

Merchant Banking in India

Suman Rana

M.Com. Kurukshetra University, Haryana

ABSTRACT

Merchant Banking is a combination of banking and consultancy services. It provide consultancy to its clients for financial marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. Merchant banking helps in reinforcing the economic development of country by acting as sources of funds and information to the business entities. It helps to a business man to start business, to (collect) raise finance, expand and modernize the business and restructuring of a business. It also helps companies to register, buy, and sell share at the stock exchange. The present paper studies that why merchant banking is important for a business. Merchant banking acts as financial engineer for a business.

INTRODUCTION

In India, the functions of the merchant bankers are governed by securities and exchange board of India (SEBI) Regulations, 1992. A merchant bank may be defined as an institution or an organization which provides a number of services including management of securities issues, portfolio services, under writing of capital issues, Insurance, credit syndication, financial advice, project counseling etc.

Definition

According to Cox, D. merchant banking is defined as, “Merchant banks are the financial institutions providing specialist services which generally include the acceptance of bill of exchange, corporate finance, portfolio management and other banking services.”

History and origin of Merchant Banking in India Origin

Merchant banking originated through the entering of London merchants in foreign trade through acceptance of bill. Later, the merchants assisted the government of under developed countries in raising long-terms through floatation of bond in London money over a period they extended their activities to domestic business of syndication of long term and short term finance, underwriting of new issues, acting as registrars and share transfer agents, debenture trustee, portfolio managers negotiating agents agents for mergers, tapeovers etc.

Merchant Banking in India

In India merchant banking services were started only in 1967 by National Grindlays Bank followed by Citi Bank in 1970. The State bank of India was the first Indian commercial Bank having set up separate merchant banking division in 1972. In India merchant bank have been primarily operating as issue house than full fledged merchant banks as in other countries. Some merchant banking outfit has entered into collaboration with merchant bankers abroad with many branches.

The growth of merchant banking in India

Formal merchant activity in India was originally in 1969 with the merchant banking division setup by the Grindlays Bank, The largest foreign bank in the country. The main service offered at that time to the corporate enterprises by the merchant banks included the management of public issues and some aspects of financial consultancy. Following Grindlays Bank City Bank set up its merchant banking division in 1970. The division took up the task of assisting new entrepreneurs and existing units in the evaluation of new projects and raising funds through borrowing and equity issues. Management consultancy services were also offered. Merchant bankers are permitted to carry on activities of primary dealers in government securities. Consequent to the recommendation of banking communion in 1972, that Indian banks should offer merchant banking services as part of the multiple services they could provide their clients. State Bank of India started the merchant banking division in 1972. In initial year the SEBI's objective was to render corporate advice and assistance to small and medium entrepreneur.

The commercial banks that followed state bank of India were central Bank of India, Bank of India & Syndicate bank in 1977, Bank of Baroda, Standard Chartered bank and Mercantile Bank in 1978 and United Bank of India, United Commercial bank Punjab National Bank, Canara Bank and Indian overseas Bank in late 70's and early 80's. Among the development banks, ICICI started merchant banking activities in 1973 followed by IFCI (1986) AND IDBI (1991).

Requirements for setting up a merchant banking Outfit

1. **Formation of the Business organization** : - SEBI act, 1992 does not prescribe any specific form of business organization to carry on the activities as merchant banker. However, the types of organization are listed below:
 - a. Sole Proprietorship
 - b. Partnership firm
 - c. Hindu undivided Family (HUF)
 - d. Corporate Enterprises
 - e. Co-operative society
2. **Adoption of a viable business Plan**: - All the basic tests required to find out whether the business to be undertaken is viable or not are also applicable to merchant banking setup. Capital adequacy, profitability, growth, opportunities and current market size are some of the factors which need to be looped into.
3. **Registration of Merchant Bankers**
 - a. **Application for grant of certificate** : -
An application for grant of a certificate need to be made to SEBI.

The application can be made for any one of the following categories of the merchant banker namely: -

1. **Category 1 that is**
 - a. To carry on any activity of the issue management, which will inter-alia consist of preparation of prospectus and other information relating to the issue, determining financial structure tie-up of financiers and final allotment and refund of the subscription.
 - b. To get as adviser, consultant, manager, under-writer, portfolio manager.
2. **Category II** – that is, to act as adviser, consultant, Co-manager, under-writer, Portfolio manager
3. **Category III** – that is to act as under writer adviser, consultant to an issue.
4. **Category IV** – that is to act only as adviser or consultant to an issue.
 - a. To carry on the activity as underwriter or portfolio manager a separate certificate of registration needs to be obtained from SEBI.
 - b. Application to conform to the requirements. – All the application should be conform to all the requirement under the SEBI guidelines, otherwise it may be rejected.
 - c. Furnisher of Information clarification and personal representation – The Board may require the applicant to furnish further information or clarification regarding matters relevant to the activity of a merchant banker for the purpose of disposal of the application. The applicant or its principal officer may appear before the board for personal representation.
 - d. Consideration of application: - The board shall take into account for considering the grant of a certificate, all matters, which are relevant to the activities relating to merchant banker and in particular the applicant companies with the following requirement namely:
 - The application shall be a body corporate other than a non banking financial company.
 - The merchant banker who has been granted registration by the Reserve Bank of India to act as primary or satellite dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit.
 - The applicant has the necessary infrastructure like adequate office space, equipments, and manpower to effectively discharge his activities.
 - The applicant has in his employment minimum of two persons who have the experience to conduct the business of the merchant banker.
 - The applicant fulfils the capital adequacy requirement is as follows :

Category	Minimum Amount
Category I	Rs. 5,00,00,000
Category II	Rs. 50,00,000
Category III	Rs. 20,00,000
Category IV	NIL

- Grant of certificate to the applicant is in the Interest of investors.
- e. Procedure for Registration: The board on being satisfied that the applicant is eligible shall grant a certificate on the grant of a certificate the applicant shall be liable to pay the fees as prescribed.
- f. Payment of fees and the consequences of failure to pay fees: Every applicant eligible for grant of a certificate shall pay such fees in such manner and within the period specified.

Code of Conduct for merchant Banking

According to the 13 regulation of the SEBI of 1992 (Merchant Banker), every merchant banker should comply with following codes of conduct. They are :-

- a. The merchant banker must observe high integrity and fairness in all his dealings.
- b. He shall render at all times high standard of services, interline due diligence, enerine independent professional judgment.
- c. If necessary, he must disclose to his clients the possible source of conflict of duties and Interest.
- d. The merchant banker should not indulge in unfair practice or unfair competition with other merchant bankers.
- e. He should not make any enagerated statement about his capacity or achievement.
- f. He should always endeavour to give the best possible advise and prompt efficient and cost effective service.
- g. He should maintain the secrecy of all the confidential information received during the course of service to his client.
- h. He should not engage in the creation of a false market or price rigging or manipulation.

Services of Merchant banker in India

Merchant banker provide services as follows:

Business Planning stage	Project feasibility study Advice on capital structuring.
Equity raising	Preparation of prospectus and Liaison with SEBI Pricing decision Marketing in the capacity of lead manager. Underwriters to the issue Post issue Management. Assistance in ADR/GDR
Data raising	Management of debenture issue Preparation of bankable proposal and syndication of loan
Working Capital raising	Assistance in arranging optimal capital finance
Strategic advice	Advice on mergers and acquisitions Corporate structuring advice

Scope for merchant banking in India

Scope for merchant banking depends upon size of the market, restriction –liberation, banking policies, corporate culture and corporate dynamics.

❖ Problems and hurdles:-

Not many but some problems are faced by Indian merchant bankers.

1. Industry Comport metallization
2. Malafide practices
3. Regulations

❖ Major Merchant banker in India: -

In India merchant banking is new concept bat still there are 135 banks who register as merchant bank under SEBI. It includes public sectors, private sectors, and foreign bankers following are some example of these banker: -

❖ Public Sector Merchant banker: -

1. SBI CAPITAL MARKETS LTD
2. PUNJAB NATIONAL BANK
3. BANK OF MAHARASTRA
4. IFCI FINANCIAL SERVICES LTD
5. KARUR VYSYA BANK LTD
6. STATE BANK OF BIKANER AND JAIPUR

❖ **Private sectors merchant bankers:-**

1. ICICI SECURITIES LTD
2. AXIS BANK LTD
3. BAJAJ CAPITAL LTD
4. TATA CAPITAL MARKET (LTD)
5. ICICI BANK LTD
6. RELIANCE SECURITIES LTD

CONCLUSION

The merchant banker plays a vital role in channelizing the financial surplus of the society into productive investment avenues. Hence before selecting a merchant banker, one must decide, the services for which he is being approached. Selecting the right Intermediary who has the necessary spiel to meet the requirements of the client will ensure success.

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