



# THE ROLE OF MERCHANT BANKERS IN THE DISTRIBUTION AND PROMOTION OF EQUITY MARKETS

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## ABSTRACT

This study looks at merchant bankers' crucial role in the marketing and distribution of Indian equity stock markets, paying special attention to how they deal with individual investors. From the initial public offering (IPO) process to ongoing market participation and investor support, merchant bankers play a multifaceted role in ensuring the successful launch and sustained growth of equity markets. This study employs a descriptive research design and a structured questionnaire to analyze data obtained from 407 respondents in Haryana in order to determine the factors influencing the efficacy of merchant bankers. The planning of initial public offerings (IPOs) requires merchant bankers to create comprehensive prospectuses that clearly explain investment opportunities to retail investors and adhere to regulatory requirements. They also play a crucial role in pricing strategies. Beyond initial public offerings (IPOs), they continue to analyze the market, educate investors, and offer assistance to keep them confident and involved in the equity market. The study emphasizes how critical these initiatives are to reducing market volatility and promoting a sound, long-term investing culture. The study uses exploratory factor analysis (EFA) to identify three main constructs: safety and incentives, expansion strategies, and investor trust that influence the roles of merchant bankers. Specific measures were assessed for factor loadings, eigenvalues, variance explained, and reliability (Cronbach's alpha) for each construct. High factor loadings for Investor's Trust show how important it is to work with banks and NBFCs in partnership, to implement risk mitigation plans, and to provide investors with individualized portfolio management in order to win their trust. Targeting new investors in smaller cities, encouraging stock sales for portfolio management, and guaranteeing the security of demat accounts to prevent fraud are all important, as the expansion strategies construct makes clear. Safety and Incentives emphasize the need of using expert analytics, adhering to SEBI regulations, and offering incentives like lowered brokerage costs to promote market participation. The data analysis shows that risk management procedures and strategic alliances greatly increase investor trust. This paper offers insightful analysis of the intricate interactions that occur between retail investors and merchant bankers, with useful takeaways for enhancing market participation and promoting a positive investment climate.

**KEYWORDS:** Merchant Banker, Equity Market, Retail Investor, Trust, IPO

## INTRODUCTION

The merchant banker is a key player in the complex web of financial markets, masterfully arranging retail investor engagement into a harmonious whole. The merchant banker, entrusted with the enormous responsibility of organizing and carrying out initial public offerings (IPOs), acts as a catalyst, carefully preparing the market for the introduction of new equity instruments. In order to create a pricing strategy that attracts potential retail investors, the banker must have a keen understanding of the issuer's financial environment, which calls for a sharp financial mind (Yadav, 2017). In order to create an inclusive investing environment where IPOs are viewed as profitable channels for capital deployment, a careful balance must be struck between developing attractive valuations and guaranteeing fair access for retail participants (Sashikala and Girish, 2015).

A merchant banker's responsibilities go beyond simple assistance; they also include the laborious work of creating prospectuses that clearly explain the investment opportunity while adhering to strict regulatory guidelines. This



narrative clarity is crucial because it helps retail investors understand the inherent value of their investments and feel confident in the face of market complexity by demystifying the equity market. The merchant banker's stewardship is unwavering even after listing. The banker strengthens the investor community's resistance to the erratic waves of market volatility by closely observing market dynamics, providing insightful analyses, and clarifying market trends (Bose, 2005). To put it simply, the merchant banker is a crucial component of the complex structure that is market interaction. They combine financial creativity, compliance with regulations, and investor education to foster an environment in which retail investors become active, knowledgeable participants in the ever-changing world of equity markets rather than passive spectators. The merchant banker is a key player in the complex web of financial markets, masterfully arranging retail investor participation into a harmonious whole. The merchant banker, entrusted with the enormous responsibility of organizing and carrying out initial public offerings (IPOs), acts as a catalyst, carefully preparing the market for the introduction of new equity instruments. In order to create a pricing strategy that attracts potential retail investors, the banker must have a keen understanding of the issuer's financial environment, which calls for a sharp financial mind (Yadav, 2017). In order to create an inclusive investing environment where IPOs are viewed as profitable channels for capital deployment, a careful balance must be struck between creating attractive valuations and guaranteeing fair access for retail participants (Sashikala and Girish, 2015).

A merchant banker's job description goes beyond simple assistance; it includes the laborious work of creating prospectuses that clearly explain investment opportunities while also conforming to strict regulatory guidelines. This narrative clarity is crucial because it helps retail investors understand the intrinsic value of their investments and maintain confidence in the face of complexity by demystifying the equity market. The stewardship of merchant bankers is unwavering even after listing. The banker strengthens the investor community's resilience against the erratic tides of market volatility by closely observing market dynamics, providing insightful analyses, and clarifying market trends (Bose, 2005).

A merchant banker is essentially a crucial component of the complex structure of market interaction. They combine financial creativity, compliance with regulations, and investor education to foster an environment in which retail investors become active, knowledgeable participants in the ever-changing world of equity markets rather than passive spectators. Adding to this, complex duties include negotiating a complex regulatory environment, which necessitates both compliance and strategic planning. They have to make sure that all aspects of the initial public offering (IPO) process comply with current regulatory requirements, including the strict documentation needed for public review and Securities and Exchange Board of India (SEBI) guidelines. This compliance is essential to maintaining the integrity of the financial markets, building confidence among retail investors, and enhancing market credibility. It is not just a formal requirement.

Additionally, the merchant banker plays a crucial role in developing marketing plans that appeal to the group of retail investors. This entails using an advanced toolkit of marketing strategies, such as investor presentations, road shows, and digital outreach, all carefully crafted to generate interest and draw in funding. These tactics go beyond simple marketing campaigns and are grounded in a thorough comprehension of investor psychology and market sentiment. This guarantees that the IPO's storyline smoothly corresponds with the hopes and concerns of the investing public.

The role of the merchant banker changes after the initial offering to become that of a guardian of investor interests. As part of this custodianship, investors will receive regular support in the form of performance evaluations, market updates, and advisory services. This will require a constant interaction with the market. Additionally, the merchant banker plays a crucial role in developing marketing plans that appeal to the group of retail investors. This entails using an advanced toolkit of marketing strategies, such as investor presentations, road shows, and digital outreach, all carefully crafted to generate interest and draw in funding.

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## LITERATURE REVIEW

In the Indian equity stock markets, merchant bankers play a variety of roles and employ a range of tactics to boost market participation and promote long-term growth. This review of the literature summarizes the major variables that affect their function, utilizing knowledge from both current studies and business procedures.

### *Promoting Long-Term Investments*

Promoting stocks as long-term investment vehicles is essential to keeping the equity market stable and expanding. Studies reveal that motivating individual investors to embrace a long-term outlook, spanning five to ten years or longer, can reduce market fluctuations and promote a more steady investment climate (Goyal & Joshi, 2011). Long-term investments are linked to greater returns and reduced risk, which supports the stability of the financial markets as a whole.

### *High-Return Strategies*

It has been determined that brokers' inclination for high stock turnover, motivated by their desire for greater brokerage fees, is a bad practice. Elevated market volatility and higher transaction costs for investors can result from high turnover. Research indicates that discouraging such practices can improve investor confidence and result in more sustainable market growth (Kumar, 2014). Putting in place controls on overly aggressive trading is crucial to developing a positive investing culture.

### *Cooperation between NBFCs and Banks*

A calculated move to boost market participation is to partner with banks and non-banking financial companies (NBFCs) to broaden the scope and penetration of brokerage services. These partnerships can access both urban and rural markets by utilizing the vast networks of banks and NBFCs (Sharma & Ramesh, 2016). This strategy works especially well for increasing the number of retail investors in the equity market and diversifying the investor base.

### *Developing Self-Belief and Trust*

Gaining retail investors' trust and confidence is crucial. Services for customized portfolio management that are matched to each client's risk tolerance and investing objectives can greatly increase client happiness and loyalty (Chatterjee & Das, 2015). Furthermore, encouraging diversification and risk-reduction techniques contributes to the development of a strong investor base that is more capable of withstanding market swings.

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### *Security and Fraud Prevention*

The risk of fraud in the equity markets has drastically decreased since the introduction of demat accounts. Demat accounts protect investors' interests by ensuring that transactions can only take place with the investor's express consent (SEBI, 2018). One of the most important things for fostering investor confidence and promoting market participation is the security that demat accounts offer.

### *Expert Consultation and Analytics*

Brokerage houses that provide expert analytics and advisory services are essential to maximizing the security and expansion of capital held by individual investors. Investors can make better decisions and reach their financial objectives when they have access to advanced analytical tools and professional advice (Gupta & Bansal, 2013).



### *Traditional Broking Firms' Evolution*

In line with SEBI regulations, traditional broking firms have developed to provide expert online equity broking services. Retail investors now have easier access to and convenience with equity trading thanks to this evolution, which has increased market participation (SEBI, 2018). The shift to online services has made it easier for more people to access the equity markets and participate in stock trading.

### *Rewards and Savings*

Retail investor participation can be effectively stimulated by providing incentives like discounted brokerage fees per trade and low-cost, no-frills accounts. These incentives increase accessibility to the stock market and reduce barriers to entry (Patel & Shah, 2019). Brokerage houses can promote longer-term market participation and more frequent trading by cutting expenses.

In summary, merchant bankers play a broad and dynamic role in the distribution and promotion of the Indian equity stock markets. Merchant bankers can significantly increase market participation and contribute to the robust growth of the equity markets by encouraging long-term investments, reducing high-turnover practices, working with banks and NBFCs, fostering trust through customized services, focusing on first-time investors, stressing asset allocation and risk mitigation, guaranteeing fraud prevention, offering professional analytics, advancing traditional services, and providing cost incentives. All of these elements emphasize how important merchant bankers are to creating a robust and dynamic Indian equity market ecosystem.

## **RESEARCH METHODOLOGY**

### *Research Design and Methodology*

With a particular focus on the state of Haryana, this study uses a descriptive research design to examine the role that merchant bankers play in the distribution and promotion of Indian equity stock markets. The purpose of the study is to pinpoint and examine critical elements that affect how well merchant bankers interact with retail investors. In order to do this, a sample of 407 respondents was given an organized questionnaire, which served as the main instrument for gathering data.

### *Method of Sampling*

Stratified sampling was used as the sampling technique for this investigation. Because of its large retail investor base and variety of economic activities, Haryana was selected as the geographic area of focus. By separating the population into discrete subgroups or strata that have comparable traits, stratified sampling makes sure that each subgroup is fairly represented in the sample. The accuracy and representativeness of the sample are improved by this method.

### *Data Gathering*

A structured questionnaire was utilized to gather data, with the aim of capturing different factors that impact the function of merchant bankers in the equity markets. A Likert scale with five possible responses—Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), and Strongly Disagree (SD)—was included in the questionnaire to determine how respondents felt about the factors that had been identified. Among the variables taken into account in the questionnaire were:

### *Moral Aspects to Take into Account*

The entire study was conducted with strict adherence to ethical principles. Every respondent gave their informed consent, guaranteeing that their participation was private and voluntary. The information gathered was kept up to the highest standards of integrity and confidentiality and was only used for research.

The study's methodology offers a solid framework for comprehending merchant bankers' complex roles in distributing and promoting equity markets in Haryana. The study attempts to identify important variables that can raise retail investors' confidence and level of engagement in the equity market by utilizing stratified sampling and EFA.



## Data Analysis and Interpretation

Table 1: Exploratory Factor Analysis and Descriptive of Factors

Construct	Measure of the construct	Factor Loading	Eigen Value	Variance	$\alpha$	Mean
<b>Investor's Trust</b>	Brokerages should collaborate with Banks and NBFCs to increase their presence and penetration in all Indian cities large and	.891	4.034	35.747	.856	4.111
	Unhealthy practice of stock brokers turning over a lot of stocks to earn higher brokerage fees should be examined to ensure that stock market participation is growing in a healthy	.864				
	Brokerage firms should gain the trust and confidence of investors by implementing risk mitigation and diversification	.712				
	Brokerage firms ought to gain the confidence and trust of individual investors by implementing personalized portfolio	.692				
	Stock brokerages ought to market stocks as long-term investment vehicles (minimum desirable maturities of five to ten years)	.564				
<b>Expansion Strategies</b>	For greater reach and penetration, brokerage houses should target new investors in smaller cities and towns	.844	3.436	25.530	.799	3.857
	Brokerage firms ought to encourage stock sales as an effective strategy for managing portfolios and allocating assets	.814				
	Brokerage firms ought to encourage stock sales as an effective strategy for risk reduction and diversification	.744				
	Since no transaction is possible without the express consent of retail investors, demat accounts with brokerage houses guarantee that there is no possibility of fraud	.611				
<b>Safety and Incentives</b>	Brokerage houses encourage greater safety and the best possible growth of capital for retail investors through their in-house professional analytics and consultation	.741	1.764	11.460	.811	3.722
	In accordance with SEBI guidelines, traditional broking firms have transitioned to offering professional online equity	.620				
	Brokerage houses offer incentives to encourage participation, such as discount/per-trade brokerage and	.593				

With an emphasis on investor trust, Table 1 displays the findings of an exploratory factor analysis (EFA) carried out to determine the underlying factors that impact merchant bankers' involvement in the marketing and distribution of Indian equity stock markets. An explanation of the table's meaning and the implications of each value in relation to the study can be found below.

Build: Investor Confidence - Specific statements from the questionnaire intended to gather different facets of investor trust in brokerage firms and their operations are the measures indicated in this column. The correlation between each measure and the underlying factor is shown by factor loadings. Greater loadings imply a strong correlation between the measure and the factor. \*\*Banks and NBFCs Working Together (.891). This high factor loading suggests that gaining the trust of investors requires cooperation with banks and NBFCs. It implies that investors believe these kinds of partnerships greatly increase the visibility and legitimacy of brokerage houses in various geographical areas. Bad Turnover Behavior (.864): Here, a high factor loading indicates that investors firmly feel that healthy market participation requires avoiding the harmful habit of frequent stock turnovers in favor of higher brokerage fees. Strategies for Risk Mitigation and Diversification (.712): This loading suggests that putting these strategies into



practice is seen as crucial to winning over investors. Personalized Portfolio Management (.692): Although it is marginally less important than risk reduction and teamwork, this loading indicates that personalized portfolio management is also essential to winning over investors.

Long-Term Investment Promotion (.564): This loading is the lowest of the measures mentioned, but it still shows a positive correlation, indicating that, in comparison to other factors, the promotion of stocks as long-term investment vehicles has a smaller positive impact on investor trust. The total variance that the factor explains is represented by the Eigenvalue. A significant factor is usually indicated by an Eigenvalue larger than 1. The significance of this factor in relation to investor trust is highlighted by its Eigenvalue of 4.034, which indicates that it can explain a significant amount of the variance in the data on its own.

This percentage shows what percentage of the data's overall variance can be attributed to this factor. With a variance of 35.747%, the factor's associated measures collectively account for more than one-third of the variation in respondents' assessments of investor trust. This demonstrates how important a role the factor plays in determining investor trust.

The factor's internal consistency or dependability is gauged by Cronbach's alpha. Good reliability is generally indicated by values greater than 0.7. The measures' high degree of internal consistency, as indicated by their alpha of .856, suggests that they accurately capture the concept of investor trust.

The average response across all measures within a factor is represented by the mean value. With a mean score of 4.111, it can be observed that respondents generally tended to agree or strongly agree with statements about investor trust. This indicates that the policies that increase investor trust in brokerage firms are generally seen favorably.

Consequences for Retail Bankers: High loading suggests that merchant bankers should give priority to forming strategic alliances in order to increase their credibility and reach. This is in contrast to working with banks and NBFCs. The need for rules and regulations to limit excessive trading driven by brokerage fees and promote a healthier market environment is indicated by significant loading for detecting unhealthy turnover practices. Given the high loadings associated with risk mitigation and diversification strategies, merchant bankers ought to concentrate on initiatives that foster investor confidence and trust.

The significance of customized portfolio management emphasizes the demand for services and advices related to investing that are specific to the needs of each individual investor. Merchant bankers should push for long-term financial planning since, while less crucial, encouraging long-term investment horizons is still a crucial part of winning over investors.

#### Construct: Expansion Strategies

The measures listed are particular statements taken from a questionnaire intended to capture different facets of growth strategies used by brokerage firms. The correlation between each measure and the underlying factor is shown by factor loadings. Greater loadings imply a strong correlation between the measure and the factor. .844 Targeting New Investors in Smaller Towns and Cities: This high factor loading suggests that a key expansion strategy is to find new investors in smaller towns and cities. It implies that by concentrating on these areas, brokerage firms can greatly increase their penetration and reach. Promoting Stock Sales to Manage Portfolios (.814): A high factor loading indicates that brokerage firms must actively promote stock sales as a means of managing portfolios and allocating resources.

Encouraging Stock Sales to Reduce Risk and Diversify (.744): This loading demonstrates how brokerage firms' strategies heavily rely on encouraging stock sales to reduce risk and diversify. It suggests that stock trading is a valuable way for investors to reduce risk.

Security of Demat Accounts (.611): This loading isn't as high as the others, but it still shows a positive correlation, indicating that expansion strategies should include demat account security. Using demat accounts to prevent fraud helps to increase retail investors' trust. Eigenvalue: 3.436 The total variance that the factor explains is represented by the eigenvalue. A significant factor is usually indicated by an eigenvalue larger than 1. With an eigenvalue of 3.436, this factor alone appears to be responsible for a significant amount of the data variance, highlighting its significance



when considering expansion strategies. The percentage shows the amount of the data's overall variance that can be accounted for by this factor. With a variance of 25.530%, the combined effect of the measures related to this factor accounts for approximately 25% of the variability observed in the respondents' perceptions of expansion strategies. This demonstrates the factor's important part in brokerage firms' growth initiatives.

The factor's internal consistency or dependability is gauged by Cronbach's alpha. Good reliability is generally indicated by values greater than 0.7. With an alpha of .799, the measures show a high degree of internal consistency, indicating that the concept of expansion strategies is reliably captured by them. The average response for all measurements within the factor is represented by the mean value. The average number of respondents who tended to agree with the statements about expansion strategies was 3.857. This suggests that retail investors have a generally positive perception of these strategies.

#### Construct: Rewards and Safety

The metrics presented here encompass a range of aspects of brokerage firms' endeavors to guarantee investor security and offer incentives. Ensuring Safety and Expanding Business via Expert Analytics and Guidance (.741): The significance of brokerage houses' expert analytics and advisory services in guaranteeing the security and appreciation of retail investors' capital is evident from their high factor loading. It implies that professional analysis and advice are valued by investors. Change to Expert Internet Equity Broking Services (.620): According to SEBI guidelines, this loading suggests that a significant factor in improving investor safety and convenience is the shift towards providing professional online equity broking services.

Offering Incentives like No-Frills Accounts and Discounted Brokerage (.593): This loading demonstrates that offering low-cost accounts and discounted brokerage fees is a key tactic to encourage retail investor participation. This factor appears to account for a smaller but statistically significant portion of the variance in the data, as indicated by its eigenvalue of 1.764.

With a variance of 11.460%, this factor can be used to explain more than 11% of the variation in the safety and incentive data. This emphasizes how crucial it is to brokerage firms' overarching business plan. With an alpha of .811, which denotes a high degree of internal consistency, it is possible that the measures accurately capture the concept of incentives and safety. The average score of 3.722 indicates that most respondents agree with the statements about incentives and safety, indicating that brokerage firms' efforts are seen favorably. It would seem that bankers should concentrate on these areas to expand their reach and gain the trust of retail investors given the high loadings for targeting new investors in smaller cities and towns, promoting sales for portfolio management and risk reduction, and guaranteeing security through demat accounts. Prominent loadings for expert analytics and advisory services, shifting to online broking, and providing incentives suggest that merchant bankers ought to stress these points in order to protect investors and promote increased engagement.

The EFA results offer insightful information about the variables influencing investor confidence in brokerage houses. To establish and preserve trust with retail investors, merchant bankers should prioritize improving teamwork, policing trading activities, stressing risk management, providing individualized services, and encouraging long-term investments. This multifaceted strategy is probably going to help the Indian equity markets continue to grow and attract more participants.

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