



# A STUDY ON RECENT DEVELOPMENTS IN MERCHANT BANKING IN INDIA

**Sruthymol Joseph**

*Assistant Professor, Kristujyoti College of Management and Technology, Changanacherry*

---

## ABSTRACT

*Merchant banking is an important service provided by a number of financial institutions that help in the growth of the corporate sector which ultimately leads to the overall economic development of the country. Merchant banker means a financial institution that accepts funds from the investors and provides these funds to the borrowers. They also provide consultancy services to their clients which helps the businessman to start a new business, to raise finance from capital market and helps in merger and acquisition of business. Merchant banks were expected to perform several functions like underwriting, loan syndication, portfolio management, consultant, advisor and host of other activities. This study helps to understand the concept of merchant banking and the recent developments in merchant banking.*

**KEYWORDS:** *Merchant banking, Financial institution, Capital market, Portfolio management*

---

## INTRODUCTION

Globalization of Indian economy has made the whole economy open; this has resulted into the emergence of the global investment in financial sector. Government has now open up the doors of foreign investment in the area of banks and insurance. Merchant banking is the innovative step undertaken by the commercial banks in India. Merchant banking was first started in India in 1967 by Grindlays Bank. In India, a substantial number of Merchant bankers are operating under the supervision and control of Securities and Exchange Board of India (SEBI). Merchant banking is a combination of Banking and Consultancy services. It provides consultancy to its clients for financial, managerial and legal matters. Merchant banker defined by SEBI rule, "any person who is engaged in the business of issue management either by selling, buying and subscribing to securities as manager".

'Merchant Bank' plays a very vital role in modern economy. The modern world has firmly stood on the strong monetary functions. To perform all these functions, growth of financial institutions must take place, and among which 'Merchant Bank' is the most important one. As the days are progressing, commercial activities are also simultaneously expanding, and to

give support to those activities, the role of merchant bank is very important. Merchant banking industry witnessed an astonishing growth after the economic reforms. Presently, merchant banking has assumed so much significance that most of the corporate groups and stockbrokers promote merchant banking companies. In addition to this, IPO boom and book built issue process have increased the scope of merchant banking now. As of now, there are 185 merchant bankers registered with SEBI.

## OBJECTIVES OF THE STUDY

- To understand the concept of merchant banking.
- To understand the merchant banking's role in Indian economy.
- To explore the recent trends and developments in merchant banking.

## REVIEW OF LITERATURE

Dr. Singh and Dr. Saxena (2017): in their research paper have tried to analyze that merchant banking is a service provided by many financial institutions to increase the growth of corporate sector which reflect into Indian economy. Merchant banking consists of wide range of financial activities and



financial institutions. Merchant banking is a combination of consultancy services and banking.

Dr. Jyoti Lahoti (2016): in their research paper have tried to explain organization and nature of merchant unit also the role of merchant bankers in the development of Indian economy. In their research paper have also tried to review the objectives and the services rendered by the merchant bankers. Merchant banking is a 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.

Shreyas B.S (2014): have tried to summarize the evolution and the growth of merchant bankers from the year 1967. Merchant banking rapidly growing in Indian economy. Merchant banking is oldest in the primary market and it has bright future in coming years.

## METHODOLOGY OF THE STUDY

Present study is based on secondary data which is collected through literature reviews, journals, articles, books, websites etc.

## ROLE OF MERCHANT BANKERS

Merchant bankers play an important role in the development of our country. The economy of country gets affected by unpredictable condition such as inflation, unemployment etc. there should be a steady growth in the economy of the country, for this long-term financial planning is required and merchant banking provides services and solutions for it. The following specific areas highlight the role of merchant banks in the Indian capital market.

### Mobilization of fund

Merchant banks mobilize funds from savers and assure promising return on investments. With the growth of merchant banking profession corporate enterprises, both in public and private sectors would be able to raise required amount of funds from the capital market whenever it is needed. That helps in the growth of the corporate sector which ultimately leads to the overall development of the country.

### Promotional function

The nature of merchant banking service is development oriented and promotional to help the industry and trade to grow and survive. They help entrepreneurs in conceiving ideas, identifying projects, preparation of feasibility reports, getting Government approvals as well as incentives etc.

## Financial services

The modern economic world has firmly stood on the strong monetary functions. To perform all these functions, growth of financial institutions took place, and among the 'Merchant Bank' is the most important one and they provide various financial services to their clients.

## Brokers in stock exchanges

Merchant bankers buy and sell securities in the stock exchange on behalf of their clients. They also advice the clients on the security to be purchased, the time and quantity of purchase, the time for selling these securities etc.

## Innovations

Government rules, regulations and policies frequently change. Therefore, a merchant banker has to keep pace with the changed environment. He also has to be aware of the development in science and technology. Merchant banker has to think and devise new instruments of financing industrial projects.

## Revival of sick units

A merchant bank helps in reviving sick industrial units. They negotiate with various agencies and they plan and execute full revival packages. All these helps in the revival and reconstruction of sick industrial units.

## Market makers

Recently, various innovative financial instruments were emerged in the Indian capital market. Non-convertible debentures with detachable warrants, deep discount bonds, cumulative convertible preference shares, zero coupon bonds etc. are some of them. The Merchant Bankers have to be market makers for these instruments too.

## Handling government consent for industrial projects

In order to start new business and to expand or modernize existing business corporates need permission from the government. A merchant banker completes all the formalities required for getting permission from the government on behalf of their clients.

## Corporate restructuring

As a result of Liberalization, Privatization and Globalization there is intense competition in the corporate sector. This has led to the corporate restructuring and financial restructuring in the corporate sector. This includes various procedures and



lengthy legal formalities. Merchant bankers fulfill all these formalities on behalf of their clients.

## RECENT DEVELOPMENT IN MERCHANT BANKING

### Setting up of bank subsidiaries

Finance is the lifeblood of every business activity. In order to succeed in a competitive corporate world various financial services are necessary for corporates. So demand for financial services from the corporate sector is increasing day by day. In order to meet this growing demand the merchant banking divisions of the nationalized banks have started forming independent subsidiaries. Through these subsidiaries they offer specialized service to their clients.

### Re-organization of private firms

In order to meet the growing demand for broad based financial services from the corporate sector, the merchant banking divisions of the nationalized banks have started forming independent subsidiaries. Due to the tough competition from these subsidiaries, private merchant bankers have also started reorganizing their activities.

### Establishment of Stockbroker Underwriters Association (SUA)

In order to protect the interest of investors and to provide information about capital market and to render legal and other services to members and public, the Stockbroker Underwriters Association (SUA) was started in 1984. SUA works with merchant bankers and promote the activities of capital market.

### Discount and Finance House of India (DFHI)

Discount and Finance House of India (DFHI) was set up in April 1988, by RBI jointly with public sector banks and all India financial institutions to develop the money market in India. The main objective of this institution is to facilitate smoothening of the short term liquidity imbalances by developing an active secondary market for the money market instruments.

### Securities and Exchange Board of India (SEBI)

In order to protect the interest of investors and to promote the development of securities market and to regulate the securities markets the Securities and Exchange Board of India (SEBI) was established on April 12, 1992. Persons dealing in security market like merchant bankers, underwriters, sub-brokers etc. have to seek authorization from the board for running their operations. In India, a substantial number of Merchant bankers are operating under the supervision and control of Securities and Exchange Board of India (SEBI).

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

CRISIL was the first credit rating agency in India, introduced in 1988 whose main objective is to make financial markets function better. It provides ratings, research, risk and advisory services to numerous companies and financial institutions.

### 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 securities and collection of sale proceeds of securities.

## CONCLUSION

Merchant banking in India plays an important role in the economic development of the country. It serves as a supporting hand to the companies to be active in the foreign markets. It encourages entrepreneurs with its various activities and services to establish new setups and also boost industrial sector. Besides, the merchant bank helps the entrepreneurs to explore the joint venture opportunities in the foreign markets. As India is moving on to the path of globalization very fast due to which FDI and portfolio investment are all also increasing which forecasts that the future growth prospects of merchant bankers is high. Indian economy provides an amicable environment for these firms to setup flourish and expand here.

## REFERENCE

1. T. Sanjeev Kumar, *Merchant banking India: Recent development in merchant banking (2016)*, ISSN-2455-6602.
2. Dr. Waghmare Shivaji, *Performance evaluation of merchant banking in India- A study of SBI capital market limited (2015)*, ISSN-2347-9671.
3. Mr. Limbore Nilesh V, *A literature review of merchant banking in India (2019)*, ISSN-2349-5162.
4. Dr. Singh and Dr. Saxena, *Significance of merchant banking in India (2017)*, ISSN-2454-1362.
5. Dr. Jyoti Lahoti, *Recent development in merchant banking and challenges ahead in India, (2016)*, E-ISSN-2455-295X.
6. Shreyas B.S, *Merchant banking past and present: Indian scenario (2014)*, ISSN-2321-8916.
7. [https://shodhganga.inflibnet.ac.in/bitstream/10603/95665/12/12\\_chapter%202.pdf](https://shodhganga.inflibnet.ac.in/bitstream/10603/95665/12/12_chapter%202.pdf)
8. <https://www.sebi.gov.in/>