

A STUDY ON RECENT DEVELOPMENTS TOWARDS MERCHANT BANKING IN INDIA

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Abstract

This paper examines the recent developments in merchant banking. Merchant banking has an essential role to play in today's economy. They assist companies in numerous ways. All businesses aim at generating the most income out of their funds. Merchant bankers help these companies to utilize their funds properly and grow. Merchant bank is a financial institution providing capital to companies in the form of share ownership instead of loans. A merchant bank also provides advisory on corporate matters to the firms in which they invest. Merchant banking is an important service provided by a number of financial institutions that helps in the growth of the corporate sector which ultimately reflects into the overall economic development of the country. Merchant banks were expected to perform several functions like issue management, underwriting, portfolio management, loan syndication, consultant, advisor and host of other activities. Merchant banking is a combination of banking and consultancy services. This study helps to understand the improvements and headways in merchant banking.

Key Words: Merchant banking, Financial institutions, Securities management

Introduction

Merchant banking was first started in India in 1967 by Grindlays Bank. It has made rapid progress since 1970. Merchant Banking is a combination of Banking and consultancy services. It provides consultancy to its clients for financial, marketing, managerial and legal matters. They provide consultancy on matters pertaining the finances, marketing, management, and law. Such consultancy services assist starting of businesses, raise finance, modernize, expand or restructure a business, revival of sick units as well as provide assistance to companies in registering, buying and selling shares. It acts as Financial Engineer for a business. Merchant banking plays a major role in the modern economic activities.

The merchant banks in India basically have concentrated their activities on the following services:

- Corporate counselling.
- Project counselling and pre-investment studies.
- Credit syndication and project finance.
- Capital issue management.
- Underwriting of capital issues.
- Portfolio management.
- Venture capital financing.
- Lease finance.
- Non-resident investment counselling and management, Mutual funds.
- Advisory services for capital re-structuring through mergers, amalgamations and takeovers.

Objectives of the study:

- To understand the concept of merchant banking.
- To understand the services provided by merchant banking.
- To explore recent trends and developments in merchant banking.

Review of literature:

Waghmare Shivaji (2015): Globalization made whole Indian economy open which has a multiple role in the financial services. Now a day's government open the door of investment in the area of insurance and bank. Which provide competitive environment for present player? Merchant banking is an innovative term introduced by commercial bank. The need for the merchant banking is pronounced by banking commission (1972). Merchant banking offer fee-based and non-fee-based services like loan syndication, underwriting, project promotion, advisory to small and medium savers. In India merchant banking work under SEBI.

Dr. Jyoti Lahoti (2016): Merchant banking is service provided by financial institution which helps in the economic development of the country. Merchant banking provides various services like portfolio management, loan syndication, and issue management. Merchant banking is a combination of consultancy services and banking. It helps in the business unit. It also helps to increase the fund and to expand the business.

Sanjeev Kumar (2016): Merchant banking is financial institutions which provide capital to the company in the form of share ownership. It also provides advice to the corporate sector in which they invest money. Merchant banking is not only an advisor but also a principle. Merchant banking has a long-term approach than investment. It provides right advice to each client. Merchant banking is a traditional term; it also describes the private equity. Merchant banking helps in the corporate sector which reflects into economic development of the country. Merchant banking provides various functions like portfolio management, underwriting, counselling, loan syndication. Merchant banking is a combination of banking and consultancy services.

Research Methodology: -

The present study is based on secondary data which is collected through literature reviews, Books, Periodicals, Newspapers, Journals, articles, websites etc.

Developments in merchant banking establishment:

- Setting up of Banks Subsidiaries
- Re-organization of Private Firms
- Establishment of SUA
- Securities and Exchange Board of India (SEBI)
- Discount and Finance House of India (DFHI)
- Credit Rating Information Services of India Ltd. (CRISIL)
- Stock-Holding Corporation of India Ltd. (SHC)

Setting up of banks subsidiaries:

In order to meet the growing demand for broad-based financial services from the corporate sector more effectively, the merchant banking divisions of the nationalized Banks have started forming independent subsidiaries. These subsidiaries offer more specialized services with professional expertise and skills.

SBI Capital Markets Ltd., was incorporated as the first such subsidiary of SBI on 2nd July, 1986. Then Canara Bank Financial Services Ltd. was set up as wholly owned subsidiary of Canara Bank in 1987. PNB Capital Services Ltd. was promoted by PNB during mid-1988. Many more subsidiaries are being set up by other nationalized banks.

Re-organization of Private Firms:

Expecting tough competition from growing number of merchant banking subsidiary companies of nationalized banks, private merchant bankers have also started reorganizing their activities e.g., J.M. Financial & Investment Consultancy Ltd., 20th Century Finance

Corporation Ltd., LKP Merchant Financing Ltd. etc. are some of the private sector firms of merchant bankers who have taken steps to reorganize their activities.

Establishment of SUA:

In order to educate and protect the interest of investors, to provide information about new issues of capital market, to evolve a code of conduct for underwriters and to render legal and other services to members and public, the Stockbroker Underwriters Association (SUA) was established in 1984. SUA works in co-ordination with merchant bankers and takes steps for promoting the activities of capital market.

Securities and Exchange Board of India (SEBI):

To develop and regulate securities market, investor protection and to formulate rules and guidelines for regulation of securities market, the Central Government constituted Securities and Exchange Board of India on April 4, 1988.

The Board carries out all functions as may be delegated to the Board/Chairman by Central Government for the development and regulation of securities market. Persons dealing in security market, merchant bankers, underwriters, sub-brokers, portfolio managers, mutual funds etc. have to seek authorization from the Board.

Discount and Finance House of India (DFHI):

DFHI was incorporated as a company under the Companies Act, 1956 with an authorised and paid up capital of Rs. 100 crores. Out of this, Rs. 51 crores has been contributed by RBI, Rs. 16 crores by financial institutions and 33 crores by public sector banks.

It would also have lines of credit from public sector banks; refinance facility from the Reserve Bank of India in order to meet the working capital requirements. DFHI aims at providing liquidity in money market as it deals mainly in commercial bills.

Credit Rating Information Services of India Ltd. (CRISIL):

CRISIL has been set up in 1987 to provide help to investors, merchant bankers, underwriters, brokers, banks and financial institutions etc. CRISIL rates various types of instruments such as debt, equity and fixed return securities offered to the public. It helps the investors in taking investment decisions.

Stock-Holding Corporation of India Ltd. (SHC):

SHC was set up in 1986 by the All India Financial Institutions to take care of safe custody, delivery of shares and collection of sale proceeds of the securities. The setting up of SHC is bound to affect the capital market in future.

Conclusion: -

Merchant banking in India plays an important role in the economic development of the country and it has vast scope to mushroom because of lots of domestic as well as foreign businesses booming here. It serves as a supporting hand to the companies to be active in the foreign markets. It encourages the entrepreneurs with its funding and non-funding activities to establish new setups and also boost industrial sector. Merchant banking focuses on enhancing the capital market, make finance easily available and support the investment climate of the country

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