



## RECENT DEVELOPMENTS IN MERCHANT BANKING AND CHALLENGES AHEAD IN INDIA

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### ABSTRACT

Merchant banking is an important service provided by a number of financial institutions that helps in the growth of the corporate sector which ultimately reflects into the overall economic development of the country. Merchant banks were expected to perform several functions like issue management, underwriting, portfolio management, loan syndication, consultant, advisor and host of other activities.

Merchant banking is a combination of banking and consultancy services. It provides consultancy, to its clients, for financial, marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a business, to raise finance, to expand, modernize the business and in restructuring of a business. It helps to revive sick business units. In this paper researcher has been focused on overview of current Indian merchant banking scene, organization of merchant banking units, structure of merchant banking industry services rendered by merchant banks and recent developments of merchant banking and challenges ahead in India.

**Keywords:** Merchant banking, financial institutions, securities, capital market, business.

### Introduction:

According to SEBI Act Merchant Banker means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management. Merchant Banks are issue houses which manage new issues of the companies in the capital market. In fact, merchant banking implies a wider range of specialist services, such as:

- ❖ Loan syndication,
- ❖ Financial and management consultancy,
- ❖ Project counseling,
- ❖ Portfolio management,
- ❖ Formulation of schemes of rehabilitation,
- ❖ Guidance on foreign trade financing,
- ❖ Guidance to non-resident Indians for investment in India.

Merchant Bankers were recognized as primary intermediaries in the role of 'issue manager' in the capital market. The regulations provided for the compulsory registration, capital adequacy requirements, general obligations and responsibilities and code of conduct for the merchant bankers as also the procedure for inspection of books of accounts, records and documents of merchant bankers.

### Research objectives:

- To understand the organization and nature of merchant banking units.
- To recognize Prime objectives of merchant banking.
- To realize the services rendered by merchant banks.
- To understand the role of merchant banking services in Indian economy.

- To know the functions of merchant banking services.
- To understand the recent developments in merchant banking and challenges ahead.

### Research Methods:

There is an abundance of empirical theory and research on merchant banking issues, problems, challenges and Policy measures which was applied as basic framework in this paper. However, while using the existing research for analyzing merchant banking problems, issues and challenges in focus, this paper is a contribution to an academic research through qualitative method of data collection. Secondary data was collected through literature reviews, Books, Periodicals, News papers, Journals, Internet etc.

### ➤ Organization of merchant banking units :

The structure of organization of merchant banks reveals certain similar Characteristics:

- ❖ a high proportion of professionals to total staff;
- ❖ a substantial delegation of decision making;
- ❖ a short chain of command;
- ❖ rapid decision making;
- ❖ flexible organization structure;
- ❖ innovative approaches to problem solving; and
- ❖ high level of financial sophistication.

In the words of Skull, a merchant bank could be best defined as a financial advice, and investment services whose organization is characterized by a high proportion of professional staff able to approach problems in an Innovative manner and to make and

implement decisions rapidly.

### ➤ **Nature of Merchant Banking:**

The nature of merchant banking is as follows-

- ❖ Advisory in nature
- ❖ Financial Arrangement
- ❖ Corporate Restructuring
- ❖ Capital Reorganization
- ❖ Capital Issue Management
- ❖ Special Assistance to Small Scale Industries.
- ❖ Portfolio Management
- ❖ Private Placements
- ❖ Foreign Currency Loans
- ❖ Technical Assistance

### ➤ **Prime Objectives of MB:**

The prime objectives of MB are

- ❖ Providing long term funds to the projects or companies.
- ❖ Project counseling – loan syndication, project appraisal and arrangement of working capital.
- ❖ Deciding the capital structure.
- ❖ Portfolio management
- ❖ Underwriting.
- ❖ Corporate advisory & issue management.

### ➤ **Services rendered by merchant banks :**

The working of merchant banking agencies and units formed subsequently to offer merchant banking services has shown that merchant banks are rendering diverse services

- ❖ Corporate counseling
- ❖ Project counseling and pre-investment studies
- ❖ Credit syndication
- ❖ Issue management and underwriting
- ❖ Bankers to issue
- ❖ Portfolio management
- ❖ Venture capital financing
- ❖ Leasing
- ❖ Non- resident investment
- ❖ Acceptance credit and bill discounting

### ➤ **Role of merchant banking services in Indian economy:**

The economy of the country is often afflicted with different unpredictable conditions like inflation, unemployment, stagnation and so forth. The need to sustain a steady growth is necessary for corporations and individuals which is possible only with a long term strategy and financial options. The merchant banking services provide solutions and financial options.

These banks provide advisor services to clients based on a particular fee. They also provide other financial services to mergers and clients. It is the only financial institute that invests its capital in the clients' company. It acts as an intermediary between those who possess capital and those who need capital.

To help their clients with a number of financial options, the merchant banking services operate in a number of countries all over the world. In this manner the clients have the opportunity to survey the different financial options to ensure better growth.

### ➤ **Functions of the Merchant Banking Services:**

These banks have a number of functions and some of the most important among them include:

- ❖ **Raise funds:** one of the main functions of this banker includes helping the clients' company to raise funds from the markets.
- ❖ **Offer advisory services:** these banks also offer advisory services to its clients for a proposed fee.
- ❖ **Security distribution:** the functions of these banking services also include distribution of different types of securities like fixed deposits, equity shares, mutual fund products, commercial paper and debt instruments.
- ❖ **Aid in projects:** these banks also provide aid in the projects undertaken by the clients by helping them to visualize the concept of the project.
- ❖ **Overall financial reconstruction:** the merchant banking services provide better financial options and solutions to the clients.
- ❖ **Offer advice on management of risks:** another important function performed by these banks includes providing timely advice on risk management.

### ➤ **Recent Developments in Merchant Banking and Challenges Ahead:**

The recent developments in Merchant banking are due to certain contributory factors in India. They are

- ❖ The Merchant Banking was at its best during 1985-1992 being when there were many new issues. It is expected that 2010 that it is going to be party time for merchant banks, as many new issue are coming up.
- ❖ The foreign investors – both in the form of portfolio investment and through foreign direct investments are venturing in Indian Economy. It is increasing the scope of merchant bankers in many ways.
- ❖ Disinvestment in the government sector in the country gives a big scope to the merchant banks to function as consultants.
- ❖ New financial instruments are introduced in the market time and again. This basically provides more and more opportunity to the merchant banks.
- ❖ The mergers and corporate restructuring along with MOU and MOA are giving immense opportunity to the merchant bankers for consultancy jobs.

Merchant banking activities help in channelizing the financial surplus of the general public into productive investment avenues. They help to coordinate the activities of various intermediaries to the share issue such as the registrar, bankers, advertising agency, printers, underwriters, brokers, etc. and to ensure the compliance with rules and regulations governing the securities market.

**Scope of merchant banking activities:**

11. [www.preservearticles.com/.../merchant-banking-meaning-and-functions-](http://www.preservearticles.com/.../merchant-banking-meaning-and-functions-).

Merchant banking activity helps:

- ❖ In channelizing the financial surplus of the general public into productive investment avenues
- ❖ To coordinate the activities of various intermediaries to the share issue such as the registrar, bankers, advertising agency, printers, underwriters, brokers etc.
- ❖ To ensure the compliance with rules and regulations governing the securities market.

➤ **Future Prospectus in India:**

The future prospectus of merchant banking in India is as follows:

- ❖ Growth of primary market.
- ❖ Entry of foreign investors.
- ❖ Changing policy of financial institutions.
- ❖ Development of dept market.
- ❖ Corporate restructuring

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**Developments in Merchant banking  
Establishments In India**

❖ **Setting up of banks Subsidiaries:**

In order to meet the growing demand for broad-based financial services from the corporate sector more effectively, the merchant banking division of the nationalize banks have started forming independent subsidiaries. These subsidiaries offer more specialized services with professional expertise & skills. SBI capital market ltd. was incorporated as the first such subsidiary of sbi on 2 July, 1986. Then CAN BANK financial services ltd was set up as wholly owned subsidiary of canra bank in 1987, PNB Capital Market was promoted by PNB during Mid 1988. Many more subsidiaries are being set up by another nationalize banks.

❖ **Reorganization of private Firms:**

Expecting tough Competition from growing number of merchant banking subsidiary of nationalized banks, private merchant bankers have also started reorganizing their activities e.g., J.M financial & investment consultancy ltd., 20<sup>th</sup> century finance corporation ltd., LKP merchant financing ltd are some of the private sector firms of merchant bankers who have taken steps to reorganize their activities.

❖ **Establishment of SUA:**

In order to educate and protect the interest of investor, to provide information about new issues of capital market, to evolve a code of conduct for underwriters & to render legal & other services to members & public, the STOCKBROKER UNDERWRITER ASSOCIATION(SUA) was established in 1984

❖ **Discount & Finance House of India(DFHI)**

DFHI was incorporated as a company under the company act 1956 with an authorized & paid up capital of rs 100 crores. Out of this rs 51 crores has been contributed by RBI, rs 16 crores by financial institutions & 33 crores by public sector banks. It would also have line of credit from public sector banks, refinance facility from the RBI in order to meet the working capital requirement.DFHI aims at providing liquidity in money market as it deals mainly in commercial bills.

**FUNCTIONS**

Issue Management Services – to act as Book Running Lead Manager/Lead Manager for the IPOs/FPOs/Right issues/Debt issues

- Project appraisal;
- Corporate Advisory Services;
- Underwriting of equity issues;
- Banker to the Issue/Paying Banker;
- Refund Banker;
- Monitoring Agency;
- Debenture Trustee;

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