, nationalized banks have formed subsidiary companies, share brokers and consultancies constituted themselves into public limited companies or registered themselves as private limited Companies.

INTRODUCTION TO MERCHANT BANKING IN INDIA;

Merchant banking is a set of select banking and financial services offered by merchant banks to large corporations, institutional investors, and high net worth individuals (HNIs). Some of the most common merchant banking services include, fundraising, financial advisory, lending, underwriting, corporate portfolio management, international trade advisory, mergers and acquisitions, and asset sale and management advisory.

Typically, merchant banks avoid retail banking and depository services, which means their services are mostly limited to large companies, and multinational businesses.

In modern terms, a merchant bank is a firm or financial institution that invests equity capital directly in businesses and often provides those businesses with advisory services. A merchant bank offers the same services as an investment bank; however, it typically services smaller clients and makes direct equity investments in them. Merchant banks mainly work with small-scale enterprises that are unable to raise funds through an initial public offering.

Merchant banking means the activity of rendering a number of services including Management of securities, Portfolio management, Underwriting and Insurance, Financial advice and project counseling etc. Large brokers, Mutual Funds, Venture capital companies and Investment Banks offer Merchant-Banking services. The main difference between merchant banking and commercial banking is that commercial banking involves accepting deposits and granting loans and advances whereas merchant banking involves rendering of the services for a fee.

DEFINITION

According to Dictionary of Banking & Finance "A bank which arranges loans to companies, deals in international finance, buys & sells shares, launches new companies on the stock exchanges but does not provide normal banking services to the general public". Service oriented activity. Arranging finance and Trading in shares. Helps to launch new stock issuances.

HOW DOES MERCHANT BANKING WORK?

Merchant banks typically work with large, established companies that need help with mergers and acquisitions, IPOs, and other complex financial transactions.

The services provided by merchant banks may include underwriting, corporate finance, securities trading, and advisory services.

Merchant banks typically charge higher fees for their services compared to traditional banks due to the specialized nature of their work

FUNCTIONS OF MERCHANT BANKING IN INDIA:

1. Project Counseling;

This has originated from corporate counseling. It relates to project finance and includes preparation of project reports, cost of the project and also arranging the financing pattern. The projects are appraised on the basis of the location, marketing, and technical and financial viability of the project.

2. Loan Syndication:

It refers to a loan arranged by a bank for a borrower who is likely to be a large company, a local authority, or a government department. So, the merchant banker first finalizes the cost of the project before approaching a financial institution for term loans. After that, the merchant banker designs the capital structure, determine the promoter's

contribution, and decides the approximate amount to be raised. It also ensures that the project adheres to the guidelines for financing industrial projects. Merchant bankers render comprehensive services of loan syndication to cover all types of arrangements.

3. Management of Capital Issues:

Management of capital issues involves selling of securities, namely, equity shares, preference shares, and debentures and bonds to the investors. The merchant bankers prepare the action plan and budget for the total expenses for the issues, drafting the prospectus getting the consent letter publicity, coordinating with underwriters, selecting the advertising agency for pre-issue and post-issue merchant banker renders the advice to the issuer company regarding the types of security to be issued.

For the success of the issue, the merchant banker should keep close liaison and coordination with various agencies involved in public issues. It is the responsibility of the merchant banker to groom the issue to ensure full subscription.

4. Corporate Advisory Services:

Merchant bankers set up corporate advisory service branches to render exclusive services to their corporate customers. In India, SEBI guidelines insist that all the issues should be managed by at least one authorized merchant banker. The success of the issue is dependent on the selection of the right types of security. So, expert advice for merchant bankers is of immense importance to ensure success and security.

5. Portfolio Management:

Portfolio management refers to minimizing the risk and maximizing the returns. Hence, the term portfolio management can be applied only to share and debentures. Merchant bankers render portfolio management services to their customers and help the investors to choose the right type of securities that is safe and ensures liquidity and profitability. So merchant bankers need to keep regular market information and economic surveys.

6. Advisory Services to Mergers and Takeovers:

The term merger means a combination of two companies in a manner such that only one company survives and another goes out of existence.

On the other hand, takeover refers to the purchase of a company by another company and in the process of acquiring and controlling interest in the share capital of another existing company. Merchant banker acts as a middleman between two companies by safeguarding the interest of both. He gets the approval from the financial institutions of the government or from the RBI.

7. Consultancy to Sick Industrial Units:

A merchant banker guides the existing units for growth and diversification. He/she appraises their technology and process, assessing their requirements and restructuring their capital base and also chalks out the rehabilitation program which can be accepted by the banks and other financial institutions.

8. Leasing:

In a lease transaction, the merchant banker renders the services that include an arrangement for lease finance facilities for leasing companies, advice on the optimal structuring of the transaction, legal documentation, and tax counseling.

9. Foreign Currency Financing:

Foreign currency finance is the fund provided for foreign trade transactions. It may take the form of export-import trade finance, euro currency loan, Indian joint venture abroad or foreign collaborations.

The main areas that are covered in this type of merchant activity are as follows:

Providing assistance for carrying out the study of turnkey and construction contract projects.

Providing assistance in applications to working groups, liaison with RBI, ECGD, and other institutions.

Providing assistance in opening and operating bank accounts abroad.

Providing assistance in obtaining export credit facilities from the EXIM bank for export of capital goods, and arranging for the necessary government approvals and clearance.

Providing guidance on the forward cover for exchange risk.

II. ROLES AND RESPONSIBILITIES OF MERCHANT BANKERS IN INDIA

Merchant bankers in India undertake a wide range of activities, ensuring regulatory compliance and investor protection.

These include:

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1. Managing Public Issues of Securities:

Merchant bankers act as intermediaries in managing public offerings of securities, such as initial public offerings (IPOs) and follow-on public offerings (FPOs). They assist companies in the entire process, from due diligence to underwriting and allocation of securities, ensuring fair and transparent market practices.

2. Underwriting: Mitigating Risks and Boosting Investor Confidence:

Merchant bankers provide underwriting services to companies issuing securities. By assuming the risk of unsubscribed shares, they confidence among investors, facilitating successful public offerings.

3. Facilitating International Offerings:

In an increasingly globalized market, merchant bankers play a crucial role in facilitating international offerings, such as Global Depository Receipts (GDRs), American Depository Receipts (ADRs), bonds, and other instruments. They ensure compliance with international regulations and assist companies in cross-border fundraising.

4. Enabling Private Placement Securities:

Merchant bankers assist companies in raising capital through private placements, offering securities to a select group of investors. They ensure compliance with regulations and facilitate transparent transactions, benefiting both companies and investors.

5. Providing Corporate Advisory Services:

Merchant bankers provide expert advice on corporate actions, including takeovers, acquisitions, and disinvestment. They assist companies in strategic decision-making, ensuring compliance with regulatory requirements and protecting the interests of all stakeholders.

III. FEATURES OF MERCHANT BANKS

- Merchant banks are non-depository banks that generally do not cater to the banking and finance needs of the general public.
- Merchant banking is a select set of professional services available to large corporations, HNIs, institutional investors, and venture capitalists, among others.
- These banks usually make money through commissions and consultation charges.
- However, the profit distribution of these banks generally tends to be poor.
- These banks tend to be cash-rich.
- Merchant banks are known for their premium services, speed of decision-making, and customer-centricity.
- Merchant banks have a strong network, a large team of financial experts, and generally sit on a huge pile of data
- These banks can even advise their customers on matters of international trade, and overseas acquisitions or mergers.

ORGANIZATIONAL / SETUP TYPES OF MERCHANT BANKING ORGANIZATION IN INDIA

In India a common organizational set up of merchant bankers to operate is in the form of divisions of Indian and Foreign banks and Financial institutions, subsidiary companies established by bankers like SBI, Canada Bank, Punjab National Bank, Bank of India, etc. some firms are also organized by financial and technical consultants and professionals. Securities and exchanges Board of India (SEBI) has divided the merchant bankers into four categories based on their capital adequacy. Each category is authorized to perform certain functions. From the point of Organizational set up India's merchant banking organizations can be categorized into 4 groups on the basis of their linkage with parent activity. They are:

a) Institutional Base:

Where merchant banks function as an independent wing or as subsidiary of various Private/ Central Governments/State Governments Financial institution Most of the financial institutions in India are in public sector and therefore such set up plays a role on the lines of governmental priorities and policies.

b) Banker Base:

These merchant bankers function as division/ subsidiary of banking organization. The parent banks are either nationalized commercial banks or the foreign banks operating in India. These organizations have brought professionalism in merchant banking sector and they help their parent organization to make a presence in capital market.

c) Broker Base:

In the recent past there has been an inflow of Qualified and professionally skilled brokers in various Stock Exchanges of India. These brokers undertake merchant banking related operating also like providing investment and portfolio management services.

d) Private Base:

These merchant banking firms are originated in private sectors. These organizations are the outcome of opportunities and scope in merchant banking business and they are providing skill oriented specialized services to their clients. Some foreign merchant bankers are also entering either independently or through some collaboration with their Indian counterparts. Private Sectors merchant banking firms have come up either as sole proprietorship, partnership, private limited or public limited companies. Many of these firms were in existence for quite some time before they added a new activity in the form of merchant banking services by opening new division on the lines of commercial banks and All India Financial Institution (AIFI).



IV. MERCHANT BANKERS IN INDIA

As of now there are 135 Merchant bankers who are registered with SEBI in India. It includes Public Sector, Private Sector and foreign players some of them are:

Public Sector Merchant Bankers

- SBI capital markets Ltd
- Punjab National bank
- Bank of Maharashtra
- IFCI financial services ltd
- Karur Vysya bank ltd,
- State Bank of Bikaner and Jaipur

Private Sector Merchant Bankers:

- ICICI Securities Ltd

- Axis Bank Ltd (Formerly UTI Bank Ltd.)
- Bajaj Capital Ltd
- Tata Capital Markets Ltd
- ICICI Bank Ltd
- Reliance Securities Limited
- Kotak Mahindra Capital Company Ltd
- Yes Bank Ltd.

Foreign Players in Merchant Banking:

- Goldman Sachs (India) Securities Pvt. Ltd.
- Morgan Stanley India Company Pvt. Ltd.
- Barclays Securities (India) Pvt. Ltd.
- Bank Of America, N.A
- Deutsche Bank
- Deutsche Equities India Private Limited
- Barclays Bank Plc
- Citigroup Global Markets India Pvt. Ltd.
- DSP Merrill Lynch Ltd. FEDEX Securities Ltd.

V. CONCLUSION

Furthermore, it also widens their area of services by helping them navigate through the economies of various countries. The counselling they provide helps them have a realistic approach to their project and figure out ways to get higher returns.

Moreover, it is significantly important for making the design structure for the project, which essentially acts as the project's backbone.

It has been seen over the years that the demand for merchant banking is ever increasing as it has helped many corporations steer to high progress, returns and incomes.

Opting for the right merchant banks is always there to guide you through every stage of your business.

It not only provides you with opinions that help you improve your business tactics but also helps solve any problems you face.

If you are someone who is looking to opt for merchant banking in India, do go for it as it not only helps shape your company but also sheds light and helps you follow the path that leads to success!

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