



DANGRI

MERCHANT BANKING IN INDIA - THE ROAD AHEAD

Chairman

LALIT KUMAR

LIBORD GROUP

(a) Preamble

Merchant Banking performs a role of an institution which offers raising finances & structuring the Company's financial models. The concept of Merchant Banking first originated from Europe in the 17 and 18 centuries in France and Italy & later on in UK. Merchants began to finance foreign trade by acceptance of the bill and with time they started using other services such as underwriting the issues, loan syndication, portfolio management, etc., but Merchant Banking was at nascent stage largely upto World War II & it started taking shape after World War II.

With the advent of the industrial boom in India, there has been a growing need of Merchant Bankers. Businesses often require specialised banking services which are concentrated in nature. Hence, commercial bankers set up their merchant banking subsidiaries to cater financial services for the corporate sector.

Merchant banking in India began in 1967 by National Grindlays; later, Citi Bank started it in 1970. In the year 1972, SBI became the first commercial bank to set up a distinct division for merchant banking. Then it was followed by ICICI in 1973, and then various banks started these services such as PNB, Bank of India, UCO Bank, IBBI & IFCI etc.

Merchant Banking obtained a legal status in India when Securities Exchange Board of India (SEBI) was enacted in 1992. "SEBI" made it compulsory to

register as a Merchant Banker with SEBI to perform the activities of Merchant Banking & from that year the role and activities of Merchant Bankers blossomed. There are 220 Merchant Bankers in India as on today.

(b) Functions of Merchant Bankers

Merchant Bankers have almost all functions which help any industry to deal in securities market & raising finance. Some of them are as under:

- i. **Raising finance:** Merchant bankers supports industries to collect funding through debenture issuances, stocks, bank loans, etc. Both domestic and foreign markets are used. The funds generated by this may be used to launch a new project or company, or also to extend and modernize the current enterprise.
- ii. **Promotional activities:** Merchant bankers perform the role of industrial business promoters. They allow developers to create innovations, define ventures, produce feasibility studies, receive permits from public bodies, and opportunities. At times, merchant bankers may also assist with technological, and joint projects.
- iii. **Project management:** In the project management cycle, they assist corporates in a variety of areas. They guide the position of the plant, the writing of the plant study, feasibility reports, and the project finance preparation, sources of support, policy benefits, and concessions.

iv. Advice on modernization and expansion:

Advice on amalgamation, mergers, partnerships, international alliances, market diversification, up-gradation of technologies, joint ventures, etc.

v. Managing public issue: They serve as consultants on the terminology, form, and timing of corporate securities issues and helps them to be tailored to customers and provides the issuing companies with transparency and versatility.

Merchant Banking obtained a legal status in India when Securities Exchange Board of India (SEBI) was enacted in 1992. "SEBI" made it compulsory to register as a Merchant Banker with SEBI to perform the activities of Merchant Banking & from that year the role and activities of Merchant Bankers blossomed. There are 220 Merchant Bankers in India as on today.

vi. Credit syndication: They offer professional services during project planning, loan applications required to collect short- and long-term credit from various institutions and companies, etc.

vii. Special assistance to entrepreneurs and small companies: They offer guidance and resources for market prospects for start-ups and small businesses, discounts, grants, and government policy, and help them make the best of this opportunity open to them.

viii. Portfolio management services: They give guidance on investment choices to customers, typically institutional investors. They purchase and sell shares and offer fund investment services for them.

(c) Features of Merchant Banking

Merchant Bankers have rich features being a very important intermediary in the Capital Market & also a catalyst in the Corporate World. There are many important features like:

(a) Staff at the Merchant Bankers are highly qualified to take on any complicated matter of

corporate finance & restructuring.

(b) MB are always updated with current environment of financial world over which gives an edge to get finance structuring at a very competitive rate.

(c) MB are engaged in inventing new financial models which help to give good return to investors & also better for the issuers.

(d) MB are always quick in taking decisions.

(e) MB's are backbone of Capital Market and are governed by self rules and regulations hence reliability on MB's by the corporate world is the highest.

(d) Reasons for growth of Merchant Banking

There are many reasons that accelerated the growth of Merchant Bankers in India. Some of the reasons are:

(i) Globalization: After the 1991 reforms, the Indian economy saw a drastic change as it opened gates for foreign companies. It helped in getting funds from abroad; thus, it led to the growth of merchant banks.

(ii) Elevated Competition: Because of the globalization of the economy, the market scenarios became lucrative, and business options became favorable for various individuals. This pivoted the Indian corporate sector, and a huge expansion was seen in this sector. This motivated the Merchant Bankers to play an important role by offering specialized services to corporate.

(iii) Switch in consumer trends: There was a huge transformation in the industrial and corporate sectors because of the foreign players in the market.

The major benefit was that the Indian masses started getting better quality products as the Indian companies also started working on quality to match the foreign products. In such prevailing environments, financial products and instruments became more prominent.

(iv) Government Reforms: Government intervention was reduced, and privatization was increased. It also raised the limits of investment and lessened direct interventions that led to an increase in the proposition of foreign players.

(v) Demand for Funds

Industries started expanding which increased gap of supply and demand. All financial institutions had experienced constrain of resources to meet ever increasing demands from corporate sector enterprises. In such circumstances corporate sector had the only

alternative to avail of the capital market service for meeting their long term financial requirement through capital issue of equity shares and debentures. Growing demand for funds put pressure on capital market that enthused commercial banks, share brokers and financial consultancy firms to enter into the field of merchant banking and share the growing capital market. As a result, all the commercial banks, nationalized and public sector as well as in private sector including foreign banks in India have opened their merchant banking windows and competing in this field.

Digitalisation has increased the pace of services by Merchant Bankers. It is possible only due to digitalisation that MB's are able to complete the entire process of raising funds through capital market in short span of time. This also helps in getting bids in time, shortened the allotment process.

(vi) Public Savings

There was high Public Savings untapped which was channelized by the Merchant Bankers in the system.

(vii) Skilful Agency

A merchant banker with their good skills, updated information and knowledge provide this service to the corporate units and advise them on such requirement to be complied with for raising funds from the capital market under different enactment viz. companies act, income tax act, foreign exchange regulation act, securities contracts corporate laws and regulations.

(e) Services of Merchant Banking in the era of digitization

We are witnessing every day the advancement of Banking Sector. In order to keep up with the industry, rapid adaptation of digitalisation is one of the main priorities. Digital transformation in all forms is the current global movement faced by all. Digitalisation has increased the pace of services by Merchant Bankers. It is possible only due to digitalisation that MB's are able to complete the entire process of raising funds through capital market in short span of

time. This also helps in getting bids in time, shortened the allotment process. Digitalisation has shortened each and every step in execution of any function by MB's whether it is issue opening, auction, private placement, data transfer, data collection, decision support, artificial intelligence. MB's are able to provide faster & accurate services in the era of Digitalisation.

Upon completion of digitalisation in the investment banking division, the services become seamless with the help of emerging technology and the services are shifted to online platforms with lots and lots of data stored and driven from the backend.

With the advancement in technology, investors and investment bankers are now prone to the usage of Artificial Intelligence, the Internet of Things, Blockchain and other technologies as a part of their everyday job.

(f) Role of Merchant Bankers in Start ups

Merchant Bankers are playing key roles in assisting start ups in India which are going to be the back bone of India's powerful infrastructure in time to come. They are assisting start ups in many ways such as :

(i) Valuation of Start ups

MB's prepare valuation reports for start ups on the basis of future earnings and on that basis start ups are able to raise funds from the investors since this valuation gives bench mark about the value of that business to the investors.

(ii) Fund Raising

Support Fund raising to Start Ups in the form of Angel Capital, Seed Capital, Venture Capital, Leverage Capital and Private Equity; Merchant Bankers (MB) supports their clients in procuring funds via the issuance of debenture, bank loans, shares, etc.

(iii) Promotional & Management Activities

Merchant Banker's activities play a pivotal role as a promoter of industrial enterprises. They provide assistance to entrepreneurs in conceiving ideas, pinpointing projects, preparation of feasibility reports availing government permission, and incentive, etc.

(iv) Project Management

Merchant bankers use several ways to render their service to start ups in financial related project management.

(g) Regulations for Merchant Banking

Merchant Banking is regulated by SEBI through SEBI (Merchant Bankers) Regulations, 1992. Any entity which is fit and proper can become a Category

I Merchant Banker which fulfils the criteria of net worth, experience etc. The net worth for Category I Merchant Banker as on today is Rs. 5.00 crores

SEBI issues circulars regularly for monitoring the Merchant Banker and improvement in the functioning of issuance of securities and debts & for protection of investors.

Merchant Banker has to comply with the SEBI (Merchant Bankers) Regulations, 1992 and also have to comply with various other requirements in discharging their duties. Some of the important Regulations are as under:

- (i) Companies Act, 1956 and Applicable Provisions of Companies Act, 2013
- (ii) Listing Obligations and Disclosure requirements (Regulations), 2015
- (iii) SEBI (ICDR) Regulations, 2018
- (iv) SEBI Buy Back of Regulations, 2018
- (v) SAST Regulations, 2011
- (vi) SEBI Infrastructure and Investment Trusts Regulations, 2014
- (vii) SEBI (Issue and Listing of Non - Convertible Securities) Regulations, 2021

(h) Challenges & Opportunities in Merchant Banking

Merchant Banking industry also faces a lot of challenges and opportunities. Some of them are listed below:

(a) Challenges

- (i) Stringent compliance and Reporting Requirements;
- (ii) Handling Investors Grievances during Pre- & post funding requirement;
- (iii) The Funding Process could be investigated by the Board and Other Regulatory authorities
- (iv) The MB could not receive start-up funding
- (v) The MB will always have the risk of mixed chance of success;

(b) Opportunities:

- (i) Underwriting of Debt and Equity;
- (ii) Placement and Distribution;
- (iii) Corporate Advisory Services;
- (iv) Cross Border Financing;
- (v) Portfolio Management Services;

(i) Conclusion

Merchant Banker have played a very vital role in raising the finance which can be viewed from the data below:

Amount raised (Rs. In Crores)					
Year	Public Issues	Rights Issues	QIP	Overseas Issues	Debt Investments
From 1991 to 2020	9,49,176	3,10,704	3,69,185	10,540	2,22,151
2021	1,05,362	25,335	39,240	Not Available	22,287

It clearly shows that Merchant Bankers are heart of the industry in India.

Lalit Kumar Dangji is a Gold Medalist Chartered Accountant, Gold Medalist Cost Accountant & Company Secretary.

At present he is the Chairman of Libord Group of Companies which is in the business of Non-Banking Finance Company, Stock Broking, Wealth Management, Resolution of Stressed Assets, Category I Merchant Banker, Registered Valuers and all other Financial and Management Consultancy. Libord has managed more than 120 Public Issues and has done thousands of Valuations.

He has written more than 500 articles which were published in news papers and magazines like Economic Times, Business India, Navbharat Times, Financial Express etc. He has also delivered more than 600 lectures on Capital Market, Companies Act, FEMA, Income Tax, Merger and Acquisition, Public Issue Management and many more.

He was a Council Member of the Institute of Chartered Accountants for 6 years. He is attached with many social and religious organisations.