

# Study On Recent Developments In Merchant Banking In India

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## Abstract

*An institution that offers financial services to businesses is known as a merchant bank. The Securities and Exchange Board of India's laws and regulations for merchant banking enable the industry not only offer financial services but also point investors in the proper way. A significant part in today's economic climate is played by merchant banking. Investment banking is another name for a merchant bank. In contrast to investing, merchant banking takes a more long-term perspective. An institution that provides a broad range of services or operations, such as underwriting of shares, Project Counseling and Insurance, is referred to as a Merchant Bank. Trading with multinational corporations is a specialty of these institutions. Buying and selling stock on the stock exchange may also be assisted by Merchant Banks. Two terms, Banking Services and Consultancy Services, are used to describe Merchant Banking. The information in this paper may be used to better comprehend Merchant Banking's core concepts, primary goals, various roles, market position, and most recent developments.*

**Keywords:** Merchant Banks, Financial Institutions, Portfolio Management, C counseling.

## 1. Introduction

1967 was the first year that National Grindlays provided merchant banking services in India. The State Bank of India was the first commercial bank in India to create a merchant banking section in 1972. In 1973, various other commercial banks, including ICICI and many others, such as Canara and Bank of India and Baroda Punjab National and UCO banks, followed suit. A "commercial bank" is a financial institution that loans money and offers financial guidance. A merchant banker serves as a go-between for businesses and investors alike. Bank, corporation, and firm are all acceptable forms of the Merchant Banker. Commercial loans and investments are the primary focus of merchant banks. **According to Dr Singh & Saxon (2017):** Many financial markets and organizations are involved in Merchant Banking, which is a blend of consulting and banking services. Shares may also be purchased and sold with the help of a merchant bank. Banking Services, etc. is a combination of two terms known as "merchant banking." **According to Dr. Jyoti Lahti (2016):** Merchant banks provide a number of services, including portfolio and problem management as well as project and business consulting, among others. Merchant banks are required to register with the Securities and Exchange Board of India in India (SEBI). The Indian capital market is governed by the SEBI Rules, which were established in 1992. Unlike dealers and brokers, merchant banks are referred to as commission agents. The basic purpose of merchant banking is analyzing issue management guidelines. Capital markets rely heavily on merchant banks. Their actions have the potential to influence market trends and developments. Corporations, international corporations, export houses, and other such entities are among the most significant clients of merchant banks. **According to Tarzana Huda (2017):** The growth of the economy relies heavily on merchant banking. The merchant bank's efficiency in achieving growth in the investment sector, such as capital gain, capital loss, brokerage, and portfolio management, etc., has been tested and verified. The merchant bank is the sole organization that has direct access to both domestic and international policy changes. **According to CS Gotham (2017):** In the field of merchant banking, companies provide securities to their customers in the form of stocks, bonds, and bank loans. In addition to providing capital, merchant banking also directs SEBI in the proper path. A merchant banker serves as a go-between for companies looking to raise capital and potential investors. A bank, corporation, or other business entity may serve as a merchant banker. **According to wag mare Shiva (2015):** Underwriting, loan syndication, and project marketing are just a few of the services provided by merchant banking. When a merchant banker is aware of the needs of a company, they may place financing orders with financial institutions such as banks and money markets. Financial services for both businesses and individuals are included in merchant banking. Different sorts of services, such as those offered by merchant banking, include:

- Project Counselling and Issue Management
- Portfolio Management and Loan Syndication
- Underwriting of Public Issues and Broker in Stock Exchange
- Lease Finance and Mutual Funds
- Non-resident investment Counselling and Corporate Counselling

### **Features of Merchant Banking:**

There are various types of Characteristics in Merchant Banking as follows:

- A large fraction of the entire workforce is comprised of people who have authority to make important decisions.
- Quick Decision Process.

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- Low rate of Profit Distribution.
- High Liquidity Ratio
- Low rate of Profit Distribution
- Concentration of short term and medium-term contract.
- High density of information.
- Changing Policy of Foreign Investment.
- Provides Quality Information.
- Emphasis on Fee and Commission Income.

### **2. Research Objectives**

The main objectives of this study were:

- To learn more about merchant banking and its goals.
- To learn more about merchant banking's offerings.
- Analyze the most current changes in the world of business banking.
- To Study the SEBI regulations framework on Merchant Bankers.

### **3. Research Hypothesis:**

After thoroughly research, it lies on the research to make following hypothesis.

#### **Null Hypothesis (Ho):**

- In Merchant Banker the development are up to the Mark.

#### **Alternative Hypothesis (H1):**

- In Merchant Banker the development are not up to the mark

### **3. Methodology of study:**

The current study, which relies on descriptive research and secondary data, is often the most practical and economical choice. Literature reviews, research papers, and academic journals provide the foundation of this study. The data is also collected from Government Websites.

### **4. Concept of Merchant Banking:**

Merchant banking may be described as a skill-oriented professional service offered by merchant banks to their customers in exchange for compensation in the form of commissions or fees. Banking and consulting services are combined in Merchant Banking. Those who desire to lend, borrow, or invest in a financial institution may rely on the services provided by banking. Providing advise, counsel, and services is what a consulting firm is all about. It aids a new company owner in getting their venture off the ground. It aids in the collection of funds and the expansion of the company. The term "merchant banker" refers to any individual engaged in the issue management industry, either as a manager or consultant, or as a manager or consultant of a corporate advisory service. When it comes to international and domestic policy, merchant banks are the only institution that has a direct impact on each other. The team of experts will maintain latest information on tax policy, trade policy, and exchange policy etc. Merchant banks are the store houses of great information. They provide the latest information with high quality. The information will be the most authentic and suitable to corporate sector. The Corporate Sector is usually composed of business bigs, big industries, large companies of domestic & foreign, major banks, finance and insurance companies, service industries etc. Thus the corporate sector is the life provider to the fast economic growth. The significance of corporate sector lies in its huge financial resources, large size business dealings, adoption of high technology, employment of great skills and maintaining international quality standards. Thus, the sector is responsible for the nation's development. All the advanced countries are able to achieve the progress through the corporate sector. Merchant banks are international in nature. Merchant banking includes a wide range of activities with a large variety of services. All these services are primary functions of merchant banks. The list of modern merchant banks functions are very long with an increasing addition of new functions frequently Merchant bankers are the institutions established only for the corporate sector. Their role in country's development is significant.

### **5. Aims of Merchant Banking:**

- To analyse issue management regulations.
- Merchant banking functions are examined in regard to SEBI laws, as well as their relationship to other financial institutions.
- To assess the operational and monetary performance.
- examination of merchant banking's contribution to the evolution of financial markets
- 5.To provide long-term funds to clients

### 6. Services of Merchant Banking:

There are various types of services offered by Merchant Banker:

- **Portfolio Management:** The goal of portfolio management is to minimize risk and maximize profit. The term "portfolio management" refers to the practice of managing a portfolio of stocks and bonds.
- **Corporate Counseling:** Merchant banking services is a wider range of services that comes under the corporate Counseling such as Project Counseling, Project Management, Working Capital Management and Fixed Deposit.
- **Management Of Capital Issues:** Merchant banking services comprises selling securities, equity shares, bonds and preference shares to the investors.
- **Credit Syndication:** Merchant bankers specialize in preparing projects, loan applications, and generating short-term and long-term credit from a variety of institutions in order to finance the project or satisfy working capital needs..

### 7. Function of Merchant Banking:

- By providing shares, bank loans, and debentures, merchant banking assists its customers.
- Managing dividends and interest on debentures is made easier with the aid of merchant banking.
- Short-term money market instruments issued by the Reserve Bank of India (RBI) are used by merchant banks.
- Advise on securities market transactions such as purchase and disinvestment
- A merchant banker is a stock trader who works in the stock market.
- A merchant banker is someone who provides financial services to businesses and individuals in both the domestic and foreign markets.
- Clients of merchant banking might also get assistance in planning for future growth.
- As a result of merchant banking, capital may be sourced from both local and foreign markets.

### 8. Recent Development of Merchant Banking in India:

#### ○ **Setting up of Banks Subsidiaries:**

All businesses need to have a strong financial foundation. Corporate sectors need a wide range of financial services in order to compete in today's market. A growing number of businesses are turning to finance to meet their ever-increasing needs. Nationalized banks' commercial banking divisions are creating independent companies to meet this growing demand.

#### ○ **Reorganization of Private Firms:**

The merchant banking divisions of the nationalised banks are forming separate subsidiaries to accommodate the increased demand for diversified financial services from companies. As a result of this intense competition, private merchant bankers have begun to shift their focus.

#### ○ **Establishment of Stockbroker Underwriters Association:**

Established in 1984, the Stockbroker Underwriters Association (SUA) aims to protect investors' interests, disseminate information about the capital markets, and develop standards of conduct for underwriters and other services for its members and the general public. The SUA is a non-profit organization. Members of the Stockbroker Underwriters Association cooperate with merchant bankers to promote capital market activities.

#### ○ **Securities and Exchange Board of India:**

This board was founded on 12 April 1992 to safeguard investors' interests, encourage the growth of the securities market, and to regulate securities markets. Board approval is required for people in the securities market to do their business. This includes merchant bankers, underwriters and subbrokers as well as portfolio managers, mutual funds, and so on. For the most part, Indian merchant bankers operate under Securities and Exchange Board of India's purview (SEBI).

#### ○ **Discount and Finance House of India (DFHI):**

The Reserve Bank of India (RBI) established DFHI in April 1988 in order to expand India's money market by collaborating with public sector banks and all of India's financial institutions. This organization's principal purpose is to establish a thriving secondary market for money market instruments to address their existing liquidity restrictions.

#### ○ **Credit Rating Information Services of India Ltd. (CRISIL):**

The first credit rating agency in India, CRISIL, was established in 1988 with the goal of improving the functioning of the Indian financial markets. Many corporations and financial institutions rely on its ratings, research, risk, and advice services. In addition to financial, commercial, and technical information, CRISIL publishes reports on public and private

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sector firms on a regular basis. Services from CRISIL are designed to give investors with unbiased and credible evaluations of new public issues' basic strengths.

### **○ Stock-Holding Corporation of India Ltd. (SHCIL):**

To guarantee the safe storage, distribution, and recovery of assets, the All India Financial Institutions (AIFI) founded SHCIL in 1986. India Services Limited, a stock holding company. Three subsidiaries of stock holding company are stock holding document management services ltd and stock holding securities ifsc ltd.

### **9. SEBI Regulations Frameworks on Merchant Bankers:**

According to the Merchant Bankers' Regulation Act of 1992 (SEBI), any person involved in the issue management business of selling, purchasing or subscribing to securities is a commercial banker. This definition is consistent with SEBI's definition of a "merchant banker." The SEBI's certificate of registration is now required for any company wishing to serve as a merchant banker. Keeping in mind that a corporation must be registered in order to protect any merchant banker activity, such as managing issues, consulting or advising on them, underwriting or managing a portfolio. One had to fill out an application form and complete two conditions in order to get a certificate of registration.

(i) **Operational Capabilities:** As per operational capabilities, merchant bankers are divided as per their roles.

(ii) **Capital Adequacy norms:** All registered merchant bankers are categorised into four categories by the Securities and Exchange Board of India (SEBI). It is computed by subtracting the amount of money that has been invested in the company from the amount of money that has been left over. SEBI's Capital Adequacy Norms are based on these categories.

“Category of Merchant Banker	Description	Minimum Net Worth
Category 1	These Merchant bankers can act as issue manager, advisor, consultant, underwriter and portfolio management.	Rs 5 Crores
Category 2	Such Merchant bankers can act as advisor, consultant, underwriter and portfolio manager. They cannot act as issue manager of their own but can act co-manager.	Rs 50 Lakhs
Category 3	They are allowed to act as underwriter, advisor and consultant only. They can neither undertake issue management of their own nor they act as co-manager. They cannot undertake the activities of portfolio management also.	Rs 20 Lakhs
Category 4	Merchant banker can only act as consultant or advisor to an issue of capital	NIL”

### **10. Conclusion:**

Indian commercial banking has a substantial effect on the economy. Merchant banking services include project and issue management, portfolio management, loan syndication, underwriting of public issues, stock exchange brokerage, leasing financing, mutual funds, non-resident investment advice, and corporate assistance. They also facilitate the dissemination of issues. The Securities and Exchange Board of India (SEBI) registers all commercial banks in India (SEBI). Merchant banking supports the development of India's economy. It serves as a safety net for businesses entering foreign markets. Both investment and non-investing actions aid the entrepreneur in launching new enterprises and advancing the industrial sector. Improving investment climates and growing capital markets are two of merchant banking's key objectives. Consequently, Merchant banking is an integral part of the Indian financial system.

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