

Merchant Banking

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Meaning

The term Merchant Banking used differently in different countries. In London, Merchant Banker refer to those who are member of British Merchant Banking & Security House Association. Where as in U.S.A. it is concerned with mobilising savings of people and directing the funds to business.

Definitions

So from meaning, Merchant Banking may be define as,

“ an institution which covers a wide range of activities viz. management of customers, portfolio management, loan syndication etc.”

Origin

The Merchant Banking firstly started by London merchants by entering in financing foreign bills. Later they assist Govt.to raising long term loan through flotation of bonds in London Money Market for under developed countries. Over a period they extended their activities to domestic business such as, loan syndication, debenture trustees, take over, acting as registrars and share transfer agents etc.

Origin

The post war period witnessed rapid growth of merchant banking through the innovative instruments like Euro Dollar, and various financial centers like Singapore, Hong Kong, Dubai, Kuwait etc.

Merchant Banking in India

In India prior to enactment of companies act 1956, managing agents acted as issue houses for securities etc. the need for specialised merchant banking service was felt when the rapid growth in the number of issues made in primary market.

Although the merchant banking was started in India by foreign bank, viz. Grindlays Bank in 1967 and Citi Bank in 1970.

In the mid eighties the banking regulation act was amended permitting commercial banks to offer wide range of financial services through subsidiary rule.

Merchant Banks Vs Commercial Banks

<u>Points</u>	<u>M. B.</u>	<u>C.B.</u>
1. Finance	Equity related	Debt related
2. Risk Taking	Wiling to take	Generally avoid it
3. Activity	Impact on Money Market,	They are merely Financers
4. Operation	Management oriented	Asset oriented

* M.B. = Merchant Banks

* C.B. = Commercial Banks

Services of Merchant Banks

In the current trend of trade and market, the Financial institutions in India couldn't satisfy long term funds requirements. So corporate sector have to depend on the source like issue of debentures or shares. To raise money from capital market, promoters bank upon merchant bankers. To fulfill the requirements of corporate sector following services offered by Merchant Bankers.

- a. Corporate Counselling
- b. Loan Syndication
- c. Post Issue Management
- g. Off Shore Finance
- b. Project Counselling
- d. Issue Management
- f. Portfolio Management
- h. Non-Resident Investment

Qualities of Merchant Banker

As earlier we seen the services offered by M.B. It is very much essential to know the qualities required by M.B. Since M.B. plays important role in current market. Following qualities must possess by an Merchant Banker to achieve success.

- a. Analytical Nature
- b. Knowledge of Capital Market & trends in Stock Exchange
- c. Ability to build up bank client relationship
- d. Innovative approach
- e. Integrity & Maintenance of High Standards

Guidelines for Merchant Bankers

Merchant Banking has been brought within the framework of SEBI's Merchant Bankers Regulation, 1992. Several guidelines were issued by SEBI, below are some of them.

- a. Authorisation by SEBI to carry out business
- b. Authorisation, annul and renewal fees may be collected.
- c. Each M.B. to furnish half yearly unaudited statements.
- d. Classification made according to nature & activities.
- e. Inspection conducted by SEBI to ensure that the provision of the regulation are properly complied.
- f. SEBI has been vested with power to suspend or cancelled the authorisation in case of violation.

Merchant Bankers Commission

As determined by the finance ministry, Government of India Merchant Bankers are eligible to charge commission / fee from their clients as mentioned below.

- a. M.B. can charged 0.5% max. commission for whole of issue
- b. M.B. can charge project appraisal fees
- c. Lead Manager can claim commission of 0.5% up to Rs. 25 crore and 0.2% in excess of Rs. 25 crore.
- d. Other expenses like advertising, printing, stamp duty etc. in connection with the issue can be reimbursed from clients.

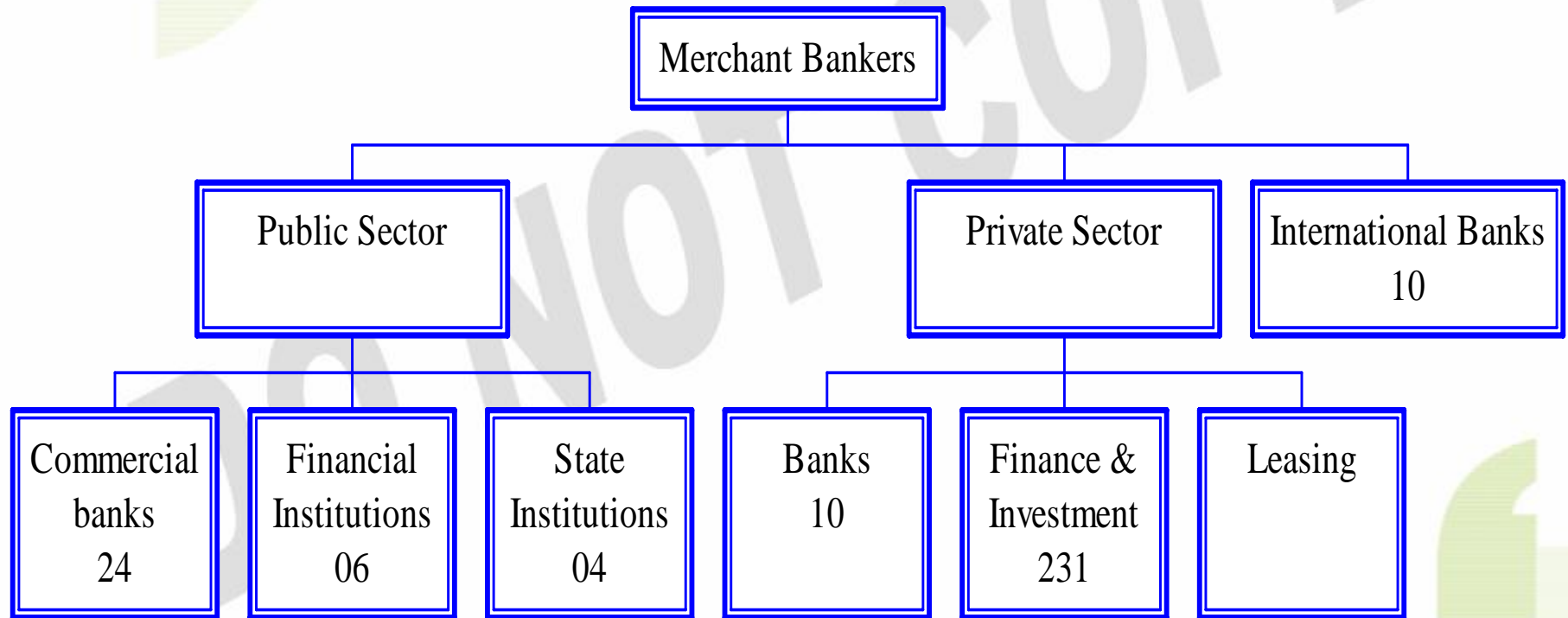
M. B. in Market Making Process

The SEBI stated that merchant bankers must be involved more closely in the market making process as share brokers do not have requisite expertise and financial clout which is necessary for market making activity.

The SEBI has felt that, market makers would also create a market for the scrips by offering two-way quotes to the investors.

Progress of Merchant Banking in India

The progress of M. B. in India can be depicted with the help of following chart. The chart represents M.B. registered with SEBI classified according to the category.



Problems of Merchant Banking

After seeing the progress one can easily come to know that the progress of M. B. is rapid after deregulation of Indian economy in 1991.

Though the progress is astonishing but in practical M. B.'s suffer from following problems;

- a. As per guidelines of SEBI M.B. has to restrict their activity to issue only. This prevents M.B.'s growth
- b. The minimum net worth of Rs. 1 crore set by SEBI, which may out of reach of small but professional M.B.
- c. Non-cooperation of issuing companies in timely allotment of securities or refund, hamper merchant bankers position in the market.

Scope for M. B. in India

Considering the present capital market scenario, there is vast scope for Merchant Banking in India. Below mentioned points justify it clearly.

- a. Growth of New Issue Market
- b. Entry of Foreign Investors
- c. Changing policy of Financial Institutions
- d. Development of Debt Market
- e. Innovation in Financial Instruments
- f. Corporate Restructuring
- g. Disinvestments