

Merchant Banking



Contents:

- Definition : Banking
- Merchant Banking : Origin
- About Merchant Banking
- Services of Merchant Banking
- Difference b/w commercial & merchant banking.
- Institutes offering Merchant Banking

Definition: Banking

- Business activity of an financial advisory that accepts deposits and channels those deposits into lending activities, either directly or through capital markets.
- Few Services Offered:
 - a) Savings/Current account
 - b) Home/Personal loan
 - c) Mutual fund
 - d) collect cheques, drafts & notes.

Merchant Banking: Origin

- Merchant Banking came into existence in 17th & 18th century in Italy & France.
- Merchant banking in the modern era started from London; Merchants started to finance the foreign trade through acceptance of bill.
- Merchant Banking officially came to India through Grindlays Bank in 1967.
- Recognized the requirements of upcoming class of Entrepreneurs for diverse financial services.

Merchant Banking: Contd.

- Few Other Institutes who joined the bandwagon:-
 - ✓ Citibank Setup its merchant banking division in Indian in 1970.
 - ✓ Indian banks Started banking Services from 1972.
 - ✓ State bank of India started the merchant banking division in 1972.
 - ✓ Many other banks came after this like ICICI, Canara Bank, UCO bank etc.

About Merchant Banking

- Bank that deals mostly in international finance, long-term loans for companies and stock underwriting.
- Merchant banking primarily involves financial advice and services for large corporations and wealthy individuals.
- Merchant banks do not provide regular banking services to the general public.
- Merchant banks invest their own capital in client companies & provide services for mergers and acquisitions.

Contd.

- A merchant bank is sometimes said to be a wholesale bank, or in the business of wholesale banking.
- It's because merchant banks tend to deal primarily with other merchant banks and other large financial institutions.
- As of today there are 135 Merchant bankers who are registered with SEBI, India.
- This includes Private, Public & Foreign players.

Services:

- Corporate counseling.
- Project counseling.
- Working capital finance.
- Portfolio Management.
- Restructuring strategies.
- Credit Syndication.
- Lease Financing.
- Some Other Services.

Services contd.

- Corporate Counseling:
 - ✓ Set of activities undertaken for efficient running of an enterprise.
 - ✓ Identifying areas of growth & diversification.
 - ✓ Guiding clients on aspects like locational factors, organizational size, investment decision, choice of product.

Contd.

- Project counseling:
 - ✓ It's a part of corporate counseling & deals with analysis of project viability .
 - ✓ Comprises of preparation of project report & deciding finance pattern for cost of project.
 - ✓ Filling up of application form with significant information for obtaining funds.

Services contd.

- Working Capital Finance:
 - ✓ Meeting the day-to-day expenses of an enterprise is working capital finance.
 - ✓ Assessment of working capital requirements.
 - ✓ Preparing necessary application to negotiation for sanction of appropriate credit facilities.

Portfolio Management.

- Making decisions for the investment of cash resources of a corporate enterprise in marketable securities.
- Decides quantum, timing & type of security to be bought.
- Help in achieving maximum return with minimum risk by proper combination of securities.

Restructuring Strategies.

- Deals with Mergers & Acquisitions.
- It's a specialized service of Merchant bankers wherein they act as middle-men in negotiating between two companies.
- Offers expert evaluation regarding identification organizations with matching characteristics.
- Obtaining approvals from various authorities.

Services contd.

- Credit Syndication:
 - ✓ Relates to activities connected with credit procurement & project financing.
 - ✓ Estimates total cost of the project
 - ✓ Drawing up of financial plan which conforms requirements of promoters & their collaborators.
 - ✓ Selecting institutions for participation for financing.

Lease Financing.

- It's an important alternative source of financing a capital outlay.
- Involves letting out assets on lease for use by the lessee for a particular period of time.
- Providing advice on viability of leasing & choice of favorable rental structure.

Other Services:

- Relief to Sick Industries:
 - ✓ Rejuvenating old lines & ailing units by appraising technology, process etc.
 - ✓ Evolving rehabilitation packages acceptable to financial institutions/banks.
 - ✓ Exploring possibilities of mergers & acquisitions.

Other Services contd.

- Mutual Funds:
 - ✓ It's collective investment scheme that pools money from several investors & channels them into productive investments.
 - ✓ Investing money in diversified portfolio of shares & debentures.
 - ✓ Assuring Investors return in terms of capital appreciation.

Difference b/w Commercial & Merchant banks

- **Commercial Banking**
 - Catering needs of common man.
 - Anyone can open an A/c.
 - Less exposed to risk.
 - Related to secondary markets.
 - It's asset oriented.
 - Plays the role of financiers.
- **Merchant Banking**
 - Catering needs of corporate firms.
 - It cannot be done.
 - More exposed to risk.
 - Related to Primary markets.
 - It's management oriented.
 - Plays different roles like underwriting, portfolio etc.

Merchant Banking

- Advantages:

- Merchant banks perform functions that cannot be carried out by businesses on their own.
- Merchant banks have access to traders, financial institutions, and markets that companies or individuals could not possibly reach.
- By using their skills and contacts, merchant banks can get the best possible deals for their clients.

- Disadvantages:

- Merchant banks are really only for large corporate customers, or extremely wealthy smaller businesses owned by individual clients.
- Not all deals carried out by merchant banks meet with unqualified success.
- There is always risk attached to the kinds of deal that merchant banks undertake.

Institutes offering Merchant Banking

- Public Sector

- SBI capital markets ltd
- Punjab national bank
- Bank of Maharashtra
- Karur Vysya bank ltd
- State Bank of Bikaner and Jaipur.
- IFCI financial services ltd.

- Private Sector

- ICICI Securities Ltd
- Axis Bank Ltd
- Bajaj Capital Ltd
- Reliance Securities Limited
- Kotak Mahindra Capital Company Ltd
- Yes Bank Ltd

Key Foreign Players

- Goldman Sachs (India) Securities Pvt. Ltd.
- Morgan Stanley India Company Pvt. Ltd.
- Barclays Securities (India) Pvt. Ltd.
- Bank Of America
- Citigroup Global Markets India Pvt. Ltd.
- DSP Merrill Lynch Ltd.

Thank You.

By: Abhijit
 Swami chetan
 Mayank
 Akshat
 Subroto
 Sridip