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## A LITERATURE REVIEW OF MERCHANT BANKING IN INDIA

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### ABSTRACT:

Merchant banks are financial institutions that offer commercial financial services in India, governed by the Securities and Exchange Board of India. These banks provide services such as share underwriting, project counselling, and insurance, and collaborate with multinational corporations. They also assist in stock exchange trading. Merchant banks combine banking and consulting services, offering portfolio management, customer services, and counselling. They follow SEBI rules and provide fee-based and non-fee-based services like loan syndication, underwriting, project promotion, and advisory to small and medium savers. The study emphasizes the link between intermediation functions and economic development in India and the need for collaboration between financial institutions and finance companies to build a financial system.

**KEYWORDS:** Merchant banking, financial institution, portfolio management, counselling.

### INTRODUCTION:

Merchant banking services were first introduced in India in 1967 by the National Gridley's and later expanded by the State Bank of India in 1972. Merchant banks are financial institutions that lend money and provide financial advice, serving as a go-between for businesses and investors. They are a blend of consulting and banking services, with shares being purchased and sold through their services.

In India, merchant banks must register with the Securities and Exchange Board of India (SEBI) and are called commission agents. They analyse problem management rules and have significant clients such as corporations, international corporations, and export houses. The growth of the economy relies heavily on merchant banking, with its efficiency in achieving growth in the investment sector tested and verified.

Merchant banks provide securities to their customers in the form of stocks, bonds, and bank loans. They also direct SEBI in the proper path. Merchant banks serve as a go-between for companies looking to raise capital and potential investors and can serve as banks, corporations, or other business entities.

Services offered by merchant banks include underwriting, loan syndication, and project marketing. When a merchant banker is aware of a company's needs, they may place financing orders with financial institutions like banks and money markets. Financial services for both businesses and individuals are included in merchant banking.

### **MERCHANT BANKING FEATURES:**

Following are some of the different types of characteristics in merchant banking:

- People with the power to make significant decisions make up a sizable portion of the workforce.
- Rapid decision-making.
- Low profit distribution rate.
- Significant Liquidity Ratio
- Low-Profit Distribution Rate
- Emphasis on contracts with short- and medium-term durations.
- High information density.
- Modifications to the foreign investment policy.
- Offers Reliable Information.
- A focus on commission and fee income.

### **REVIEW OF LITERATURE:**

**Sanjeev Kumar (2016):** Financial institutions engaged in merchant banking provide capital to businesses in the form of stock ownership. It also offers guidance to the business sector in which they make investments. Merchant banking encompasses both advisor and principle. Unlike investment, merchant banking takes a long-term perspective. It offers each client the appropriate advice. Private equity is referred to as merchant banking, a traditional term. The corporate sector is helped by merchant banking, which has an impact on the nation's economy.

Numerous services are offered by merchant banking, including portfolio management, underwriting, counselling, and loan syndication. Combining banking and consulting services is known as merchant banking.

**Waghmare Shivaji (2015):** Because of globalization, the entire Indian economy is now open, and financial services play a variety of roles in it. The government has recently opened the door to investment in the banking and insurance industries. Which environments foster competition for the current player? A commercial bank coined the novel term "merchant banking." According to the Banking Commission (1972), merchant banking is essential. Small and medium savers can take advantage of merchant banking's fee-based and non-fee-based services like loan syndication, underwriting, project promotion, and advisory. The SEBI regulates merchant banking in India.

**Dr. Singh and Dr. Saxena (2017):** Financial institutions and a wide range of financial activities make up merchant banking. the "Accept and Issue House" merchant bank. Considering that merchant banking serves as both broker and principle. With a long-term perspective on every investment opportunity, merchant banking offers the best guidance to each client of the business. Many financial institutions offer the service of merchant banking to boost the expansion of the corporate sector, which has an impact on the Indian economy. Consultancy services and banking are combined to form merchant banking.

**Dr. Jyoti Lahoti (2016):** Financial institutions that offer merchant banking services support the nation's economic growth. Portfolio management, loan syndication, and problem management are just a few of the services offered by merchant banking. Consulting services and banking are both a part of merchant banking. The commercial unit benefits. Additionally, it facilitates the expansion of the firm and the fund.

**CS Gowtham (2017):** To its clients, merchant banking issues shares, debentures, and bank loans. This funding is utilized for new ventures, business expansion, and business modifications. In addition to offering financing, merchant banking also demonstrates the proper course for SEBI.

**Shreyas B.S:** Numerous financial operations are included in merchant banking. The phrase "accepting and issuing house" refers to a merchant bank. In India's economy, merchant banking is expanding quickly. The SEBI provides a broad overview of the history and current. The primary market's oldest industry, merchant banking, has a promising future.

**Farzana Huda (2017):** Merchant banking is essential to the growth of the economy. It has been noted that merchant banks have been successful in growing the investment industry, including brokerage, capital loss/gain, portfolio management, problem management, and advisory fees. This study evaluates the efficiency of capital management and prime financing.

## RESEARCH OBJECTIVE:

- To understand the purpose and prime objective of merchant banking.
- To study the role of merchant banking in the Indian economic development.
- To comprehend the functions of merchant banking.
- To study the SEBI regulations framework on merchant bankers.

## RESEARCH METHODOLOGY:

There is a ton of material about merchant banking's challenges, issues, and role in the economy available in journals, the internet, and articles. Secondary data is gathered through journals, the internet, articles, and other sources.

## SERVICES OF MERCHANT BANKING:

Here are a few of the services that merchant bankers offer their clients.

- 1. Issue Management:** Merchant bankers provide this service by issuing shares and debentures to the general public.
- 2. Portfolio counselling:** For clients and the management as a whole, merchant banks invest in various financial instruments as part of this service.
- 3. Project Counselling:** Filling out applications and looking for funding through financial organizations are part of project counselling.
- 4. Loan Syndication:** This bank offers loans for initiatives that require funding.

## PRIME OBJECTIVE OF MERCHANT BANKING:

1. Offer clients long-term funding.
2. In project counselling, project evaluation, loan syndication, and working capital management.
3. Assurance.
4. Portfolio administration.
5. Corporate advice and problem-solving.

## ROLE IN THE MARKET:

Merchant bankers are crucial to the process of public issues. A merchant banker must fully disclose all information to the Securities Exchange Board of India (SEBI) while serving as a banker to an issue.

The economy of the nation is impacted by unforeseen circumstances like inflation, unemployment, etc. For the economy to expand steadily, long-term financial planning is necessary, and merchant banking offers services and solutions for it.

These financial institutions serve as a middleman between lending and borrowing organizations. They also offer financial consulting services and collect fees for them. They also put money into their client's businesses. As merchant bank branches across the world, they assist their clients with a variety of financial alternatives. The customer has more prospects for consistent growth in this manner.

## FUNCTION OF THE MERCHANT BANKING:

- 1. Raising funds for their clients:** By providing debentures, bank loans, and shares, merchant banking benefits its clients. Both domestic and foreign markets benefit from its use by clients.
- 2. Brokers in the stock exchange:** A broker in the stock market is a merchant banker. For their customers, merchant bankers acquire and sell shares.
- 3. Managing a public issue:** Merchant bankers provide advice and oversee public issues.
- 4. Managing interests and dividends:** The management of share dividends and debenture interest is assisted by merchant bankers. Additionally, they provide the customer with timing and dividend rate guidance.
- 5. Money market operation:** Short-term money market products like Treasury bills and commercial paper issued by the RBI make up merchant bankers.

## RECENT DEVELOPMENT IN MERCHANT BANKING:

From 1985 through 1992, merchant banking was at its finest. Since highly skilled people are helping entrepreneurs launch their businesses and aid in deal structuring, the need for merchant bankers is gradually dwindling. In the past, merchant banks dealt with larger, more complicated transactions as well as highly structured loans, equity deals, etc.

Soon, bigger balance sheet transactions will also be made available, much like fintech is now doing for personal loans and small company loans. Like all banking, merchant banking will have difficulties being effective and affordable.

A merchant banker can expand their opportunities by offering new financial products. The general public's financial excess is well invested. They assist middlemen with a variety of problems, such as registrars, bankers, underwriters, printers, etc., and they make sure that they adhere to laws and regulations.

## SEBI REGULATIONS FRAMEWORKS ON MERCHANT BANKING:

A commercial banker is defined as a person who engages in the issue management business of buying, selling, or subscribing to securities under the Merchant Bankers' Regulation Act of 1992 (SEBI). This definition is compatible with that used by SEBI. The title is "merchant banker." Any business intending to act as a merchant banker must now provide a certificate of registration from the SEBI. Keeping in mind that any merchant banker activity, such as managing issues, consulting or advising on them, underwriting, or managing a portfolio, must be protected by a company that is registered with the appropriate authorities. To get a certificate of registration, one had to complete an application form and two requirements.

- 1. Operational Capabilities:** Merchant bankers are classified according to their tasks and operational skills.
- 2. Capacity Adequacy Norms:** The Securities and Exchange Board of India (SEBI) has divided all registered merchant bankers into four groups. It is calculated by taking the amount of money invested in the business and deducting it from the money that was left over. On these criteria, SEBI's Capital Adequacy Norms are founded.

Category of the Merchant Banker	Description	Minimum Net Worth
Category 1	Merchant bankers can act as issue managers, advisors, consultants, underwriters, and portfolio managers.	Rs 5 Crores
Category 2	Such merchant bankers can act as advisors, consultants, underwriters, and portfolio managers. They cannot act as issue managers of their own but can act as co-manager.	Rs 50 Lakhs
Category 3	They are allowed to act as underwriters, advisors, and consultants only. They can neither undertake issue management of their own nor act as co-manager. They cannot undertake the	Rs 20 Lakhs

	activities of portfolio management also.	
Category 4	Merchant bankers can act as consultants or advisors to an issue of capital.	NIL

## FUTURE PROSPECTIVE OF MERCHANT BANKING:

1. The major market is expanding.
2. Growing numbers of foreign investors.
3. Corporate reorganization.
4. Modification of financial practices.

## CONCLUSION:

I was able to comprehend the specifics of merchant banking thanks to this education. the products and services that merchant bankers offer to their clients, including portfolio management, underwriting, counselling, etc. They also serve as a conduit for communicating problems. The Security Exchange Board of India (SEBI), which regulates merchant banks, has registered all of them. The Indian economy is aided by the merchant banking sector. Thus, merchant banking is a crucial component of the Indian financial system.

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