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A Study on Merchant Banking in India and How the Merchant Banking Works in India

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ABSTRACT –

A merchant bank is a firm that delivers advice to clients on monetary, administrative, commercial, and legal issues. They typically provide aid for large corporations with refinancing, foreign finance, and business loans. These banks are professionals in business operations with international corporations.

They provide financial advice so the corporate can take wise steps in the correct direction so their business flourishes. Commercial banking supports the prosperity of the nation's economy by continuing to act as a conduit of funding and expertise for major corporations.

Big companies need to take help from commercial banks as it helps them not fall in the form of major losses. Furthermore, they are keenly important to help a brand follow the market trends of a certain country, get modernized, and expand where there is a large number of the target audience. This helps the corporate in the search business and fulfils the needs of people at the same time. They also lend a helping hand with share trade registration, purchases, and sales. It is to be noted that they only provide services to large corporations, which is what sets them apart from the local commercial banks.

Such banks could be sections of greater business or investment banks, and they generally execute their business worldwide.

Keywords – SEBI, Underwriting, Issue Management, Financial Services, Investment Banking. Portfolio Management

INTRODUCTION-

Original Definition: A Merchant Bank is a British term for a bank providing various financial services such as accepting bills arising out of trade, providing advice on acquisitions, mergers, foreign exchange, underwriting new issues, and portfolio management.

Focus Definition: A Merchant Bank can be broadly characterized as a financial services company with a private equity investment arm offering investment banking and ancillary services as well. Because a merchant bank acts not only as an advisor and broker but also as a principal, it adopts a longer-term approach than a typical investment bank and is highly concerned with the viability of each investment opportunity, providing the right counsel for a robust partnership with each client company. According to the Indian Banking Regulation Act defined banking as the 'Accepting the deposits of money from the public which are repayable on demand for the purpose of lending or investment of the money acquired from the public in the form of deposits.

Amidst the rapid changes sweeping the financial world, Merchant Banking has emerged as an indispensable financial advisory package. Merchant banking is a service-oriented function that transfers capital from those who own it to those who can use it. They strive to recognize the needs of investors and the corporate sector, offering entrepreneurs guidance on what to do for success. In banking, a merchant bank is a conventional term for an Investment Bank. It can also be utilized to portray the private equity activities of banking.

KEY TAKEAWAYS

Financial Intermediation: Merchant banks act as intermediaries between corporations and investors, facilitating various financial services.

Advisory Services: Providing expert advice on corporate finance, capital structuring, mergers and acquisitions, and other strategic financial decisions.

Market Research: Conducting market research and due diligence to evaluate investment opportunities and risks for clients.

HISTORY OF MERCHANT BANK: -

Businesses often necessitate specialized banking services with a focused nature. Therefore, Commercial bankers establish their merchant banking subsidiaries to provide financial services for the corporate sector. The first Merchant Banker was established in 1967 by Grind lay’s Bank, and subsequently, numerous merchant banks were incorporated. Merchant banking services strengthen the economic development of a country as they act as sources of funds and information for corporations. Considering the way the Indian economy is growing, the role of merchant banking services in India is indispensable. These financial institutes also act as corporate advisory bodies to help corporations rightly get involved in various financial activities.

Merchant banks serve a dual role within the financial sector. Through deposits or sales of securities they obtain funds for lending to their clients (SEBI) forbids lending by them): a function similar to most institutions. Their other role is to act as agents in return for fee. SEBI envisages a mandatory role for merchant banks in exercising due diligence apart from issue management, in buy-backs and public offer in takeover bids. Their underwriting and corporate financial services are all fees rather than fund based and their significance is not reflected in their total assets of the industry. SEBI has been pressing for merchant banks to be primarily fee-based institutions.

OBJECTIVES OF THE STUDY-

- Capital Formation: One of the primary objectives of merchant banking is to facilitate capital formation by assisting companies in raising funds from the capital market.
- Advisory Services: Merchant banks provide comprehensive advisory services to their clients, including corporate finance advisory, mergers and acquisitions (M&A) advisory, capital restructuring, and strategic planning.
- underwriting Services: Merchant banks act as underwriters for securities issued by companies, guaranteeing the sale of securities to investors at a predetermined price.
- Market Making: Merchant banks often serve as market makers in the secondary market, facilitating the trading of securities by providing liquidity and matching buy and sell orders.

SCOPE: -

- Growth of New Issues Market: As the India market is among the largest growing market so the various domestic and foreign investors are entering the market for doing business.
- Entry of Foreign Institutional Investment: The is globalization in the Indian capital market. is permission given to the foreign institutional invest in India as they require the suggestion from merchant banks for the business in India.
- Development of Debt Market: The debt instrument helps in raising large amount of capital for the business. The making of debts market is also done by merchant banks.
- Innovations in Financial Instruments: The innovative financial instrument has increased. The merchant banks are the origin of the innovative type of financial instruments.

HYOTHESIS:

Hypothesis on merchant banking in India could involve exploring various aspects, such as the impact of regulatory changes, economic conditions, and technological advancements on the merchant banking sector. Additionally, you might investigate the role of merchant banks in facilitating capital market activities, mergers and acquisitions, and the overall financial ecosystem. Analyzing historical trends and considering global financial dynamics could provide insights into the future prospects of merchant banking in India.

SERVICE PROVIDED BY MERCHANT BANKERS: -

A merchant account allows a business to accept credit cards, debit cards, gift cards and other forms of electronic payment.

Merchants, or business owners who receive payment for their goods or services, must apply for a merchant account.

A Payment Gateway is an e-commerce service that authorizes payments for E-businesses and online retailers.

A Payment Service Provider (PSP) offers merchants online services for accepting electronic payments by credit card or other payment methods such as payments based on online banking.

Furthermore, a PSP can offer reconciliation services, risk management and multi-currency functionality.

SIGNIFICANCE OF THE STUDY

It would help us to develop the ability to study the functioning of Merchant Banking in India & learn & apply multidisciplinary concepts, tools & techniques to solve vital problems.

It familiarizes with the various services provided by Merchant Bankers.

They would help us to draw comparison between public & private sector companies engaged in Merchant Banking activities.

Based upon the comparison, it would help us to determine which sector has more growth potential & where should one invest his/her funds to maximize the return at minimum risk.

SEBI REGULATIONS –

INTERNET BANKING

SEBI has brought about effective regulative measures for the purpose of disciplining the functioning of the merchant bankers in India. The objective is to ensure an era of regulated financial markets and thus streamline the development of the capital market in India. The measures were introduced by the SEBI in the year 1992. The measures were revised by SEBI in 1997. The salient features of the regulative framework of merchant banking in India are discussed below. Characteristics of Internet Banking are

Application for Grant of Certificate An application by a person for grant of a certificate shall be made to the Board in Form A. The application shall be made for any one of the following categories of the merchant banker namely:

- Category I- To carry on any activity of the issue management, which will interalia 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; and to act as adviser, consultant, manager, underwriter, portfolio manager.
- Category II- To act as adviser, consultant, co-manager, underwriter, portfolio manager.
- Category III- To act as underwriter, adviser, consultant to an issue.
- Category IV- To act only as adviser or consultant to an issue.

REGISTRATION OF MERCHANT BANKS IN INDA

Registration with SEBI is mandatory to carry out the business of merchant banking in India. An applicant should comply with the following norms:

The applicant should be a body corporate

The applicant should not carry on any business other than those connected with the securities market

The applicant should have necessary infrastructure like office space, equipment, manpower etc.

The applicant must have at least two employees with prior experience in merchant banking.

The applicant should not have been involved in any securities scam or proved guilt for any offence.

REVIEW OF EXISTING LITERATURE-

A Few of literature are Form of banking where the bank arranges credit financing, but does not hold the loans in its investment portfolio to maturity. A merchant bank invests its own capital in leveraged buyouts, corporate acquisitions, and other structured finance transactions. Merchant banking is a fee-based business, where the bank assumes market risk but no long-term credit risk. A common form of banking in Europe, merchant banking is gaining acceptance in the United States, as more banks originate commercial loans and then sell them to investors rather than hold the loans as portfolio investments. A Banque daffier is a French merchant bank, which has more powers than its British counterpart.

Okay so you want to accept credit cards from your customers, and are interested in establishing a merchant account. Whether you own a brick-and-mortar retail store, mail order outlet, or internet shopping operation, there are a few things to consider when choosing a credit card processing provider.

FINDINGS OF THE STUDY –

Companies making large size issues of equity shares relied more on foreign merchant bankers than on Indian merchant bankers because of their vast international network. Year wise participation of merchant bankers in the management of public issues of equity showed that the majority of small merchant bankers were involved in one or two issues only during the year.

SBI Capital Markets Ltd. was the preferred choice of maximum issuers (43 in numbers). This was followed by Enam Securities Ltd with 35 equity issues. 224 Karvy Investor Services Ltd. managed 34 equity issues. ICICI Securities Lid, UTI Securities Ltd and Kotak Mahindra Capital Co. Ltd managed 32, 33 and 30 public issues respectively.

DATA ANALYSIS –

Merchant banking in India involves the comprehensive interpretation of financial data to facilitate diverse financial services for businesses. This includes activities such as underwriting, portfolio management, mergers and acquisitions, and advisory services. Analyzing market trends, assessing risks, and providing strategic financial guidance are integral aspects of data interpretation in Indian merchant banking, contributing to informed decision-making for clients navigating the complex financial landscape.

Regulatory Framework, Services Offered, Evolution, Role in Capital Markets, Challenges and Opportunities

CONCLUSION-

In conclusion, the study of merchant banking and its operations in India reveals a dynamic landscape characterized by financial innovation, regulatory oversight, and market adaptation. Merchant banking plays a crucial role in facilitating corporate finance, investment banking, and advisory services, contributing to the growth and development of businesses across various sectors. Through underwriting, syndication, project financing, and mergers and acquisitions, merchant banks act as financial intermediaries, connecting companies with capital markets and investors. In India, the evolution of merchant banking has been shaped by regulatory reforms, technological advancements, and changing market dynamics, leading to a more sophisticated and competitive industry. Despite challenges such as regulatory compliance and market volatility, merchant banking continues to thrive, driven by the demand for specialized financial expertise and tailored solutions. Looking ahead, the future of merchant banking in India hinges on its ability to adapt to evolving market trends, embrace digital transformation, and maintain trust and transparency in financial transactions.

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