Does Public Sector Merchant Banks Require Pills to Survive? - Affirmation

KEYWORDS

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Introduction:
Formal merchant banking activity in India was originated in 1969 with Merchant Banking Division set up by the Grindlays Bank, the largest foreign bank in the country. The main service offered at that time to the corporate enterprises by the merchant banks included the management of public issues and some aspects of financial consultancy. Other foreign banks like City Bank, Chartered Bank also assumed the merchant banking activity in India. State Bank of India started merchant banking in 1973 followed by ICICI in 1974. Both these Indian merchant bankers emerged as leaders in merchant banking having done significant business during the period of 1974-1987 in comparison to foreign banks. The early and mid-seventies witnessed a boom in the growth of merchant banking organizations in the country with various commercial banks, financial institutions, and broker's firms entering in to the field of merchant banking.

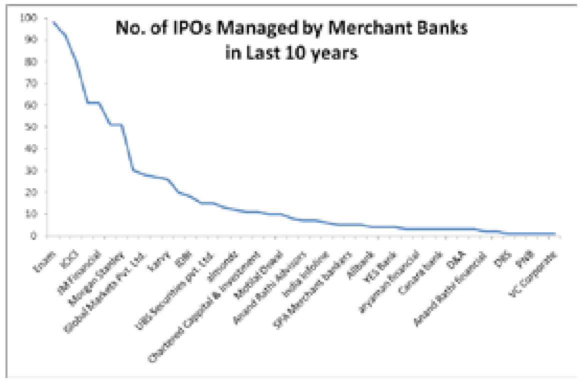
The early growth of merchant banking in the country is assigned to the Foreign Exchange Regulation Act, 1973 (FERA) where under large number of foreign companies operating in India were required to dilute their foreign holdings in order to continue business in the country. This had caused two-pronged effect viz. firstly, in the form of spate in 'Foreign Exchange Regulation Act Issues' eliciting interest of the investors by creating massive awareness about capital markets amongst the new class of investing public, secondly, merchant banking activity became attractive to banks and the firms of consultants and share brokers who entered into this fields vigorously to reap the advantages of the expanding capital markets.

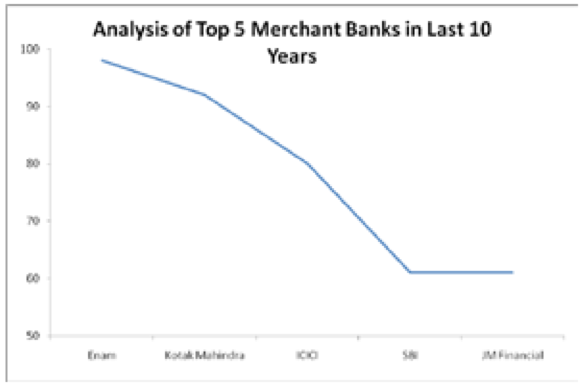
Year	No. of Merchant Bankers registered with SEBI	% Change
1991-92	74	100
1992-93	422	470.27
1993-94	790	87.20
1994-95	1012	28.10
1995-96	1163	14.92
1996-97	802	-31.04
1997-98	415	-48.25
1998-99	186	-55.18
1999-00	233	25.27
2001-02	145	-37.77
2002-03	124	-14.48
2003-04	123	-0.81
2004-05	128	4.07
2005-06	130	1.56
2006-07	152	16.92
2007-08	155	1.97
2008-09	134	-13.55
2009-10	164	22.39
2010-11	192	17.07
2011-12	200	4.17
2012-13	198	-1.00
2013-14	197	-0.51
2014-15	195	-1.02

Names of Merchant Banker	IPOs managed Jointly of individually in last 10years IPOs
Enam	98
Kotak Mahindra	92
ICICI	80
SBI	61
JM Financial	61
DSP Merrill lynch	51
Morgan Stanley	51

Volume : 5 | Issue : 1 | Jan 2015 | ISSN - 2249-555X

Citigroup	30
Global Markets Pvt. Ltd.	28
Edelweiss	27
Karvy	26
keynote corporate	20
IDBI	18
J.P. Morgan	15
UBS Securities pvt. Ltd.	15
Anand Rathi securities	13
Almondz	12
Allianz securities	11
Chartered Capital & Investment	11
Ashika Capital	10
Motilal Oswal	10
Saffron Capital	8
Anand Rathi Advisors	7
Axis Bank	7
India Infoline	6
Collins Stewart	5
SPA Merchant bankers	5
Standard Chartered	5
All bank	4
Goldman Sachs	4
YES Bank	4
Arihant Capital Markets	3
aryaman financial	3
Atherstone	3
Canara bank	3
corporate strategic Allianz	3
D&A	3
Intensive Fiscal Ser. Pvt. Ltd.	3
Anand Rathi financial	2
Comfort securities	2
DBS	1
IndBank Merchant Banks	1
PNB	1
Rathi udhyog	1
VC Corporate	1





Outcomes:
The economic reforms initiated by the Government since July 1991 in the files of industry, trade and financial sector have paved the way for rapid development of the economy. Several projects have been conceived since then and almost all the major groups in the country that have announced their intentions to set-up mega projects in infrastructure sector envisaging investment of thousands of crores. With several large projects been set-up and many more on the drawing board, the demand for a complete range of Merchant Banking services encompassing project advisory services, issue management and financial advisory services for corporate sector has increased considerably. This has led to a sharp growth in the Merchant Banking business in the last 2 years.

With the growth of merchant banking profession corporate enterprises in both public and private, sectors would be able to meet the growing requirements for the funds for establishing new enterprises, undertaking expansion/modernization/diversification of the existing enterprises.

Factors responsible for the Changes:
Globalization of Indian Economy has made the whole economy open, which has more multinational player in the era of the financial services? This has resulted in to the emergence of the global investment in financial sector. Government has now open up the doors of investments especially in the area of banks and insurance, which leads to competitive environment for the present players. Now they have to bring something new which is efficient and best services to live in the competitive environment.

Competition arising out of Private Company Participation is due to the liberalization of the economy. Now along with the public/government players, private players are also offering financial services and instruments, which are more innovative and different than the earlier offering. All

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around, there is a fresh thinking on the financial products, structure of banking and insurance instruments with value creation. Financial markets are being redefined, reinvented and reconfigured on a persistent basis.

Changing Customer Demographics:
If we look at the all-growing economies like China, Germany and Brazil, India has 35% of the population in the age group of 15years to 34 years. It is estimated that by 130mn plus people get added to working population by 2009 with 55 million families (320 million people) will be added in the middle-income group (0.1 to 0.3 Million Rs). The demographic change leads to the change in the need of the customer.

Changing Customer Needs:
Customers have larger segment in corporate decision-making they are the final judges of the every single activity offered by the marketer. Banks in India have traditionally offered mass banking products. Financial market has turned into a buyer's market. Market focus is shifting from mass banking products to class banking with introduction of value added products. Today, financial institutions are co-designing the products/services with their customers and striving to provide them with global solutions.

Technology Improvements:
Technology is also helping market players redefine the way they have been operating in the market. In today's time it becomes very easy for a customer to transfer a fund from one location to another location with CLICK of Mouse. Availability of the concepts like phone banking, anytime banking etc. has become possible because of the technological developments only.

Government Reforms:
Government is major decision player in the financial market. It decides the proportion of the investment limits as well as the regulation and control. In last ten years government is designing its policy with more liberal and competitive content. Which it are welcome trends for the emerging financial services.

Heightened focus on customer relations the bank of the future has to be essentially a marketing organization that also sells banking products. New distribution channels are being used; more & more banks are outsourcing services like disbursement and servicing of consumer loans, Credit card business. Direct Selling Agents (DSAs) of various Banks go out and sell their products. They make house calls to get the application form filled in properly and also take your passport-sized photo.

With the exception of SBI Capital Markets Ltd and Canara Bank, no other public sector bank performed a significant role in the public issue management activities. Other public sector banks' subsidiaries/merchant banking divisions who showed their presence in public issue management were BOB Capital Markets Ltd, All bank Finance Ltd, BOI Finance Ltd, PNB Capital Markets Ltd. etc.

Obviously, international players with strong domestic partners such as DSP Merrill Lynch, JM Morgan Stanley, Kotak Mahindra Capital, together with experienced organizations like Enam and institutional backed investment bankers such as ICICI Securities, etc., are the ones who have expertise, muscle, and placement power in a greater measure than relatively new entrants.

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