

# INTERNATIONAL JOURNAL OF RESEARCH IN COMPUTER APPLICATION & MANAGEMENT

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### ABSTRACT

*Merchant Banker is a term which is in usage since the early 18<sup>th</sup> century. In a broad view many present modern day skills have been included to describe the term. The inherent skills of an entrepreneur, a management advisor, a commercial banker, an investment banker, a transaction broker etc. A merchant bank is a term for a bank which provides various financial services like accepting trade bills, advising companies on acquisitions, foreign exchange, mergers, underwriting of new issues, portfolio management etc. A Merchant bank is a financially commercial services provider with a private equity investment wing offering investment banking and additional services. A Merchant Bank acts as an advisor, broker and principal investment banker and is also highly concerned with the feasibility of each investment prospect and provides right advice for a sturdy conglomerate with each client company. Following the activities in UK and USA, the Merchant Banking activities started in India approximately from the year 1967. Presently both public and Private sector have set up their respective merchant banking division. The total number of merchant bankers in India is approximately 1450 with more than 930 with SEBI registrations. In this article we would study the various roles of the merchant banker, the various services provided, development of merchant banking in India, Registration of merchant banking institutes etc. We wish to provide an overview of the modern day merchant banking in India and its benefits due to globalization.*

### KEYWORDS

Accepting and issuing houses. Investment banking.

### INTRODUCTION

**A** Merchant Bank is a financial Institution that provides companies with necessary capital as share ownership instead of as a loan. A Merchant Bank also provides advisory services to the firms it lends capital to, on corporate matters. A bank that typically deals in International finance, providing Long-term Loans for the companies and underwriting, but do not provide regular banking services to general public is a Merchant Bank.

The term Merchant Bank refers to investment bank. In US the term Merchant banking is negotiated private equity investment in unregistered securities by financial institutions to either privately publicly held companies.

Originally the merchant banks main purpose was to provide finance for production and trading of commodities and henceforward named Merchant. But in the present day scenario very few banks today restrict their activities to such a narrow scope.

As underwriters the merchant bankers guarantee the success of issue by underwriting them. They are known as issuing and accepting houses.

### REVIEW OF LITERATURE

The formal initiation of Merchant banking in Indian markets was done when the Grindlays bank received the license from the Reserve bank in 1967. The major functions taken up by Grindlays is management of capital issues, recognizing the needs of the emerging group of Entrepreneurs for various financial services like production planning, system design, market research, management consulting services to meet requirements of small and medium sectors. Citibank was the next to setup its merchant banking division in 1970. Many of the tasks performed by the merchant banking division of Citibank were assisting new entrepreneurs, appraising new projects, floating funds through borrowing and issuing equity. Indian Banks Indian entered the scene only in 1972. State Bank of India was the first to start its merchant banking division in 1972. The main objective of the State Bank of India in initial years was to render corporate advice, assistance and suggestions to nurture the small and medium entrepreneurs. Commercial banks and Foreign development financial institutions have since organized divisions to perform merchant banking functions. Presently the total number of merchant bankers in India is approximately 1450 with more than 930 registered with SEBI. The Merchant Bankers authorized by SEBI include the merchant banking divisions of Nationalized and Foreign banks, subsidies of commercial banks, All India Financial Institutions, Privaye merchant banks engaged in stock broking, endorsing activities and financial consultancy and investment advisory service firms.

### OBJECTIVE OF THE STUDY

1. To understand the rules for registration to be a merchant banker under SEBI.
2. To Study the minimum net worth required to carry merchant banking under SEBI.
3. To know the Procedure for getting Registration from SEBI
4. To analyse the role of merchant banking and it's from investment banking.
5. To find the effect on merchant banking due to globalization.

### METHODOLOGY OF STUDY

The study is a descriptive method of research which includes both Primary data and secondary data in collecting the information. The study is primarily based on the Opinions survey and shared experiences of selected merchant bankers and field experts from various banks located in Secunderabad and Hyderabad. The source of secondary information is also collected from various websites, relevant journals etc.

#### 1. RULES FOR REGISTRATION TO BE A MERCHANT BANKER UNDER SEBI

Registration with SEBI is mandatory. A certificate of Registration is required, issued by the Securities and Exchange Board of India, that states without the certificate no person or organization can act as a merchant banker in India.

Rules for registration under the Securities and Exchange Board of India (SEBI)

- 1) Other than non-banking financial company only a body corporate shall be eligible to obtain a registration as merchant banker.
- 2) The applicant should not be carrying on any business other than those connected with the Securities market.
- 3) The Applicant should have infrastructure like office space, equipment, manpower etc.
- 4) The applicant must have a minimum of two employees working in their organisation with some minimum experience in merchant banking field.
- 5) All the applicants must and should have qualification in finance law or business Management.
- 6) Any group company, subsidiary, interconnected company or an associated company must not have been a registered merchant banker.
- 7) The applicant should not have been involved in any securities scam or proved guilty for an offence.
- 8) The minimum net worth of the applicant should be Rs 5 crores.

**2. THE MINIMUM NET WORTH REQUIRED TO CARRY MERCHANT BANKING UNDER SEBI**

To carry on activities as a merchant banker the minimum net worth for various categories are as follows:

- a. Category I : Rs. 5 crores
- b. Category II : Rs. 50 lacs
- c. Category III: Rs. 20 lacs
- d. Category IV: NIL

The different categories of Merchant Banking for which registration can be obtained are:

a. Category I:

- 1) To carry on any activity of the issue management, consisting of preparation of prospectus and other information relating to the issue , determining financial structure, tie up of financiers and final allotment and refund of subscriptions.
- 2) To act as adviser, consultants, managers, underwriter and portfolio managers.

b.

Category II: To act as adviser, underwriter, portfolio manager.

Category III: To Act as Adviser, Consultant or underwriter to an issue.

Category IV : To act only as adviser or consultant to an issue.

**3. PROCEDURE FOR GETTING REGISTRATION FROM SEBI**

The applicant should submit an application in Form A of SEBI ( Merchant Bankers) Regulations, 1992 to SEBI. On receiving the application SEBI after checking for all requirements, information, clarification etc considers the application and issues a certification of registration in Form B of SEBI (Merchant Bankers) Regulations 1992.

**Registration fee to obtain the certificate payable to SEBI**

Rs.5 lakhs is to be paid within 15 days from the date of receipt of intimation regarding grant of certificate. The validity of the certificate of registration is 3 years from the date of issue of the certificate. Three months from the date of expiry an application with a renewal fee of Rs.2.5 lakhs is to be submitted to SEBI in form A of the SEBI (Merchant Bankers) Regulations, 1992. SEBI shall consider the application and on being gratified renew the certificate of registration for next 3 years.

**Functions of Merchant Banker**

The main functions of a Merchant Bank can be defined as follows

1. Raising Capital for clients
2. Act as a stock exchange Broker
3. Giving advice on Modernization and Expansion of companies
4. Manage public issues of companies
5. Manage various projects
6. Special Assistance to Small Entrepreneurs and their companies
7. Help in obtaining Government consent for Industrial projects
8. Revival of sick industrial units
9. Managing different portfolios
10. Money Market operation
11. Providing Services to public sectors
12. Restructuring of the corporate
13. Managing the interest and Dividends
14. Providing leasing services

**4. DIFFERENCE BETWEEN INVESTMENT BANKING AND MERCHANT BANKING**

Merchant Banks invest their own money in the company of their clients. They help their clients in issuing shares, debentures, bank loans etc. in the domestic and international markets. Merchant bank assesses the value of the company and then only invests its money in it. At times it also takes a large ownership in the company. Merchant bankers are specialists in international finance. Multinational companies and corporates use this expertise to get help in their international transactions.

Investment Bankers raise capital from outside sources for their corporate clients. They take in initial public offerings, trade securities, and also take care of mergers and acquisitions. They also take up research to advice the clients before they make an investment in any company.

The commonality between a merchant bank and an investment bank is that neither of them serve the general public, both serve privately or publicly held corporations. They also perform underwriting functions for their corporate clients.

**TABLE 1: NAMES OF FEW OF THE MERCHANT BANKERS IN INDIA**

1. ABN Amro Securities (India) Private Limited	15. Development Credit Bank Limited
2. Allahabad Bank	16. Darashaw and Company Private Limited
3. Almondz Global Securities Limited (formerly Allianz securities limited)	17. Edelweiss Capital Limited
4. ANZ Capital Markets Private Limited	18. Emkay Global Financial Services limited
5. Arihant Capital Markets Limited	19. Escorts Securities Limited
6. Bajaj Capital Limited	20. Ernst & Young Merchant Bankers Services Ltd
7. Barclays Bank Plc	21. Federal Bank Limited
8. Birla Capital and Financial Services Limited	22. Fedex Securities Limited
9. Calyon Bank	23. Hongkong and Shanghai Banking Corporation
10. Canara Bank	24. HDFC Bank Limited
11. Centrum Capital Limited	25. ICICI Bank Limited
12. Chartered Capital and Investment Ltd	26. ICICI Securities Limited
13. Central Bank of India	27. IDBI bank Ltd
14. Dalmia Securities Private Limited	



## 5. EFFECTS ON MERCHANT BANKING DUE TO GLOBALIZATION

Globalization has opened new avenues for all the sectors. Due to globalization, the merchant banks are able to provide premier services and also make direct investment as a principal in select global transactions. Globalization has increased the opportunity of the merchant banks to have a diverse base of client and portfolio companies. Merchant banks can now achieve the greatest possible risk adjusted returns for its clients by identifying and monetizing outsized investment opportunities on a global basis. Any Merchant bank with a strong infrastructure will have a unique competitive advantage, which will allow it to provide its services in the global market without the need for local partners. Thus globalization has paved the way for many merchant banks to establish a foundation of in-depth global relationships and to demonstrate the ability to recognize and capitalize quickly on true opportunities.

## CONCLUSION

Merchant banking is service oriented industry and its activities help in channeling the financial surplus of the general public into productive investment avenues. They are the mediators who help various intermediaries like registrar, bankers, advertising agency etc. to coordinator among themselves and ensure that they are in compliance with the rules and regulations governing the securities market. This being the era of mergers and acquisitions, the scope of merchant banking is growing to a large extent.

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