

A Conceptual Framework on Merchant Banking with Reference to India

Nayana K S

Assistant Professor, St. Joseph's First Grade College, Jayalakshmipuram, Mysore – 570012

Abstract: Merchant banking services contributes to any country's economic growth by serving as a source of finances and information for firms in various ways. Due to the rapid growth of the Indian economy, merchant banking services in India are essential. These financial institutions serve as corporate advisory organizations, assisting firms in making sound financial decisions. The need for merchant banking services in India stems from the country's high degree of industrialisation. Merchant banking began in the early twentieth century in the United Kingdom and the United States. Recently, the services provided by Merchant Banks have expanded into additional sectors of activity. Their job is broad, and they supply the majority of the financial products required by a business, covering practically all areas of creating and operating industrial units on strong financial foothold. Merchant Banking is essential for business growth and expansion. It helps companies raise capital, expand into new markets, and manage risks effectively. This paper investigates the development of merchant banking in India, with an emphasis on its history, functions, registration requirements and progress. This paper is devoted to outlining the functioning of merchant banking and the way it is monitored by the SEBI.

Keywords: Merchant Banking, Indian Economy, SEBI

1. Introduction

A merchant banker is an organization which performs and renders different financial services for its clients. They do not provide regular banking services, but specialized services, generally dealing within large corporate clients. The merchant banker is engaged in the business of issue management of securities, helping companies in pre-issue and post-issue management of securities, in return for commission or fees. This service enables a company to raise funds without having to engage in the legal and documentation procedures and pursuing the potential investor. They help companies in arranging for finance and in project management as well. Whenever new securities are issued, it is managed by Merchant Bankers. All Merchant Bankers have to be registered under SEBI in order to carry out such activities. After 1980, new industries came up and equity financing became popular. As per SEBI guidelines, Merchant Bankers services are essential for making an issue of securities. This is done in order to regularize and make the security issue safe and transparent. Therefore, hiring merchant banking services is mandatory for the company.

Objective of the Study:

- To understand the functions, need and scope of the merchant banking in India
- To examine the merchant banking in India with the holistic approach
- To analyze the SEBI regulations on merchant bankers

Functions of a Merchant Banker

Merchant banks have been playing an important role in procuring the funds for capital market for the corporate sector for financing their operations. They perform some valuable functions. The functions of merchant banks in India are as follows:

- 1) **Corporate counseling:** One of the important functions of a merchant banker is corporate counseling. Corporate counseling refers to a set of activities undertaken to ensure efficient functioning of a corporate enterprise through effective financial management. A merchant

banker guides the client on aspects of organizational goals, vocational factors, organization size, choice of product, demand forecasting, cost analysis, allocation of resources, investment decisions, capital and expenditure management, marketing strategy, pricing methods etc.

- 2) **Project counseling:** Project counseling relates to project finance. This involves the study of the project, offering advisory services on the viability and procedural steps for its implementation.
- 3) **Pre-investment studies:** Another function of a merchant banker is to guide the entrepreneurs in conducting pre-investment studies. It involves detailed feasibility study to evaluate investment avenues to enable to decide whether to invest or not.
- 4) **Loan syndication:** A merchant banker may help to get term loans from banks and financial institutions for projects. Such loans may be obtained from a single financial institution or a syndicate or consortium. Merchant bankers help corporate clients to raise syndicated loans from commercial banks.
- 5) **Issue management:** Issue management involves marketing of corporate securities by offering them to the public. The corporate securities include equity shares, preference shares, bonds, debentures etc. Merchant bankers act as financial intermediaries. They transfer capital from those who own it to those who need it. The security issue function may be broadly classified into two – pre-issue management and post-issue management.
- 6) **Underwriting of public issue:** In underwriting of public issue the activities performed by merchant bankers are as follows:
 - a) Selection of institutional and broker underwriters for syndicating/ underwriting arrangements.
 - b) Obtaining the approval of institutional underwriters and stock exchanges for publication of the prospectus.
 - c) Co-ordination with the underwriters, brokers and bankers to the issue, and the Stock Exchanges.
- 7) **Portfolio management:** Merchant bankers provide portfolio management service to their clients. Today every investor is interested in safety, liquidity and

Volume 14 Issue 11, November 2025

Fully Refereed | Open Access | Double Blind Peer Reviewed Journal

www.ijsr.net

profitability of his investment. But investors cannot study and choose the appropriate securities. Merchant bankers help the investors in this regard. They study the monetary and fiscal policies of the government. They study the financial statements of companies in which the investments have to be made by investors. They also keep a close watch on the price movements in the stock market.

- 8) **Merger and acquisition:** A merger is a combination of two or more companies into a single company where one survives and others lose their corporate existence. A takeover refers to the purchase by one company acquiring controlling interest in the share capital of another existing company. Merchant bankers are the middlemen in setting negotiation between the offeree and offeror. Being a professional expert they are apt to safeguard the interest of the shareholders in both the companies. Once the merger partner is proposed, the merchant banker appraises merger/takeover proposal with respect to financial viability and technical feasibility. He negotiates purchase consideration and mode of payment. He gets approval from the government/RBI, drafts scheme of amalgamation and obtains approval from financial institutions.
- 9) **Foreign currency financing:** The finance provided to fund foreign trade transactions is called 'Foreign Currency Finance'. The provision of foreign currency finance takes the form of export import trade finance, euro currency loans, Indian joint ventures abroad and foreign collaborations.
- 10) **Working capital finance:** The finance required for meeting the day-to-day expenses of an enterprise is known as 'Working Capital Finance'. Merchant bankers undertake the following activities as part of providing this type of finance:
 - a) Assessment of working capital requirements.
 - b) Preparing the necessary application to negotiations for the sanction of appropriate credit facilities.
- 11) **Acceptance credit and bill discounting:** Merchant banks accept and discount bills of exchange on behalf of clients. Merchant bankers give loans to business enterprises on the security of bill of exchange. For this purpose, merchant bankers collect credit information relating to the clients and undertake rating their creditworthiness.
- 12) **Venture financing:** Another function of a merchant banker is to provide venture finance to projects. It refers to provision of equity finance for funding high-risk and high-reward projects.
- 13) **Lease financing:** Leasing is another function of merchant bankers. It refers to providing financial facilities to companies that undertake leasing. Leasing involves letting out assets on lease for a particular period for use by the lessee. The following services are provided by merchant bankers in connection with lease finance:
 - a) Providing advice on the viability of leasing as an alternative source for financing capital investment projects.
 - b) Providing advice on the choice of a favourable rental structure.

- c) Providing assistance in establishing lines of lease for acquiring capital equipment, including preparation of proposals, documentations, etc.

- 14) **Relief to sick industries:** Merchant bankers render valuable services as a part of providing relief to sick industries.
- 15) **Project appraisal:** Project appraisal refers to evaluation of projects from various angles such as technology, input, location, production, marketing etc. It involves financial appraisal, marketing appraisal, technical appraisal, economic appraisal etc. Merchant bankers render valuable services in the above areas.

History of Merchant Banking in India

In USA it is called as investment banks while in the UK it is known by the name of issuing house. In India, National Grindlays Bank initiated merchant banking services in 1969. Then Citibank joined the financial service in 1970. The State Bank of India was the first Indian commercial bank to set up a separate Merchant Banking Division in 1973, followed by ICICI followed it in 1974.

2. Methodology

This research primarily conducted based on secondary data. This data has been obtained from books, articles and previously conducted studies. The referred books and articles are on the subject of Merchant Banking.

Categories of Merchant Banker

The merchant bankers can be categorized into four types on the basis of activities permitted to be carried by them:

- Category I: These can carry on a number of activities ranging from preparation of prospectus and other documents relating to the security issue, deciding on the financial structure, contracting with financiers, final allotment and refund of the subscription, and to act as adviser, consultant, manager, underwriter, portfolio manager.
- Category II: These can act as adviser, consultant, co-manager, underwriter, portfolio manager.
- Category III: They act as underwriter, adviser, and consultant to an issue
- Category IV: They act only as adviser or consultant to an issue

Code of Conduct for Merchant Banker

The SEBI has issued guidelines in view to regularize the functions of merchant bankers in the form of a specific code of conduct. It includes the following salient points:

- It must make efforts to protect the interests of investors and act in their best interest.
- It must maintain high standards of integrity, dignity and fairness in the conduct of its business. All merchant bankers must work towards to ensure that copies of the prospectus, offer document, letter of offer or any other related literature is made available to the investors at the time of issue.
- They should fulfill their obligations in a prompt, ethical, and professional manner
- They must ensure that at all times they exercise due diligence, ensure proper care and exercise independent professional judgment.

- They should ensure that investors are able to take timely and accurate decisions by providing them adequate disclosures in accordance with the applicable regulations and guidelines
- They should not make any statement, either oral or written, which would misrepresent the services that the merchant banker is capable of performing for client.
- They should try avoid conflict of interest and make adequate disclosure of its interests to the investors along with devising a mechanism to resolve any conflict of interest that may arise in the conduct of its business

Registration of Merchant banker

The SEBI grants a certificate of registration on the fulfillment of necessary conditions:

- Merchant banker should be a body corporate other than a non-banking— financial company. However, in case a merchant banker who has been granted registration by the RBI to act as Primary Dealer may carry on such activity provided that it would not accept/hold any public deposit
- They must maintain adequate infrastructure like adequate office space,— equipment and manpower to effectively discharge the functions
- They should have employed at least two persons with experience to conduct— business:
- The merchant banker /partners/directors/principal offices should not be— convicted or involved in any litigation concerning the securities market, which has an adverse effect on their business They should have attained professional qualification in finance, law or business
- The applicant is a fit and proper person. SEBI as per the rules given in the— SEBI Intermediaries Regulation 2004 shall determine whether an applicant is a fit and proper person or not.

Prerequisites for License as Merchant Banker

- 1) No person is authorized to undertake the activities of a merchant banker unless he holds a certificate granted by SEBI.
- 2) A merchant banker is required to possess a minimum net worth i.e. Capital Adequacy of not but Rs. 5 Crore.
- 3) There should be no regard to the other entity which is already registered as a Merchant Banker by the applicant.
- 4) Two employees having prior experience in Merchant Banking Applicant is that the requirement of minimum employees.
- 5) An applicant required to send form A together with additional information together with a non-refundable fee of Rs. 50,000/- by way of demand draft.
- 6) Every merchant banker is required to pay Rs. 20 Lakhs as registration fee (as per SEBI regulation, 2014) at the time of grant of certificate of initial registration by SEBI. And this certificate of initial registration remains for five years. Such a person is required to apply to SEBI for permanent certification and the said application be made at least 3 months prior to the expiry of validity of the initial registration, provided he wishes to continue as a merchant banker.
- 7) For permanent registration, the merchant banker is required to pay Rs. 9 Lakhs for the primary block of

three years towards permanent registration payable in term of schedule iii of SEBI regulation 1992.

- 8) Merchant banker is required to require SEBI's prior approval for change up to the mark.

Ineligible Applicants of Merchant Banker

The Company registered with reserve bank of India as a non-banking financial company as defined under Clause (f) of Section 45-I of RBI Act, 1934, as amended from time to time. Shall not be eligible for Merchant Banker License

Exception: however, the above-mentioned companies can apply for getting merchant banker license, provided they have been granted registration by RBI, in order to act as a primary or satellite dealer, and shall not accept or hold any kind of public deposit.

Any person, being directly or indirectly, related to the “applicant”, in respect of whom, the application for registration as Merchant Banker has already been rejected by SEBI. Herein, the word directly or indirectly means any sought of person, being an associate, subsidiary or group company of the applicant, since the applicant is a body corporate;

Operations of Merchant Banking

- A merchant bank is a financial institution that provides a variety of services, such as merchant banking services, investment banking services, retail banking services, and other financial services.
- Merchant banks typically act as intermediaries between companies and investors, providing services such as arranging deals and providing advice on financial strategies.
- Additionally, merchant banks may provide capital to companies in the form of loans or investments, as well as manage financial assets and investments for clients.
- Merchant banks may also offer other services such as credit and debit card processing, foreign currency exchange, and merchant services.

Advantages of Merchant Banking

Merchant Banking offers significant benefits that help businesses grow and manage their financial challenges effectively. These advantages make it an essential service for companies aiming to expand and succeed.

- It provides professional advice on complex financial matters
- It enables easier access to capital for growth
- It offers effective risk management strategies
- It helps businesses enter financial markets to raise funds

3. Conclusion

Merchant Banking is a powerful tool for businesses wanting to grow and succeed. It provides specialized services that help raise funds, manage investments, and expand operations. With proper guidance from merchant bankers, businesses can handle financial challenges and attract new opportunities, ensuring long-term success. Merchant Banking is essential for business growth and expansion. It helps companies raise capital, expand into new markets, and

manage risks effectively. The importance of Merchant Banking is evident. It drives business success as it provides access to financial markets. It helps startups secure funds, assist growing companies in mergers, and ensure established businesses remain competitive. Without merchant bankers, companies would struggle to pass through complex financial processes.

Merchant banking has a wide role as a financial institution in India. They are involved in providing credits, transferring funds, providing financial consultations and many other forms of financial systems

References

- [1] Ramnath, Akaash and R B, Monesh, A Study on Merchant Banking in India (January 10, 2022). Available at SSRN: <https://ssrn.com/abstract=4316230> or <http://dx.doi.org/10.2139/ssrn.4316230>
- [2] Khan M. Y. (2010), Indian Financial System, Tata Mc Graw Hill
- [3] S Gurusamy, Financial Services and System, (2009), Second Edition, Tata Mc Graw Hill Anbarasu J, Boominathan VK, Manoharan P, & Gnanaraj G (2003) Financial Services, Sultan Chand & Sons, Delhi
- [4] <https://www.hdfcbank.com/personal/resources/learning-centre/sme/a-complete-guide-to-merchant-banking-key-services-role-types-benefits>
- [5] www.google.com