

# Merchant banking

[Finance](#), [Banking](#)



This free essay was written by a student and not by our expert writers. If you need custom essays on your exact essay questions, then have a look at our essay writing service. What is Merchant Bank? A Merchant bank is a bank or a financial institution which is more focusing on providing financial services and advice to corporations and wealthy individuals, so we can say that a Merchant bank is that which providing Private equity activities of banking.

There are two types of banks which provides these private equity services and they are Merchant banks and Investment Banks and the main difference between these banks is merchant bank invest its own capital in a client company whereas an investment bank is act as a distributor of the securities of the company in its capital raising role. First bank that providing these services was establish on 13th November 1994 and its name was First Merchant Bank (FMB). It is a registered commercial bank that's established in Malawi Stock exchange.

So, in short we can say that Merchant bank is the bank that engaged in providing the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager , consultant, advisor or rendering corporate advisory service in relation to such issue management.

Objectives of Merchant Banking in Prevailing economy:-

- To Study the role of Merchant Banking towards the development of Securities industry
- To analyze and regulate the functions of issue Management regulations

- To perform the function of merchant banking as per the guidelines of rules and regulations of SEBI. To draw a conclusion and suggestions based on analysis and experiences.

Merchant Banking in India: Merchant banking can be describe as a commercial activity that's first introduced in India by issuing management of public issue of capital and loan syndication. In 1969 ANZ Grindlays Bank introduced merchant bank services first time in India. This bank also provides management consultancy services to medium and small sector.

The activities of merchant banking in India include the following services:-

- To manage customers securities
- To manage the portfolio of Customers To manage the projects and counseling as well as appraisal
- To manage the underwriting of Shares and debentures
- To manage the process of interest and dividends
- To circumvention of the syndication of loan Registration of Merchant bankers with SEBI:- It is mandatory for a merchant bank to register with SEBI. Without holding certificate of origin granted by SEBI.

Following are some regulations which are given by SEBI in order to be a Merchant Banker:-

- Only a body corporate other than a non-banking financial company shall be eligible to get registered as merchant banker. As a merchant banker, applicant can only perform the function that are connected with Security market.
- Applicant should have proper infrastructure to set up Merchant bank.

- Two employees with prior experience in merchant banking should be there in merchant bank.
- Applicant should not be involved in any security scam or in any proved guilt for offence.
- Minimum net worth of 5 crores should be there with applicant at all the time.

Categories of Merchant Bankers:- Merchant bankers are classified in following 4 categories:- Merchant Banks that provides all the functions related to management of Issue, advisory/consultancy services, portfolio managers, underwriters and Portfolio managers. This type of merchant bankers comes under category

1. Merchant banks that provides functions as underwriters, advisors and consultants is comes under category
2. Merchant banks that provides function of Underwriters, advisors and Consultants these banks comes under category
3. Merchant banks that can provide only advisers and consultancy services to an issue comes under category
4. Major Merchant Bankers in India:- In India Merchant Banking is new Concept but still there are 135 banks who register as Merchant Bank under SEBI.

It includes Public Sector, Private Sector and Foreign Bankers. Following are some examples of these Bankers:- 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 ANALYSIS OF ARTICLES ARTICLE

1:- Marketing effectiveness in Merchant Banking  
In this article author Alka Sharma discuss about the economic reforms that took place in Indian

financial sector. This type of reforms has gaining more importance as financial intermediaries and also help in opening new opportunity for growth and development of various financial services. As a result of this new reforms there is a shift in financial services from quantitative to qualitative services. Financial institution is highly competitive due to which many financial institutions comes with new and modern services and its best example is Merchant Banking as almost all the banks are providing this type of services.

In this article it has been further explained that how effectively the banks providing this services and how much competition is these banks facing while providing this services because these services is almost same in all the banks and that's why they are focusing on different marketing Strategy while providing these services and how private and public banks differ in providing these services this article also further tells that private banks are more successful while providing these services Article:- 2 Merchant Banking Services -Some thoughts on Indian Scenario [http://www. articlesbase. om/banking-articles/merchant-bankingservicessome-thoughts-1351247. html](http://www.articlesbase.com/banking-articles/merchant-bankingservicessome-thoughts-1351247.html)

In this article author DR. R. Srinivasan discuss about the merchant banking services in India and article tells that this services first started in Italy and from there it is famous in all around the world and now India is become major hub of providing these services Indian bank are provided these services very successfully and they are regulated by SEBI. This article also discuss the Services of merchant banker like Management of Debt, Placement and distribution, loan syndication services, project advisory services and providing venture capital.

<https://assignbuster.com/merchant-banking/>

Article 3:- Final rule on Merchant Banking activities. In this article author discuss about the rule of governing merchant banking services it tells how merchant bank performed this services and how SEBI regulated the banks. This article also discuss that a new competition has been started between the banks in order to attract more business and the bank are more focusing on qualitative services like marketing network, Brand name, and advisory functions. Finally this article conclude that Merchant Banks following no uniform strategy by providing these services because they are fighting on service bases.

Article4 : - Merchant Banking Past and present This article begins by defining merchant banking and provides a short history of it. The article then looks at the private equity market and changes in stock exchange in India, examining that market in terms of its evolution, typical uses of funds, and forms taken by the investments. Discussed next is commercial bank involvement in merchant banking: the structure of commercial bank involvement, the evolution of that involvement, and the recent track record. The major provisions of the SEBI, legislation which authorizes financial holding companies to engage in merchant banking, is looked at next.

The final section focuses on the relationship among merchant banking, risk, and the regulators. Note: OE: Overall Excellence; FSS: Financial Soundness ; QPS: Quality Product/Service; QM: Quality Management; INN: Innovativeness. Major services of Merchant Banking in Detail:- Project Counseling:- it is one of the important function of merchant banks, it includes all the functions starting from taking decision whether the project is feasible or not on the basis of financial cost and profitable scope of the project and this function

also includes giving financial help to these projects with the help of government and financial institutions.

**Issue Management:** - Now a days it is one of important of Merchant Banks. Many companies issues there IPO, shares, debentures in order to raise their funds and Merchant Banks act as a intermediary between Public and cooperates helps in successfully issue of these securities. Merchant Banker has to perform this function as per SEBI guidelines. All the important decisions like date of opening and closing of issue, registration of prospectus, launching publicity campaign, fixing date of board meeting and all other major decisions are taken by Merchant Banker.

**Managers, Consultants and Advisers:** - Merchant banks act as a consultants and advisors of corporate while issuing any type of securities. They performed the functions like drafting of prospectus, application forms and completion of formalities under Company Act 1956. Companies usually appoint one or two Merchant Banks for issuing their securities. **Underwriting of Public Issue:** - By underwriting we mean guarantee given by the underwriter in event of under subscription. Merchant banks perform this function now days and cannot subscribe more than 15% of any issue.

**Portfolio Management:** - Portfolio management means to diversified the investment of the investors or to plan their investment in different type of securities like in shares, Mutual Fund, government securities etc. so has to gain better returns at a minimum risk. This function is performed by all the Merchant Banks now a days. **Credit Syndication:-** Credit syndication relates to activities connected with credit procurement and project financing, aimed at raising Indian and foreign currency loans from banks and financial



institutions, are collectively known as 'credit syndication'. Merger and Acquisition:-This is a specialized service provided by the merchant banker who arranges for negotiating acquisitions and mergers by offering expert valuation regarding the quantum and the nature of considerations, and other related matters. The various functions that form part of this activity are as follows:

1. Undertaking management audit to identify areas of corporate strength and weakness in order to help formulate guidelines and directions for future growth.
2. Conducting exploratory studies on a global basis to locate overseas markets, foreign collaborations and prospective joint venture associates.
3. Obtaining approvals from shareholders, depositors, creditors, government, and other authorities.
4. Monitoring the implementation of merger and amalgamation schemes.
5. Identifying organizations with matching characteristics. Venture Financing:-Venture capital is the equity financing for high-risk and high-reward projects.

The concept of venture capital originated in the USA in the 1950s, when business magnates like Rockefeller financed new technology companies. The concept became more popular during the sixties and seventies, when several private enterprises undertook the financing of high-risk and high reward projects. Lease Financing:-Leasing is an important alternative source of financing a capital outlay. It involves letting out assets on lease for use by the lessee for a particular period of time.

Following are the important services provided in regard to leasing:

1. Providing advice on the viability of leasing as an alternative source for financing capital investment projects.
2. Providing advice on the choice of a favorable rental structure.

Off Shore Finance: - Following are the offshore functions performed by

Merchant bankers:-

- Long-term foreign currency loans
- Joint venture abroad
- Financing Imports and Exports
- Foreign Collaboration arrangements
- Corporate Counseling

The set of activities that is undertaken to ensure the efficient running of a corporate enterprise is known as corporate counseling.

It may include the rejuvenating of old line companies and ailing units, and guiding the existing units in identifying the areas or activities for growth and diversification. The merchant banker guides the clients on various aspects like Location factors, organizational size, operational scale, choice of product, market survey, cost analysis, cost reduction, allocation of resources, investment decision, capital management and expenditure control, pricing, etc.

Examples of Best Merchant Banker:- ( BEST MERCHANT BANKERS IN INDIA)

SBI CAPITAL MARKET: -According to Business outlook magazines SBI capital Markets , Subsidiary of SBI is the oldest and best Merchant Banker in 2009. It mainly offers services in Mergers and Acquisition, it also offers services in

<https://assignbuster.com/merchant-banking/>

Publics and right offers, private placements and buybacks and it provides Project advisory in mainly core sector i. e. Telecom and Power sector. SBI caps have got this appreciation after successfully doing IPO in 2008.

**KOTAK MAHINDRA BANK:-** According to Business outlook magazine Kotak Mahindra Bank because this bank manages 13 equity issue which includes ONGC, Biocon and Infosys ADR offerings. **How Merchant Banks Help In Launching an IPO:-** If we talk about the previous method of issuing IPO , in this method merchant banker and issuer fixed the price and then investor's buy IPO by filling the application form but this traditional method is changed due to changing role of Merchant Banks and changing scenario in Indian stock market. Recently Hughes software is used in order to launch an IPO.

Following are new method of launching an IPO now and how Merchant Banks helps in doing that:-

- First of all Merchant bankers and Issuer fixed the price by using Bidding Method, in India Price has been fixed which seems to be below 50% lower as compared to this price which should be fixed, so, IPO is issued underpriced.
- Then Merchant Bankers Selects Syndicate members who help them in selling the issue
- Orders were then collected by Merchant bankers and then they submitted it to NSE by using the computerized IPO system
- Then in next step Investors could place, modify and delete orders in book building period. Then NSE system revealed this information to Merchant Bankers.

Full database of the orders was passed on by NSE to Merchant Bankers.

## **CURRENT SCENARIO OF MERCHANT BANKING**

At present merchant banks following main services and major Merchant Bankers in India is providing these services

- Portfolio Management Credit Syndication
- Acceptance Credit.
- Counsel on mergers and acquisitions.
- Insurance, etc.

Indian merchant banks initiate loans and then sell them to investors.

As planning and industrial policy of the country envisaged the setting of up of new industries and technology, greater financial sophistication and financial services are required. There is a well proven link between economic growth and financial technology. Economic development requires specialist financial skills: savings banks to marshal individual savings; finance companies for consumer lending and mortgage finance; insurance companies for life and property cover; agricultural banks for rural development; and a range of specialized government or government sponsored institutions.

As new units have been set up and business is expanding, they require additional financial services. A public equity or debt issue is the logical source of fund in this situation and merchant banks can tap this opportunity of growth. The areas of great scope could be, \* Growth of Primary market: If the primary market grows and number of issues increases, the scope of merchant banking will be enhanced. \* Entry of Foreign Investors: Now India

capital market directly taps foreign capital through euro issues. FDI is increased in capital market. So Merchant bankers are required to advice them for their investment in India.

The increasing number of joint ventures also requires expert services of Merchant Bankers. If more and more NRIs participate in capital market, there will be great demand for merchant banker services. Changing policy of Financial Institutions: and the lending policies of financial institutions are based on project orientation, so the merchant banker services will be needed by corporate enterprise to provide expert guidance. \* Development of debt markets: If the debt market is enhanced, there will be tremendous scope for Merchant bankers. Now NSE and OTCEI are planned to raise their fund through debt instruments. Corporate restructuring: Due to liberalization and globalization Companies are facing lot of competition. In order to compete, they have to go for restructuring, merger, acquisitions or disinvestments. They may offer good opportunities to merchant bankers \*

The scope could be extended to

1. Advising the company on designing of its Capital Structure.
2. Advising the company on the instrument to be offered to the public.
3. Pricing of the instrument.
4. Advising the company on Legal/ regulatory matters and interaction with SEBI/ ROC/ Stock
5. Exchanges and other regulatory authorities.
6. Assisting the company in marketing the issue.
7. In channelizing the financial surplus of the general public into productive investment avenues.

8. . To coordinate the activities of various intermediaries to the share issue such as the registrar, bankers, advertising agency, printers, underwriters, brokers etc.
9. To ensure the compliance with rules and regulations governing the securities market

#### THE FACTORS ON WHICH GROWTH OF MERCHANT BANKING DEPENDS:

1. Planning and industrial policy of the country i. e. India in this case
2. Prevailing Economic condition of the country
3. Regulatory system of the market and economy prevailing in India
4. Confidence of the people, traders, buyers, marketers, business houses, financial institutions etc
5. The economic environment of the outside world. 6. Competition among the existing players and the upcoming entrants.

### **CANARA BANK**

Canara Bank is one the best commercial bank in India it was amongst the oldest Indian Bank in India. Its head office in india is in Bangalore, India this bank is present all around the world i. . in London, Hong Kong, Moscow, Shanghai, Doha and Dubai. It is very well known for its centricity, at present it occupies premier position in the comity of Indian banks. It has shown very good profits and its current growth is very good. Canara Bank has launched several new revolution in the banking industry:-

- It introduce Inter-City ATM network
- It obtains ISO certification for a branch
- It introduced Bank's Citizen Charter

- It issued credit card for farmers
- It also provides Agriculture consultancy services

#### Merchant Banking Services by Canara Bank:-

In India Canara bank is one of the Best Merchant banker and it provides best merchant banking services as compare to its competitors. It also holds SEBI registration certificate and act as a banker to an issue and has the network of exclusive capital market services to handle collecting, refund and paying Banker assignments. It also undertakes project appraisal and helps in raising capital from capital/ debt issue. Canara Bank is one of the leading Merchant banker and has been associated with the issues ranging from 1 to 1500 crores which involves issues of various types of industries, banks and statutory bodies etc. nd helps in handling issues of both retail and HNS.

Following are the major merchant banking services provided by Canara Bank:-

- EQUITY ISSUE MANAGEMENT
- DEBT ISSUE MANAGEMENT
- PRIVATE PLACEMENT
- PROJECT APPRAISAL
- MONITORING AGENCY ASSIGNMENTS
- IPO FUNDING
- SECURITY TRUSTEE SERVICES
- AGRICULTURE CONSULTANCY SERVICES
- CORPORATE ADVISORY SERVICES
- MERGERS AND ACQUISITION

- BUY BACK ASSIGNMENT
- SHARE VALUATION
- SYNDICATION
- ESOS CERTIFICATION

## **ABOUT INDBANK**

INDBANK establish in 1907 and its head quarter is at Chennai. It is no. merchant banker in India it has 1667 branches and of the biggest public sector bank is India. It is nationalized and had branches all over the world i. e. 229 branches in 69 countries. Merchant Banking services provided by this bank:-

- It acts as a function of lead manager, Co-manager, advisor, arrangement for public and right issue.
- It also performs the function of Merger and acquisition and also buyback of securities under SEBI regulation 1996
- Merchant banking services of INDBANK also includes following

Advisory services:-

- Valuation of shares and other financial instruments Syndication of loans
- Acquisition
- Project Counseling and feasibility studies

Performance on the bases of last three years:- ( 2006 to 2009)

Interpretation:- If we compare these two Banks on the terms of their profile then there is no doubt Indbank is far ahead as compare to Canara Bank because of two reasons:-



- Firstly this bank is Government bank and their capital base is much higher as compare to Canara Bank.
- Secondly Indbank is older than Canara bank and it is well established.

But if we compare it on the bases of performance in providing these Merchant Banking services then in case of equity issue, Allotment and M ; A Canara bank is ahead of Indbank whereas In case of AVG IPO IND bank is ahead of Canara bank. So, we can say that these banks are very close on the bases of competition if we compare their performance. So, it is very hard to compare these two banks but we can say that they are very close to each other.