

A STUDY ON MERCHANT BANKING

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Introduction

Merchant Banking is an essential service provided by financial institutions and the services help the growth of corporate sector that ultimately, help for the overall growth of the economic development of the country. Hence, it is a still oriented, purely, professional service provided to their clients, concerning their financial needs for adequate consideration in the form of fee. Commercial Banking and Investment Banking are often confused with Merchant Banking. In many ways, there may be similarities in their functions. However, in certain ways, Merchant Banking is distinctly, different from commercial Banking and Investment Banking. In different Countries the term Merchant Banking used differently.

Merchant Bankers

A 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 as Manager, Consultant, Adviser of rendering Corporate Advisory Service in relation to such Issue Management.

Hence, the Merchant Bankers have pre and post issue obligations. In the case of pre issue of shares, the Merchant Bankers have to make arrangements for filling the prospectus & other relevant records before the Securities and Exchange Board of India (SEBI) and in the case of part issue of shares, they have to make arrangements for getting the shares allotted and send within the specified period to the applicants.

Objectives of the study

- (a) Merchant Banking and it's functions
- (b) Role of Merchant Banking as financial intermediaries
- (c) Describing issue management in Merchant Banking.
- (d) Discuss the prohibition of fraudulent and unfair trade practice relating to the securities market regulations.
- (e) Analyse the prohibition on dealing, communication, counselling on matters relating to insider trading along with regulatory provisions.

Methodology

Sources of information and data for the present study are from the RBI/SBI's database, various books on Merchant Banking, Dailies viz. 'The Hindu' , PMLA Act : 1999/2002 and the popular websites. (primary and secondary data)

Scope and Planning

Merchant Banking in India was started in India in the year 1967 and the licensee was M/s. Grindlays Bank. The first Indian Bank to set up its Merchant Banking Division was the State Bank of India in the year 1972. The Study is planned to analyse the data from the secondary source.

Need for establishing Merchant Banking

- (1) Merchant Banking is an essential service, provided by financial Institutions to help in the growth of corporate sector.
- (2) Corporate counselling is a facility provided by Merchant Bankers to Corporate enterprises to improve the performance of the enterprises.
- (3) The Merchant Banks coordinates the activities of financial intermediaries which is a process by which Capitals are mobilised from a large number of investors and make them available to Corporate Customers.

Activities of the Merchant Banking

- 1) The main activities of Merchant Banking is that it resolves around financial advises and services for Corporate institutions and individuals.
- 2) The service includes advise to Companies regarding :
 - a) Debt issue
 - b) Project appraisals
 - c) Credit syndication
 - d) Agricultural consultancy
 - e) Portfolio management
 - f) Mergers and acquisitions
 - g) Long term company loans
 - h) Stock underwriting and
 - i) Commercial international finance

The international players with strong domestic partners such as DSP Merrill Lynch, JM Morgan Stanley, Kotak Mahindra Capital, together with experienced organizations like Enam and institutional backed investment bankers such as ICICI Securities, etc., are the ones who have expertise and have placement power in a greater measure than relatively new entrants.

The present scenario of the Indian economy is not encouraging. India is likely to end the year with GDP growth of only 5 percent. Companies and private equity investors are laying off the experienced man power to minimize the liquidity crunch. The activities of state owned Telecom sector is on the verge of liquidation and the Railways are being privatized. The worst hit was the Motor vehicles sector where due to fall in the sale of units, huge number of men power was laid off. The recovery of the Indian economy is very difficult at this juncture and the GST played a spoil sport among the micro and macro sectors which are instrumental in the growth of GDP and employment sectors. These factors had affected the Merchant Banking activities in India.

West Bengal Finance Minister Amit Mitra said the structural changes have been ushered in due to demonetisation and “faulty” GST implementation along with the collapse of Infrastructure Leasing & Financial Services Limited (IL&FS)

Credit rating agency Moody’s has said that the increasing liquidity stress among real estate developers would indirectly hit Indian banks and is thus credit negative for the domestic lenders.

British travel firm Thomas Cook collapsed into bankruptcy on September 23, leaving some 6,00,000 holidaymakers stranded and sparking the U.K.’s biggest repatriation since World War II.

The 178-year-old debt-plagued group, which had struggled against fierce online competition for some time and blamed Brexit uncertainty for a recent drop in bookings, failed to secure 200 million pounds (\$250 million, 227 million euros) from private investors and collapsed in the early hours.

“The slowdown in growth of total sales, coupled with cash flow difficulties and competitive pressures, hampered output expansion in April,” the report said. “Although production rose, the increase was the slowest since last September.”

The Merchant banks work with other merchant banks and financial institutions also.

The Merchant Banking activities are normally extended to

- (i) Banks

- (ii) Public Sector Undertakings (PSUs)
- (iii) State owned Corporation and
- (iv) Local Bodies (Statutory)

The Merchant Banks work for private equity where securities of a Company are not open for public trading. The Merchant Banking activities are governed by the regulations and Laws to ensure fair play among competitors. **The activities of the Merchant banks are governed by the provisions of the Finance Ministry, Government of India and the SEBI.**

The Stock Exchange Board of India regulates the areas in Merchant Banking such as Stock, banking, Leasing, factoring forfeiting and Insurance.

The merchant bankers offer the following services during the public issues:

- Preparing an action plan and budget for the total expenses for the issue.
- Preparation of application to SEBI and assistance in obtaining the consent from SEBI.
- Drafting of the prospectus.
- Selection of underwriters, Brokers etc.
- Selection of bankers to the issue.
- Selection of advertising agency for publicity.
- Obtaining approval of the institutional underwriters and stock exchanges for publication of the prospectus.

The major functions of the Merchant Banking are as follows:

1. Issue Management.

The business of Issue Management either by making arrangements regarding selling, buying or subscribing to Securities as Manager, Consultant, Adviser of rendering Corporate Advisory Service in relation to such Issue Management. The Merchant Bankers have pre and post issue obligations. In the case of pre issue of shares, the Merchant Bankers have to make arrangements for filling the prospectus & other relevant records before the Securities and Exchange Board of India (SEBI) and in the case of part issue of shares, they have to make arrangements for getting the shares allotted and send within the specified period to the applicants.

2. Pre-investments studies.

The pre investment studies include, developing or reviewing of project profile, preparing project reports after analyzing financial markets and economic feasibility. They are making estimates of the project cost and reviewing the procedural aspects of project implementation and determining the source of financing and deciding the capital structure. Finally see the compliance of the legal formalities for implementing the project.

3. Corporate and Project Counselling.

The Banker guides the clients on organizational goal choice of product and market surveys including product, cost analysis, investment decisions pricing methods capital and expenditure control etc. Project counselling is a part of corporate counselling and also providing assistance in project profiles, providing assistance in seeking approvals from the Government of India for foreign technical and financial collaboration agreements.

4. Loan Syndication and Portfolio Management.

In addition to helping the client conducting appraisal and designing capital structure, through portfolio management, the merchant banker helps the clients in making the right choice of investment to obtain optimum investment.

5. Project finance and Working capital.

While undertaking a project scheme, the banker assists in arranging a comprehensive package for the project funding. It involves the study of the pattern of financing available from merchant banks and financial institutions. They also provide assistance in legal documentation for the finance arranged. The merchant banker also assists in arranging finance for the working capital particularly for the new ventures.

6. Functions as financial intermediaries.

The Merchant Banks coordinates the activities of financial intermediaries which is a process by which Capitals are mobilised from a large number of investors and make them available to Corporate Customers.

7. Issue management intermediaries.

Issue management is a tedious job and is closely regulated by the SEBI. The merchant bankers are the issue managers who bring the issues to the primary market investors.

8. Apart from the above major roles as stated above, they are involved in as lead managers, under writers etc.

Conclusion.

Merchant Banking is an essential service, provided by financial Institutions to help in the growth of corporate sector.

Corporate counselling is a facility provided by Merchant Bankers to Corporate enterprises to improve the performance of the enterprises.

The Merchant Banks coordinates the activities of financial intermediaries which is a process by which Capitals are mobilised from a large number of investors and make them available to Corporate Customers. The present scenario of the Indian economy is not encouraging. India is likely to end the year with GDP growth of only 5 percent. Companies and private equity investors are laying off the experienced man power to minimize the liquidity crunch. The activities of state owned Telecom sector is

on the verge of liquidation and the Railways are being privatized. The worst hit was the Motor vehicles sector where due to fall in the sale of units, huge number of men power was laid off. The recovery of the Indian economy is very difficult at this juncture and the GST played a spoil sport among the micro and macro sectors which are instrumental in the growth of GDP and employment sectors. These factors had affected the Merchant Banking activities in India.

References.

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The Hindu daily Newspaper,
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