

New Trends In Merchant Banking In India

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ABSTRACT

The word merchant banking has been so widely used that sometimes it is applied to banks who are not merchants, sometimes to merchants who are not banks and sometimes to those intermediaries who are neither merchants not banks. In this title we have discussed about the Functions, role, objectives of the merchant banking in India.

Introduction

The term 'merchant banking' has been used differently in different parts of the world. While in U.K. merchant banking refers to the 'accepting and issuing houses', in U.S.A. refers to 'Investment banking'. The word merchant banking has been so widely used that sometimes it is applied to banks who are not merchants, sometimes to merchants who are not banks and sometimes to those intermediaries who are neither merchants not banks.

A merchant bank is a company that conducts underwriting, loan services, financial advising, and fund raising services for large corporations and high net worth individuals. They do not provide regular banking services like checking accounts and do not take deposits.

Merchant banking is a combination of Banking and consultancy services. It Provides consultancy to its clients for financial, marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a business. It helps to raise finance. It helps to expand and modernize the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the stock exchange.

Role of Merchant Banking

Merchant banking refers to the professional service provided by the merchant bankers that basically comprises of consultancy and banking services. Arranging funds and providing various sources of raising fund is one of the important function played by the merchant bankers.

Fundamentally merchant banks are financial banks are financial institutions. They engage in business loans as well as underwriting.

1. Merchant Bankers play an important role in public issues process.
2. 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.
3. As well as provide assistance to companies in registering, buying and selling shares. They do not perform the functions of depositories or retail lender.
4. Books of accounts for a minimum period of 3years.
5. Agreement with the issuing company by the merchant banker like, number of collection centre, application received etc.
6. Any action by RBI on merchant banker should be informed to SEBI by the merchant banker Concerned.
7. Having high integration in dealing with clients.
8. Facilitates primary market activities by their advice and guidelines.

Regulations governing in merchant banking in India

Securities and Exchange Board of India (SEBI) is the regulatory authority for merchant banking in India. As per RBI's Master circular on Para- Banking activities, banks are allowed to undertake merchant banking activities through a separate subsidiary which would be required to comply with SEBI regulations.

The Securities Board of India, under the SEBI Regulations, exercising its powers under section 30, SEBI Act, 1992, has made regulations for various components of the capital market.

Objectives of Merchant Banking

The main objectives of merchant banking are as follows:

1. Providing long term funds to projects or companies.
2. Portfolio Management
3. Underwriting
4. Corporate Advisory and issue management
5. Deciding Capital Structure.

Functions of Merchant Banking in India

The functions of merchant banking are listed as follows:

1. **Raising Finance for clients** Merchant banking helps its clients to raise finance through issue of shares , debentures, bank loans etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project or for modernization or expansion of the business.

2. **Broker in Stock Exchange**

Merchant Bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy, how much to buy and when to sell. Large brokers, Mutual Funds, Venture capital companies and investment Banks offer merchant banking services.

3. **Project Management**

Merchant banking help their client in the many ways. For e.g. Advising about location of a project, preparing a project report, conducting

feasibility studies, making a plan for financing the project, finding out sources of finance, advising about concessions and incentives from the government.

4. Advice on Expansion and Modernization

Merchant Bankers give advice for expansion and modernization of the business units. They give expert advice on mergers and amalgamations, acquisition and takeovers, diversification of business, foreign collaborations and joint-ventures, technology up gradation, etc.

5. Managing Public issues of Companies

Merchant Bank advice and manage the public issues of companies. They provide following services:

01 Advise on the timing of the public issues.

02 Advise on the size and price of the issues.

03 Acting as manager to the issues, and helping in accepting applications and allotment of securities.

04 Help in appointing underwriters and brokers to the issue.

05 Listening of the shares on the stock exchange etc.

6. Handling Government consent for Industrial Projects

A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients.

7. Money Market Operation

Merchant bankers deal with and underwrite short term money market instruments, such as

1. Government Bonds

2. Certificate of deposit issued by banks and financial institutions

3. Commercial Paper issued by large corporate firms.

4. Treasury bills issued by the Government.

Qualities of a Good Merchant Bank

Leadership
Aggressive Action
Co-operative and friendliness
Contacts
Attitude towards

Conclusion of Merchant Banking

Merchant Banking is difficult to define. The function of merchant bankers varies from country to country. Merchant Banks are known as "Accepting and issuing houses" in UK and as "investment banks" in USA.

In India merchant Bankers are allowed to undertake only those activities which are related to securities and are prohibited from carrying on fund based activities other than those related exclusively to the capital market. This reduces the scope of merchant banking in India.

Merchant Banks and investment banks sound the same but are totally different. Provide advice and guidance to its various clientele. All Indian Merchant Banks are under the check of SEBI.