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Recent Development in Merchant Banking in India: An Review

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Abstract - The term "merchant bank" refers to a financial institution that invests in businesses in exchange for ownership stakes rather than interest payments. Merchant banks also provide their client companies with advice on corporate issues. The phrase "merchant bank" has historical significance in Britain and refers to a financial institution there. Merchant banks may be thought of as financial administrations firms that also engage in private value speculating and provide venture banking and other subsidiary services. Since a merchant bank serves as a consultant, middleman, and leader, it takes a longer-term view than the typical investment bank and is more concerned with the viability of each investment opportunity and the provision of sound advice to each client business. Commonly used to refer to Investment Banks, "commercial banks" have a long history in banking. In addition, it may be used to characterize the banking industry's private value activities. From the Middle Ages forward, this article focuses on the background of banking as it was developed by merchants. A nation's economic growth is directly proportional to the strength of its business sector, which is why merchant banking is so important. Recent development in merchant banking in India.

Keywords - Merchant banking, development, bankers

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INTRODUCTION

The opening up of India's economy due to globalization has led to the development of a flourishing international financial services industry. The government has finally allowed foreign participation in the banking and insurance industries. India's commercial banks have adopted a novel approach by establishing a merchant banking sector. In 1967, Grindlays Bank was the pioneer in India's merchant banking industry. The Securities and Exchange Board of India regulates and oversees the activities of a sizable number of merchant banks in the country (SEBI). A merchant bank offers both banking and advisory services. It offers advice on financial, management, and legal issues to its clientele. "any individual who is involved in the business of issue management either by selling, purchasing, and subscribing to securities as manager," is what the Securities and Exchange Board of India (SEBI) calls a merchant banker.[1] The significance of the merchant bank in the global economy today is crucial. The monetary foundations on which the contemporary world was built are rock solid. All of these tasks need the expansion of financial institutions, the most prominent of which is the "Merchant Bank." Merchant banks play a crucial part in today's economy because of the rapid growth of both the economy and the number of businesses that need financial backing. Following the economic changes, the merchant banking business expanded rapidly. In today's business climate, merchant banking is promoted by a majority of corporate groupings and stock brokers. In addition, merchant banking is becoming more widespread due to the IPO boom and the book built issuance procedure. There are now 185 registered merchant bankers with SEBI.[2]

In 1967, Grindlays Bank was the first Indian financial institution to provide merchant banking. Since 1970, it has made significant progress. Merchant Banking combines traditional banking with advisory services. In the areas of finance, marketing, management, and law, it offers advice to its clientele. They provide advice on matters of law, management, accounting, and promotion. Consulting services aid new businesses in launching, investors in financing, modernizing, expanding, or rebuilding an existing firm, and victims of natural disasters in reestablishing lost assets and operations. Essentially, it serves the same function as a financial engineer for a company. For more complex financial maneuvers, merchant banking plays a crucial role.[3]

Generally speaking, the services below are where the majority of Indian commercial banks have put their efforts. management at the corporate level.

- Project directing and pre-venture considers.
- Credit partnership and venture money.
- Capital issues the executives.

- Underwriting of capital issues.

Because they serve as conduits for capital and information for businesses, merchant banking administrations contribute to national economic development. As the Indian economy grows, the work of merchant banking administrations in the country becomes more important. These financial institutions also serve as corporate warning bodies, advising businesses on a range of financial issues.[4]

There are two roles that merchant banks play in the financial system. It has the same ability as other businesses, namely the acquisition of assets via shops or transactions of protection in order to lend them to consumers (SEBI prohibits them from lending by themselves). Their secondary role is to act as consultants for clients in exchange for payment. SEBI envisions a mandated role for merchant banks in due diligence, independent of the issue board, during buybacks and public proposals of takeovers. The significance of their assuring and corporate financial administrations is not represented in the total resources of the organization since they are dependent mostly on charges rather than financing. Merchant banks are under increased pressure from SEBI to transition to a fee-only business model.

ROLE OF MERCHANT BANKERS

The contributions of merchant bankers to the progress of our nation are crucial. Unpredictable conditions, such as inflation, unemployment, and others, have an impact on a country's economy. Merchant banking offers services and solutions for long-term financial planning, which are essential for a country's economic progress. Merchant banks' impact on the Indian capital market is highlighted here.[5]

Mobilization of fund

Investors' savings are pooled and guaranteed a healthy return thanks to merchant banks. The development of the merchant banking industry has made it possible for corporations in the public and private sectors to access the capital market at any time and in sufficient quantities to meet their financial needs. In turn, that contributes to the expansion of the business community and the nation at large.

Promotional function

Merchant banking services are by their very definition developmental and promotional in character, with the goal of ensuring the continued success of established industries and businesses. Ideas, initiatives, feasibility studies, government clearances, incentives, etc. are all things they aid entrepreneurs with.

Financial services

The monetary foundation on which the global economy of the present era is built is rock solid. There has been a rise in the number of financial organizations in order to carry out these responsibilities, the most prominent of which is the "Merchant Bank," which offers a wide range of banking products and services to its customers.

Brokers in stock exchanges

Merchant bankers trade stocks and bonds on their customers' behalf. They counsel customers on which securities to buy, how much of each to buy, when to sell, etc.

Innovations

There is a constant flux of government regulations, policies, and edicts. Because of this, it is essential for a merchant banker to adapt to the ever-shifting market conditions. As such, he must keep up with the latest scientific and technological developments. A merchant banker's job is to come up with creative ways to fund manufacturing endeavors.[6]

Revival of sick units

In order to save failing factories, a merchant bank is often called in. They coordinate with many organizations and carry out comprehensive revitalization plans. As a result, ill manufacturing facilities may be revitalized and rebuilt with the aid of all these measures.

Market makers

Several novel financial products have appeared in the Indian capital market in recent years. Some examples are zero coupon bonds, cumulative convertible preference shares, deep discount bonds, and non-convertible debentures with separate warrants. For these instruments, Merchant Banks must also serve as market makers.[7]

Handling government consent for industrial projects

Corporations require government approval to launch new ventures, as well as to expand and update current operations. On their customers' behalf, merchant bankers handle the administrative processes necessary to get regulatory approval.

Corporate restructuring

With liberalization, privatization, and globalization, the business world has become more competitive. This has resulted in a reorganization of business finances and organizational structure. This entails a wide range of formalities and extensive legal processes. On their customers' behalf, merchant bankers take care of all the necessary paperwork.

DEVELOPMENTS IN MERCHANT BANKING ESTABLISHMENT[8]

1. Setting up of Banks Subsidiaries
2. Re-association of Private Firms
3. Establishment of SUA
4. Securities and Exchange Board of India (SEBI)
5. Discount and Finance House of India (DFHI)
6. Credit Rating Information Services of India Ltd. (CRISIL)
7. Stock-Holding Corporation of India Ltd. (SHC)

TYPES OF MERCHANT BANKING ORGANIZATION IN INDIA

The majority of merchant banks in India are subsidiaries of larger Indian or international financial institutions (SBI, Canada Bank, Punjab National Bank, Bank of India, etc.), while some enterprises are also directed by financial and technical specialists. The Securities and Exchange Board of India (SEBI) has separated merchant bankers into four categories based on their capital adequacy. There are certain roles that each class is authorized to perform. From the perspective of organizational structure, Indian merchant banking organizations may be divided into four groups according to their connection with parent activity. These items are:[9]

a) Institutional Base: - In which merchant banks operate independently or as subsidiary arms of various private, central, and state governmental financial institutions. This structure is important along the lines of administrative necessities given that the great majority of India's financial institutions are located in open areas.

b) Banker Base: - Merchant bankers serve as an offshoot or subsidiary of a larger financial firm. The banks' mothers and fathers are either government-owned corporations or foreign financial institutions with operations in India. These groups have proven expertise in the merchant banking sector and aid their parent group in establishing a foothold in the capital market.

c) Broker Base: - The various Stock Exchanges in India have recently seen an influx of Qualified and exceptionally qualified intermediates. Agents in this field provide executive-level services, including those associated with merchant banking, such as investment advice and portfolio management.

d) Private Base: - The majority of these commercial banks get their starts in secret. These companies are catering to clients' specialized needs thanks to their founders' experience and connections in the merchant banking industry. Likewise, some foreign merchant bankers are making inroads, either alone or in concert with their Indian business partners. Merchant banking enterprises in the private sector might be run as sole proprietorships, partnerships, limited liability companies, or public companies. The majority of these institutions have been around for quite some time; it was only recently that they expanded their services to include merchant banking administrations, in the vein of commercial banks and the All India Financial Institution (AIFI).[10]

FUNCTIONS OF MERCHANT BANKING ORGANIZATIONS

- Dissemination of safeguards such as value shares, common assets, safeguards, etc. Facilitating the acquisition of capital through assisting businesses in attracting investors.
- One of the major functions of these groups is to act as a loan partner for its consumers.
- Notable additional services provided by these organizations in the realm of merchant banking include: Corporate warning and undertaking warning administrations.

DIFFERENCE BETWEEN MERCHANT BANK AND COMMERCIAL BANK

- Commercial banks cater to the needs of the everyday consumer, whereas merchant banks focus on the requirements of large corporations.
- A merchant bank account cannot be opened by a regular customer, but a business bank account may be opened by anybody.
- Merchant banks handle value management, whereas commercial banks handle obligation-related funds, which include credit proposal, advance consents, and other similar activities.
- In comparison to commercial banks, the risk profile of a merchant bank is higher due to its exposure to the market.
- The business markets are focused on tertiary industries, while merchant banking is associated with the primary market.
- While commercial banks play the role of financiers, merchant banks specialize in activities such as capital rebuilding, endorsing, portfolio the executives, and so on.

IMPORTANCE OF MERCHANT BANKING IN INDIA

In light of the current pattern of widespread industrialisation in India, it is clear that the nation needs a centralized system to oversee merchant banking. Therefore, skilled professionals who can handle the many current financial needs are in demand. These skilled services are also crucial to the functioning of small and medium-sized businesses.[11]

Most of the country's areas are in desperate need of mechanized development, with a lack of resources and information being among the leading causes.

The merchant banking departments there assist business persons in coming up with operational plans. Moreover, merchant banks aid company visionaries in exploring the joint venture opportunities in uncharted commercial spheres.

The aforementioned exchange highlights the ways in which India's merchant banks are promoting mechanical advancement. The government plays a significant role by setting norms and regulations for merchant banks so that businesses may profit from these services.

DEVELOPMENTS IN MERCHANT BANKING

Certain factors in India have contributed to the industry's recent success. They are[12]

- The years 1985–1992 were a high point for merchant banking because of the influx of new concerns at the time. With so many upcoming issues, it's only natural that the next fiscal years of 2012–13 and beyond will be a celebration for commercial banks.
- Unfamiliar financial supporters, in the form of portfolio speculation and via foreign direct investments, are roving in the Indian economy. As a result, the scope of merchant bankers is growing.
- Merchant banks are able to serve in a more specialized capacity due to disinvestment in the public authority sector.
- On a regular basis, new forms of currency are introduced to the market. The merchant banks essentially get greater independence as a result of this.

The Challenges Faced by Merchant Bankers in India are:

- Due to the SEBI regulation, they are now primarily responsible for Issue Management and Portfolio Management. This means that we have to limit the scope of our efforts.
- Consumers' lack of faith in the merchant banks' efficiency often leads to unwarranted hassle for the banks, even when the customers have done nothing wrong.
- Class I and II often have a high total asset requirement, preventing entry from many professionally skilled individuals or organizations.
- Poor Developing Problems merchant bankers in the Indian market is quickly dissipating. As such, merchant bankers act as the monetary delegate in the transfer of capital assets to borrowers looking to acquire.

MERCHANTS OF PUBLIC ISSUE MANAGEMENT

1. Public Issue of Securities:

Securities issued to the general public in conjunction with the distribution of a prospectus to generate money are said to have been "issued" to the public. Market for capital. All or a portion of a security may be issued, and the price can be set at a premium or a reduction. As a legal requirement, the Prospectus must provide investors with all material information about the firm. In addition to following SEBI rules, the prospectus must follow the format outlined in Schedule II of the Companies Act, 1956. The Securities and Exchange Board of India (SEBI) requires adequate disclosure of facts on which investors may base their decisions.[13]

2. Rights Issue:

The term "Rights Issue" is used to describe the process by which a company's current shareholders are granted preferential access to new shares. Investors buy into the fresh round of stock. The company is issuing rights shares to raise extra money. These shares are being offered to the holders of the underlying stock in direct proportion to the amount of money that has been paid into their existing shareholdings. It should be made clear that shareholders have no legal need to accept the offer even if they are privileged to be offered on the matter. In most cases, the conditions under which a shareholder is issued right shares are favorable to the shareholder.

3. Private Placement:

Private placement refers to the sale of securities by the issuing firm to investors, often large financial institutions. Since it is assumed that the investors have the necessary information and expertise, a prospectus is not required in this situation. Debentures, preferred shares, and common shares may all be issued in a private placement. The merchant bankers and lead managers who play the position of financial middleman in private placement are certain to play a crucial role. They become involved in making an offer memorandum and talking to potential backers.

RECENT DEVELOPMENT IN MERCHANT BANKING

Setting up of bank subsidiaries

Money is the fuel for every enterprise. Corporations need access to a wide range of financial services if they are to thrive in today's cutthroat business environment. Accordingly, the business sector's need for financial services is growing. Consequently, the nationalized banking industry's merchant banking arms have begun branching out into their own separate companies to keep up with demand. They provide a more specialized level of service to their customers via these offshoots.[14]

Re-organization of private firms

The nationalized banking industry has seen a rise in the demand for diversified financial services from corporations, prompting the merchant banking arms of these institutions to establish their own separate subsidiaries. Private merchant bankers have been rearranging their operations in response to the increased competition from these companies.

Establishment of Stockbroker Underwriters Association (SUA)

Established in 1984, the Stockbroker Underwriters Association (SUA) works to safeguard investors' rights by educating the public and its members about the capital markets and providing a variety of legal and other services to the two groups. The SUA collaborates with merchant bankers to boost capital market activity.

Discount and Finance House of India (DFHI)

In order to advance the Indian money market, the Reserve Bank of India (RBI) and public sector banks and all India financial institutions established the Discount and Finance House of India (DFHI) in April 1988. Its primary goal is to create a dynamic secondary market for money market instruments, which will allow for the smoothing of short-term liquidity imbalances.

Securities and Exchange Board of India (SEBI)

The Securities and Exchange Board of India (SEBI) was set up on April 12, 1992, with the goals of safeguarding investor funds, fostering the growth of the securities market, and imposing order on the country's stock exchanges. To engage in securities market activities, such as merchant banking, underwriting, sub-brokering, etc., one must first get board approval. The Securities and Exchange Board of India regulates and oversees the activities of a sizable number of merchant banks in the country (SEBI).[15]

Credit Rating Information Services of India Ltd. (CRISIL)

CRISIL was established in 1988 as India's first credit rating agency, with the primary goal of enhancing the efficiency of the country's financial markets. Numerous businesses and financial institutions rely on its ratings, research, risk, and advice services.

Stock-Holding Corporation of India Ltd. (SHC)

Safekeeping and delivery of securities as well as the collection of securities sale revenues are the responsibility of SHC, which was established in 1986 by All India Financial Institutions.[16]

CONCLUSION

The growth of India's economy is largely attributable to the work of India's merchant banking industry. It lends a helping hand to businesses as they enter new global marketplaces. By providing a variety of tools and resources, it fosters new business formation and the expansion of existing industries. In addition, the merchant bank assists the business owners in investigating potential overseas joint venture partnerships. Future development prospects of merchant bankers are predicted to be strong as India rapidly advances along the road of globalization, leading to an increase in both foreign direct investment and portfolio investment. This is because the Indian economy is conducive to the growth and development of these businesses. Due to the large number of both domestic and international companies flourishing in India, as well as the continual reforms that are helping the economy thrive, the merchant banking industry in India has a great deal of room to expand. There is a conducive environment in the Indian economy for these businesses to expand and prosper. This research helped me appreciate the nuances of merchant banking. Merchant banking refers to a wide range of services provided by merchant bankers to their clients. They also act as a conduit for information exchange on the matter at hand. The Securities and Exchange Board of India is the regulatory authority for the Indian securities industry (SEBI). The growth of the Indian economy is aided by merchant banking. Consequently, merchant banking has become an essential part of the Indian economic system.

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