

Merchant Banking in India

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1. Introduction to Merchant Banking

▪ Definition of 'Merchant Bank':-

1) A bank that deals mostly in (but is not limited to) international finance, long-term loans for companies and underwriting. Merchant banks do not provide regular banking services to the general public.

2) A financial institution that specializes in services such as acceptance of bills of exchange, hire purchase or instalment buying, international trade financing, long-term loans, and management of investment portfolios.

▪ Who is a Merchant Banker?

A merchant banker can be defined as “An organization that acts as an intermediary between the issuers and the ultimate purchasers of securities in the primary security market.”

A merchant banker is an institution that helps companies to raise capital. It is an organization that underwrites corporate securities, provides advisory services to its clients.

▪ Meaning:-

A merchant bank is a financial institution which provides capital to companies in the form of share ownership instead of loans. A merchant bank also provides advisory on corporate matters to the firms they lend to. Today, according to the US Federal Deposit Insurance Corporation (acronym FDIC), "the term merchant banking is generally understood to mean negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies." Both commercial banks and investment banks may engage in merchant banking activities. Historically, merchant banks' original purpose was to facilitate and/or finance production and trade of commodities, hence the name "merchant". Few banks today restrict their activities to such a narrow scope.

▪ Origin of Merchant Banking:-

The origin of Merchant banking is to be traced to Italy in late medieval times and France during the seventeenth and eighteenth centuries. The Italian merchant bankers introduced into England not only the bill of exchange but also all the institutions and techniques connected

with an organized money market. Merchant banking consisted initially of merchant who assisted in financing the transactions of other merchants in addition to their own trade. In France, during seventeenth and eighteenth centuries a merchant banker was not merely a trader but an entrepreneur par excellence. He invested his accumulated profits in all kinds of promising activities. He added banking business to his merchant activities and become a merchant banker.

▪ **Merchant Banks in the United Kingdom:-**

In the United Kingdom, merchant banks came on the scene in the late eighteenth century and early nineteenth century. Industrial revolution made England into a powerful trading nation. Rich merchant houses that made their fortunes in colonial trade diversified into banking. Their principle activity started with the acceptance of commercial bills pertaining to domestic as well as international trade.

The Term Merchant bank is used in the United Kingdom (The oldest merchant bank in London was Baring Brothers and it was very prominent in Europe during the nineteenth century, and it had considerable representation in North and South America) to denote banks that are not merchants, sometimes for merchants who are not bankers and sometimes for business houses that are neither merchants nor banks. The confusion has arisen because modern merchant banks have a wide range of activities. Merchant banks in United Kingdom (a) finance foreign trade, (b) issue capital, (c) manage individual funds; (d) undertake foreign security business and (e) foreign loan business. Many merchant banking activities (money-market lending, corporate finance and investment management), are also performed by money market dealers, commercial banks, finance companies, share brokers, investment consultants and unit trust managers.

They also used to finance sovereign governments through grant of long term loans. They financed the British Government to purchase shares of Suez Canal, helped America purchase the state of Louisiana from Napoleon by raising loans from money market in London; and Lazard Brothers granted loan to government of India for Durgapur Steel Plant.

Since the end of the Second World War commercial banks in Western Europe have been offering multiple services including merchant banking services to their individual and

corporate clients. British banks set up divisions or subsidiaries to offer their customers merchant banking services.

▪ **Investment Banking in USA:-**

Investment banks in USA are the most important participants the direct market by bringing financial claims for sale. They specialise in helping businesses and governments sell their new security issues, whether debt or equity in the primary market to finance capital expenditures. Once the securities are sold, investment bankers make secondary markets for the securities as brokers and dealers. In 1990, there was 2500 investment banking firms in USA doing underwriting business. About 100 firms are so large that they dominate the industry. In recent years some investment banking firms have diversified or merged with other financial firms to become full service financial firms.

Regulation of Merchant Banking in USA

Investment banking in USA as compared to merchant banking in the United Kingdom is Subject to the following regulations:

- 1) The Securities Exchange Commission (SEC) exercises advisory and regulatory role on investment bankers.
- 2) Investment bankers were restricted from undertaking recognition of public corporations under the Chandler ACT. The task was assigned to distinguished trustees.
- 3) Association of trustees with either the issue or its investment banker is prohibited under the trustee Indenture Act, 1939. To protect the interests of security holders the trust indenture had to be filed with SEC.
- 4) The investment and portfolio activities become subject to SEC supervision.

The increased regulation and control of domestic operations gave a fillip to large US banks to undertake merchant banking functions in international capital markets. The US investment banks have extended their operations to international level. They are largely responsible for the development of Eurodollar market in securities and globalisation of capital markets. They have prominent presence in London and other European financial centres. Investment banks have today a strong parent, a strong balance sheet and a strong international network to play a global role.

2. Merchant Banking in India

Merchant banking services strengthen the economic development of a country as they act as sources of funds and information for corporations. Considering the way the Indian economy is growing, the role of merchant banking services in India is indispensable. These financial institutes also act as corporate advisory bodies to help corporations rightly get involved in various financial activities.

Merchant banks serve a dual role within the financial sector. Through deposits or sales of securities they obtain funds for lending to their clients (SEBI forbids lending by them): a function similar to most institutions. Their other role is to act as agents in return for fee. SEBI envisages a mandatory role for merchant banks in exercising due diligence apart from issue management, in buy-backs and public offer in takeover bids. Their underwriting and corporate financial services are all fees rather than fund based and their significance is not reflected in their total assets of the industry. SEBI has been pressing for merchant banks to be primarily fee based institutions.

According to the Ministry of Finance in India, a merchant banker is a person or body engaged in selling, buying and subscribing to securities or in advising the corporations on issue management. To learn more about the merchant banking setup in India, you should go through the following discussion.

▪ History of Indian Merchant Banking

The formal beginning of the merchant banking services in India began in 1967 when the Reserve Bank of India provided license to the Grindlays Bank. The Grindlays Bank was engaged in capital issue management and it provided diverse financial services to the emerging section of entrepreneurs, especially those belonging to the small and medium enterprise sector.

Citibank started the merchant banking services in 1970 and the State Bank of India followed the same in 1972. After few years, the national merchant banks started collaborating with their counterparts in different countries to start their merchant banking divisions abroad.

After that there were many banks which set up the merchant bank division such as;

- ICICI
- Bank of India
- Bank of Baroda
- Canara Bank
- Punjab National Bank
- UCO Bank

The Merchant Bank got more importance in the year 1983 when there was a huge boom in the primary market where the companies were going for new issue. Merchant banking activities are organized and undertaken in several forms. Commercial banks and foreign development finance institutions have organized them through formation divisions, nationalized banks have formed subsidiary companies, share brokers and consultancies constituted themselves into public limited companies or registered themselves as private limited Companies. Some merchant banking companies have entered into collaboration with merchant bankers of foreign countries abroad with several branches.

▪ **Organizational Setup / Types of Merchant Banking Organization in India**

In India a common organizational set up of merchant bankers to operate is in the form of divisions of Indian and Foreign banks and Financial institutions, subsidiary companies established by bankers like SBI, Canada Bank, Punjab National Bank, Bank of India, etc. some firms are also organized by financial and technical consultants and professionals. Securities and exchanges Board of India (SEBI) has divided the merchant bankers into four categories based on their capital adequacy. Each category is authorized to perform certain functions. From the point of Organizational set up India's merchant banking organizations can be categorized into 4 groups on the basis of their linkage with parent activity. They are:

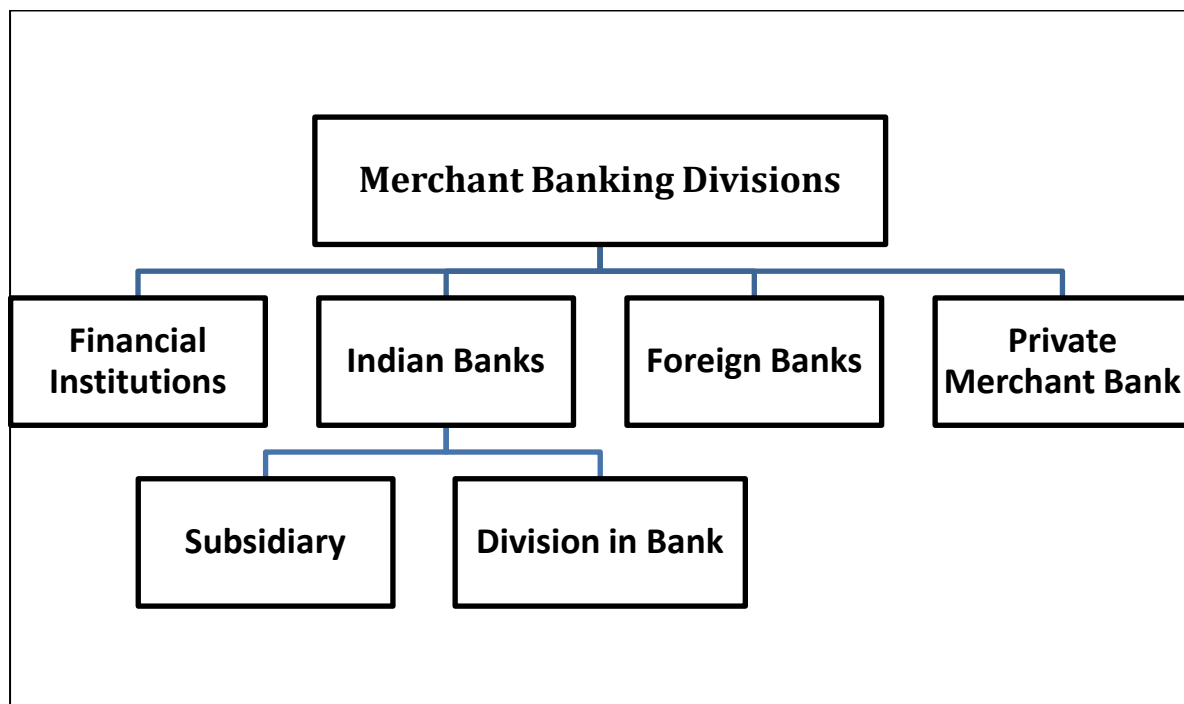
a) Institutional Base:-Where merchant banks function as an independent wing or as subsidiary of various Private/ Central Governments/State Governments Financial institutions. Most of the financial institutions in India are in public sector and therefore such set up plays a role on the lines of governmental priorities and policies.

b) Banker Base:-These merchant bankers function as division/ subsidiary of banking organization. The parent banks are either nationalized commercial banks or the foreign banks operating in India. These organizations have brought professionalism in merchant banking sector and they help their parent organization to make a presence in capital market.

c) Broker Base:-In the recent past there has been an inflow of Qualified and professionally skilled brokers in various Stock Exchanges of India. These brokers undertake merchant banking related operating also like providing investment and portfolio management services.

d) Private Base:-These merchant banking firms are originated in private sectors. These organizations are the outcome of opportunities and scope in merchant banking business and they are providing skill oriented specialized services to their clients. Some foreign merchant bankers are also entering either independently or through some collaboration with their Indian counterparts. Private Sectors merchant banking firms have come up either as sole proprietorship, partnership, private limited or public limited companies. Many of these firms were in existence for quite some time before they added a new activity in the form of merchant banking services by opening new division on the lines of commercial banks and All India Financial Institution (AIFI).

Classification Merchant Banking in India



▪ **Merchant Bankers in India**

As of now there are 135 Merchant bankers who are registered with SEBI in India. It includes Public Sector, Private Sector and foreign players some of them are:-

Public Sector Merchant Bankers:-

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

Private Sector Merchant Bankers:-

- ICICI Securities Ltd
- Axis Bank Ltd (Formerly UTI Bank Ltd.)
- Bajaj Capital Ltd
- Tata Capital Markets Ltd
- ICICI Bank Ltd
- Reliance Securities Limited
- Kotak Mahindra Capital Company Ltd
- Yes Bank Ltd.

Foreign Players in Merchant Banking:-

- Goldman Sachs (India) Securities Pvt. Ltd.
- Morgan Stanley India Company Pvt. Ltd
- Barclays Securities (India) Pvt. Ltd
- Bank Of America, N.A
- Deutsche Bank
- Deutsche Equities India Private Limited
- Barclays Bank Plc
- Citigroup Global Markets India Pvt. Ltd.
- DSP Merrill Lynch Ltd
- FEDEX Securities Ltd.

▪ **Organization of Merchant Banking Units**

The structure of organization of Merchant banks reveals certain similar characteristics:-

- A high proportion of professional to total staff;
- A substantial delegation of decision making;
- A short chain of command;
- Rapid decision making;
- Flexible organisation structure;
- Innovative approaches to problem solving; and
- High level of financial sophistication.

In the words of Skully, a merchant bank could be best defined as a financial institution conducting money market activities and lending, underwriting and financial advice, and investment services whose organization is characterised by a high proportion of professional staff able to approach problems in an innovative manner and to make and implement decisions rapidly.

Merchant banking activities are regulated by the following:-

- (1) Guidelines of SEBI and Ministry of Finance,
- (2) Companies Act, 1956 and
- (3) Listing Guidelines of Stock Exchange and
- (4) Securities contracts (Regulation) Act, 1956.

▪ **Functions of Merchant Banking Organizations**

- Distribution of securities like equity shares, mutual funds, insurance products and so on.
- Providing assistance to the enterprises to raise funds from the market.
- Loan syndication for the clients is another important function performed by these organizations.
- Corporate advisory and project advisory services are other important merchant banking services offered by these organizations.

▪ **Importance of Merchant Banking in India**

The need of merchant banking services in India arises from the fact that high level industrialization is taking place in the country. So, there is need for skilled professionals who can take care of various finance-related needs of the advanced industrial sectors. These specialist services are also of great importance for the small and medium sized enterprises to help them operate smoothly.

Most of the rural areas still lack industrial advancement and the main reasons for this include lack of funds and information. The merchant banking services help the entrepreneurs to come up with industrial setups in these areas. Besides, the merchant banks help the entrepreneurs to explore the joint venture opportunities in the foreign markets.

The above discussion highlights the ways merchant banks are promoting industrial development in India. The government in the country plays a significant role by issuing rules and regulations for merchant banks so that entrepreneurs can make most out of these services.

▪ **Importance and need of Merchant Banking in India**

Important reasons for the growth of merchant banks has been development activities throughout the country, exerting excess demand on the sources of fund for ever expanding industries and trade, thus leaving a widening gap unabridged between the supply and demand of invisible funds. All financial institutions had experienced constrain of resources to meet ever increasing demands for demands for funds frame 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 in 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.

Need for merchant banking is felt in the wake of huge public saving lying untapped. Merchant banker can play highly significant role in mobilizing funds of savers to invisible channels assuring promising returns on investment and thus can assist in meeting the

widening demand for invisible funds for economic activity. With growth of merchant banking profession corporate enterprises in both private sectors would be able to raise required amount of funds annually from the capital market to meet the growing requirement for funds for establishing new enterprises, undertaking expansion, modernization and diversification of the existing enterprises. This reinforces the need for a vigorous role to be played by merchant banking.

In view of multitude of enactment, rules and regulation, gridlines and offshoot press release instructions brought out the government from time to time imposing statutory obligations upon the corporate sector to comply with those entire requirement prescribed there in the need of a skilled agency existed which could provide counselling in these matters in a package form. A merchant banker with their 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. Merchant bank advice the investors of the incentives available in the form of tax relief, other statutory relaxation, good return on investment and capital appreciation in such investment to motivate them to invest their savings securities of the corporate sector. Thus merchant banks help industries and trade to rise and the investors to invest their saved money in sound and healthy concern with confidence, safety and expectation for higher yields. Finance is the backbone of business activities. Merchant banker make available finance for business enterprises acting as intermediaries between them raising demand for funds and the supplies of funds besides rendering various other services.

The following are some of the reasons why specialist merchant bank have a crucial role to play in India.

- Growing complexity in rules and procedures of the government.
- Growing industrialization and increase of technologically advanced industries.
- Need for encouragement of small and medium industrialists, who require specialist services.
- Need to develop backward areas and states which require different criteria.
- Exploring the possibility of joint ventures abroad and foreign market.
- Promoting the role of new issue market in mobilizing saving from.

Where merchant banks function as an independent wing or as subsidiary of various private/central governments/ state government financial institution. Most of the financial institution in India is in public sector and therefore such setup plays a role on the lines of governmental priorities and policies.

▪ **Difference between Merchant Bank and Commercial Bank**

- Commercial banks are catering to the needs of the common man whereas the merchant banks cater to the needs of corporate firms.
- Any person can open a bank account in the commercial bank whereas it cannot be done in the merchant bank.
- Merchant bank deals with equities whereas the commercial bank deals with debt related finance which includes the activities like credit proposals, loan sanctions etc.
- The merchant bank is exposed to the market so it is more exposed to risk as compared to commercial banks.
- Merchant bank is related to the primary market whereas the commercial markets are more into secondary markets.
- Merchant banking activities are capital restructuring, underwriting, portfolio management etc. whereas the commercial banks play the role of financiers.
- The activities of merchant banks have a direct impact on the growth and liquidity of money markets.
- Merchant Bank is management oriented whereas the commercial banks are asset oriented
- The commercial banks generally avoid risks and on the other hand the merchant banks are willing to take the risks.

▪ **Difference between Merchant Banks and Investment Banks**

Merchant banks and investment banks, in their purest forms, are different kinds of financial institutions that perform different services. In practice, the fine lines that separate the functions of merchant banks and investment banks tend to blur.

- Traditional merchant banks often expand into the field of securities underwriting, while many investment banks participate in trade financing activities. In theory, investment banks and merchant banks perform different functions.

- Pure investment banks raise funds for businesses and some governments by registering and issuing debt or equity and selling it on a market. Traditionally, investment banks only participated in underwriting and selling securities in large blocks. Investment banks facilitate mergers and acquisitions through share sales and provide research and financial consulting to companies. Traditionally, investment banks did not deal with the general public.
- Traditional merchant banks primarily perform international financing activities such as foreign corporate investing, foreign real estate investment, trade finance and international transaction facilitation. Some of the activities that a pure merchant bank is involved in may include issuing letters of credit, transferring funds internationally, trade consulting and co-investment in projects involving trade of one form or another.
- The current offerings of investment banks and merchant banks vary by the institution offering the services, but there are a few characteristics that most companies that offer both investment and merchant banking share.
- As a general rule, investment banks focus on initial public offerings (IPOs) and large public and private share offerings. Merchant banks tend to operate on small-scale companies and offer creative equity financing, bridge financing, mezzanine financing and a number of corporate credit products. While investment banks tend to focus on larger companies, merchant banks offer their services to companies that are too big for venture capital firms to serve properly, but are still too small to make a compelling public share offering on a large exchange. In order to bridge the gap between venture capital and a public offering, larger merchant banks tend to privately place equity with other financial institutions, often taking on large portions of ownership in companies that are believed to have strong growth potential.
- Merchant banks still offer trade financing products to their clients. Investment banks rarely offer trade financing because most investment banking clients have already outgrown the need for trade financing and the various credit products linked to it.

3. SEBI Regulations on Merchant Bankers

SEBI has brought about effective regulative measures for the purpose of disciplining the functioning of the merchant bankers in India. The objective is to ensure an era of regulated financial markets and thus streamline the development of the capital market in India. The measures were introduced by the SEBI in the year 1992. The measures were revised by SEBI in 1997. The salient features of the regulative framework of merchant banking in India are discussed below.

▪ Application for Grant of Certificate

An application by a person for grant of a certificate shall be made to the Board in Form A. The application shall be made for any one of the following categories of the merchant banker namely:

1. **Category I-** To carry on any activity of the issue management, which will interalia consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie-up of financiers and final allotment and refund of the subscription; and to act as adviser, consultant, manager, underwriter, portfolio manager.
2. **Category II-** To act as adviser, consultant, co-manager, underwriter, portfolio manager.
3. **Category III-** To act as underwriter, adviser, consultant to an issue.
4. **Category IV-** To act only as adviser or consultant to an issue.
5. With effect from 9th December, 1997, an application can be made only for carrying on the activities mentioned in category I. An applicant can carry on the activity as underwriter only if he contains separate certificate of registration under the provisions of Securities and Exchange Board of India (Underwriters) Regulations, 1993, and as portfolio manager only if he obtains separate certificate of registration under the provisions of Securities and Exchange Board of India (Portfolio Manager) Regulations, 1993.

▪ Conformance to Requirements

Subject to the provisions of the regulations, any application, which not complete in all respects and does not conform to the instructions specified in the form, shall be rejected. However, before rejecting any such application, the applicant will be given an opportunity to remove within the time specified such objections and may be indicated by the board.

▪ Furnishing of Information

The Board may require the applicant to furnish further information or clarification regarding matter relevant to the activity of a merchant banker for the purpose of disposal of the

application. The applicant or its principal officer shall, if so required, appear before the Board for personal representation.

▪ **Consideration of Application**

The Board shall take into account for considering the grant of a certificate, all matters, which are relevant to the activities relating to merchant banker and in particular whether the applicant complies with the following requirements;

1. That the applicant shall be a body corporate other than a non-banking financial company as defined by the Reserve Bank of India Act, 1934.
2. That the merchant banker who has been granted registration by the Reserve Bank of India to act as Primary or Satellite Dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit.
3. That the applicant has the necessary infrastructure like adequate office space, equipment's, and manpower to effectively discharge his activities.
4. That the applicant has in his employment minimum of two persons who have the Experience to conduct the business of the merchant banker.
5. That a person (any person being an associate, subsidiary, inter-connected or group Company of the applicant in case of the applicant being a body corporate) directly Or indirectly connected with the applicant has not been granted registration by the Board.
6. That the applicant fulfils the capital adequacy as specified.
7. That the applicant, his partner, director or principal officer is not involved in any Litigation connected with the securities market which has an adverse bearing on the Business of the applicant.
8. That the applicant, his director, partner or principal officer has not at any time been convicted for any offence involving moral turpitude or has been found guilty of any economic offence.
9. That the applicant has the professional qualification from an institution recognized by the Government in finance, law or business management.
10. That the applicant is a fit and proper person.
11. That the grant of certificate to the applicant is in the interest of investors.

- **Capital Adequacy Requirement**

According to the regulations, the capital adequacy requirement shall not be less than the net worth of the person making the application for grant of registration. For this purpose, the net worth shall be as follows:

- **Category Minimum Amount**

Category I Rs.5,00,00,000

Category II Rs.50,00,000

Category III Rs.20,00,000

Category IV Nil

For the purpose of this regulation _net worth means in the case of an applicant which is a partnership firm or a body corporate, the value of the capital contributed to the business of such firm or the paid up capital of such body corporate plus free reserves as the case may be at the time of making application.

- **Procedure for Registration**

The Board on being satisfied that the applicant is eligible shall grant a certificate in

Form B. On the grant of a certificate the applicant shall be liable to pay the fees in accordance with Schedule II.

- **Renewal of Certificate**

Three months before expiry of the period of certificate, the merchant banker, may if he so desired, make an application for renewal in Form A. The application for renewal shall be dealt with in the same manner as if it were a fresh application for grant of a certificate. In case of an application for renewal of certificate of registration, the provisions of clause (a) of regulation 6 shall not be applicable up to June 30th, 1998. The Board on being satisfied that the applicant is eligible for renewal of certificate shall grant a certificate in form B and send intimation to the applicant. On the grant of a certificate the applicant shall be liable to pay the fees in accordance with Schedule II.

- **Procedure where Registration is not Granted**

Where an application for grant of a certificate under regulation 3 or of renewal under regulation 9, does not satisfy the criteria set out in regulation 6, the Board may reject the application after giving an opportunity of being heard. The refusal to grant registration shall be communicated by the Board within thirty days of such refusal to the applicant stating therein the grounds on which the application has been rejected. Any applicant may, being aggrieved by the decision of the Board, under sub regulation:-

- (1) Apply within a period of thirty days from the date of receipt of such intimation to the Board for reconsideration for its decision.
- (2) The Board shall reconsider an application made under sub-regulation.
- (3) Communicate its decision as soon as possible in writing to the applicant.

- **Effect of Refusal to Grant Certificate**

Any merchant banker whose application for a certificate has been refused by the Board shall on and from the date of the receipt of the communication under sub-regulation

- (2) Regulation 10 ceases to carry on any activity as merchant banker.

- **Payment of Fees**

Every applicant eligible for grant of a certificate shall pay such fees in such manner and within the period specified in Schedule II. Where a merchant banker fails to pay any annual fees as provided in sub-regulation (1), read with Schedule II, the Board may suspend the registration certificate, whereupon the merchant banker shall cease to carry on any activity as a merchant banker for the period during which the suspension subsists.

- **Guidelines for the Merchant Bankers**

- 1) All merchant bankers should have qualification in finance, law or business management;
- 2) They should have adequate office space, equipment and manpower;
- 3) At least 2 merchant bank operations qualified persons to be appointed;
- 4) a merchant banker should be fair in all transactions;
- 5) SEBI will supervise the activities of merchant bankers.
- 6) SEBI has laid responsibility on merchant banks for the true disclosures and factual statements made on the prospectus and the authenticity of such statements;
- 7) SEBI has the power to suspend or cancel the authorization of merchant bankers in case of any violation of the guidelines;
- 8) Merchant bankers are required to send quarterly reports on the public issue and rights issue on hand, the names of the companies, size of the issue, and other details;
- 9) Merchant bankers should abide by the code of conduct prescribed by SEBI;
- 10) For the issue over Rs. 100 crores, the number of BRLMs should be 4 to 5;
- 11) Merchant bankers should make an agreement with corporate bodies about their mutual rights, liabilities and obligations etc.

▪ **GENERAL OBLIGATIONS**

The 1992 regulations have enunciated the following general obligations and responsibilities for the merchant bankers.

Sole Function

Every merchant banker shall abide by the Code of Conduct as specified in Schedule

III. They are as follows

1. Merchant Banker not to associate with any business other than that of the securities market.
2. No merchant banker, other than a bank or a public financial institution, who has been granted certificate of registration under these regulations, shall after June

30th, 1998 carry on any business other than that in the securities market. However, a merchant banker who prior to the date of notification of the Securities and exchange board of India (Merchant Bankers) Amendment Regulations, 1997, has entered into a contract in respect of a business other than that of the securities market may, if he so desires, discharge his obligations under such contract. Similarly, a merchant banker who has been granted certificate of registration to act as primary or satellite dealer by the

Reserve Bank of India may carry on such business as may be permitted by Reserve Bank of India.

Maintenance of Books

Every merchant banker shall keep and maintain the following books of accounts, records and documents:

1. A copy of balance sheet as at the end of each accounting period;
2. A copy of profit and loss account for that period;
3. A copy of the auditor's report on the accounts for that period; and
4. A statement of financial position.

Every merchant banker shall intimate to the Board the place where the books of accounts, record and documents are maintained. Every merchant banker shall, after the end of each accounting period furnish to the Board copies of the Balance sheet, profit and loss account and such other documents for any other preceding five accounting years when required by the Board.

Submission of Half-yearly Results

Every merchant banker shall furnish to the Board half-yearly unaudited financial results when required by the Board with a view to monitor the capital adequacy of the merchant banker.

Preservation of Books of Account, Records

The merchant banker shall preserve the books of accounts and other records and documents maintained under regulation 14 for a minimum period of five years.

Report on Steps taken on Auditor's Report

Every merchant banker shall within two months from the date of the auditors' report take steps to rectify the deficiencies, made out in the auditor's report.

Appointment of Lead Merchant Bankers

All issues should be managed by at least one merchant banker functioning as the lead merchant banker. In an issue of offer of rights to the existing members with or without the right of renunciation, the amount of the issue of the body corporate does not exceed rupees fifty lakhs, the appointment of a lead merchant banker shall not be essential. Every lead merchant banker shall before taking up the assignment relating to an issue enter into an agreement with such body corporate setting out their mutual right, liabilities and obligations relating to such issue in particular to disclosures, allotment and refund.

Restriction on Appointment of Lead Managers

The number of lead merchant bankers may not, exceed in case of any issue of the following:

Responsibilities of Lead Managers

No lead manager shall agree to manage or be associated with any issue unless his responsibilities relating to the issue mainly, those of disclosures, allotment and refund are

Size of Issue

Number of Merchant Bankers

Less than Rs. 50 Crores Two

Above Rs. 50 Crores but less than Rs.100 Crores Three

Above Rs. 100 Crores but less than Rs.200 Crores Four

Above Rs.200 Crores but less than Rs.400 Crores Five

Above Rs.400 Crores Five or more as agreed by SEBI clearly defined, allocated and determined and a statement specifying such responsibilities is furnished to the Board at least one month before the opening of the issue for subscription.

Where there are more than one lead merchant bankers to the issue the responsibilities of each of such lead merchant banker shall clearly be demarcated and a statement specifying such responsibilities shall be furnished to the Board at least one month before the opening of the issue for subscription.

Underwriting Obligations

In respect of every issue to be managed, the lead merchant banker holding a certificate under Category I shall accept a minimum underwriting obligation of five per cent of the total underwriting commitment or rupees twenty-five lakhs whichever is less. If the lead merchant banker is unable to accept the minimum underwriting obligation, that lead merchant banker shall make arrangement for having the issue underwritten to that extent by a merchant banker associated with the issue and shall keep the board informed of such arrangement.

Submission of Due Diligence Certificate

The lead merchant bankers, who is responsible for verification of the contents of a prospectus or the Letter of Offer in respect of an issue and the reasonableness of the views expressed therein, shall submit to the Board at least two weeks prior to the opening of the issue for subscription, a due diligence certificate in Form C.

Payment of fees to the Board

The draft prospectus or draft letter of offer referred to in regulation 24 shall be submitted along with such fees and in such manner as may be specified in Schedule IV.

Continuance of Association of Lead Manager

The lead manager undertaking the responsibility for refunds or allotment of securities in respect of any issue shall continue to be associated with the issues till the subscriber have received the share or debenture certificates or refund of excess application money. Where a person other than the lead manager is entrusted with the refund or allot of securities in respect of any issue the lead manager shall continue to be responsible for ensuring that such other person discharges the requisite responsibilities in accordance with the provisions of the Companies Act and the listing agreement entered into but the body corporate with the stock Exchange.

Acquisition of shares Prohibited

No merchant banker or any of its directors, partner manager or principal shall either on their respective accounts or through their associates or relative enter into transaction in securities of bodies corporate on the basis of unpublished price sensitive information obtained by them during the course of any professional assignment either from the clients or otherwise.

Information to the Board

Every merchant banker shall submit to the Board complete particulars of any transaction for acquisition of securities of anybody corporate whose issue is being managed by that merchant banker within fifteen days from the date of entering into such transaction.

- **Fees**

Every merchant banker shall pay a sum of Rupees five lacs as registration fees at the time of the grant of certificate by the Board. The fee shall be paid by the merchant a banker within fifteen days from the date of receipt of the intimation from the Board under sub regulation

(1) of regulation 8. A merchant banker to keep registration in force shall pay renewal fee of Rs.2.5 lacs every three years from the fourth year from the date of initial registration. The fee shall be paid by the merchant banker within fifteen days from the date of receipt of intimation from the Board under sub-regulation (3) of regulation 9.

The fees specified shall be payable by merchant banker by a demand draft in favour of securities and Exchange Board of India⁴ payable at Mumbai or at the respective regional office.

Every Merchant banker shall pay registration fees as set out below:

1. Category I merchant banker; A sum of Rs. 2.5 lakhs to be paid annually for the first two years commencing from the date of initial registration and thereafter for the third year a sum of Rs. 1 lakh to keep his registration in force.
2. Category II merchant banker; A sum of Rs. 1.5 lakhs to be paid annually for the first two years commencing from the date of initial registration and thereafter for the third year a sum of Rs. 50,000 to keep his registration in force.
3. Category III merchant bankers ; A sum of Rs.1 lakh to be paid annually for the first two years commencing from the date of initial registration and thereafter for the third year a sum of Rs.25,000 to keep his registration in force.
4. Category IV merchant bankers ; A sum of Rs.5,000/- to be paid annually for the first two years commencing from the date of initial registration and thereafter for the third year a sum of Rs.1000/- to keep his registration in force.

- **Renewal Fees:**

1. Category I merchant bankers : A sum of Rs.1 lakh to be paid annually for the first two years commencing from the date of each renewal and thereafter for the third year a sum of Rs.20,000/- to keep his registration in force;

2. Category II merchant bankers : A sum of Rs.75,000/- to be paid annually for the first two years commencing from the date of each renewal and thereafter for the third year a sum of Rs.10,000/- to keep his registration in force ;

3. Category III merchant bankers : A sum of s.50,000/ to be paid annually for the first two years commencing from the date of each renewal and thereafter for the third year a sum of Rs.5,000/- to keep his registration in force ;

4. Category IV merchant bankers : A sum of Rs.5,000/- to be paid annually for the first two years commencing from the date of each renewal and thereafter for the third year a sum of Rs.2,500/- to keep his registration in force ;

▪ **CODE OF CONDUCT FOR MERCHANT BANKERS**

The SEBI regulations have outlined the following code of conduct for the merchant bankers operation in India;

- A merchant banker shall make all efforts to protect the interests of investors.
- A Merchant Banker shall maintain high standards of integrity, dignity and fairness in the conduct of its business.
- A Merchant Banker shall fulfil its obligations in a prompt, ethical, and professional manner.
- A Merchant Banker shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
- A Merchant Banker shall Endeavour to ensure that enquiries from the investors are adequately dealt with, grievances of investors are redressed in a timely and appropriate manner, where a complaint is not remedied promptly, the investor is advised of any further steps which may be available to the investor under the regulatory system.
- A Merchant Banker shall ensure that adequate disclosures are made to the investors in a timely manner in accordance with the applicable regulations and guidelines so as to enable them to make a balanced and informed decision.
- A Merchant Banker shall endeavour to ensure that the investors are provided with true and adequate information without making any misleading or exaggerated claims or any

misrepresentation and are made aware of the attendant risks before taking any investment decision.

- A Merchant Banker shall endeavour 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 of the offer.
- A Merchant Banker shall not make any statement, either oral or written, which would misrepresent the services that the Merchant Banker is capable of performing for any client or has rendered to any client.
- A Merchant Banker shall put in place a mechanism to resolve any conflict of interest situation that may arise in the conduct of its business or where any conflict of interest arises, shall take reasonable steps to resolve the same in an equitable manner.
- Merchant Banker shall make appropriate disclosure to the client of its possible source or potential areas of conflict of duties and interest while acting as Merchant Banker which would impair its ability to render fair, objective and unbiased services.
- A Merchant Banker shall always endeavour to render the best possible advice to the clients having regard to their needs.
- A Merchant Banker shall have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its clients, investors and other registered entities from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.
- A Merchant Banker shall not make untrue statement or suppress any material fact in any documents, reports or information furnished to the Board.
- A Merchant Bankers shall maintain an appropriate level of knowledge and competence and abide by the provisions of the Act, regulations made there under, circulars and guidance, which may be applicable and relevant to the activities carried on by it. The merchant banker shall also comply with the award of the Ombudsman passed under Securities and Exchange Board of India (Ombudsman) Regulations, 2003.

- A Merchant Banker shall ensure that the Board is promptly informed about any action, legal proceedings etc., initiated against it in respect of material breach or non-compliance by it, of any law, rules, regulations, directions of the Board or of any other regulatory body.
- A Merchant Banker or any of its employers shall not render, directly or indirectly, any investment advice about any security in any publicly accessible media, whether real-time, unless a disclosure of his interest including a long or short position, in the said security has been made, while rendering such advice.
- A Merchant Banker shall demarcate the responsibilities of the various intermediaries appointed by it clearly so as to avoid any conflict or confusion in their job description.
- A Merchant Banker shall provide adequate freedom and powers to its compliance officer for the effective discharge of the compliance officer's duties.
- A Merchant Banker shall develop its own internal code of conduct for governing its internal operations and laying down its standards of appropriate conduct for its employees and officers in carrying out their duties. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance or resolution of conflict of interests, disclosure of shareholdings and interests etc.
- A Merchant Banker shall ensure that good corporate policies and corporate governance are in place.
- A Merchant Banker shall ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act in the capacity so employed or appointed
- A Merchant Banker shall ensure that the senior management, particularly decision makers have access to all relevant information about the business on a timely basis.
- A Merchant Banker shall not be a party to or instrumental for creation of false market; price rigging or manipulation; or passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person or intermediary in the securities market.

4. Services Provided by Merchant Banks

Below mentioned are the major services offered by Merchant Bankers;

- Project Counselling
- Management of debt and equity offerings
- Issue Management
- Managers, Consultants or Advisers to the Issue
- Underwriting of Public Issue
- Portfolio Management
- Restructuring strategies
- Off Shore Finance
- Non-resident Investment
- Loan Syndication
- Corporate Counselling and advisory services
- Placement and distribution

1) Project Counselling

Project counselling comprises preparation of project reports, deciding upon the financing pattern to finance the cost of the project and appraising the project report with the financial institutions and banks. It also includes filling up of application forms with significant information for obtaining funds from financial institutions and obtaining government approval.

2) Management of Debt and Equity offerings

This is the major function of the merchant banker. They assist the companies in raise funds from the market. The main areas of work in this regard include;

- Instrument designing
- Pricing the issue
- Registration of the offer document
- Underwriting support
- Marketing of the issue

- Allotment and refund
- Listing on stock exchanges.

3) Issue Management

Management of issue involves marketing of corporate securities like equity shares, preference shares and debentures or bonds by offering them to public. Merchant banks act as an intermediary to transfer capital from those who own it to those who need it. After taking action as per SEBI guidelines, the merchant banker organizes a meeting with company representatives and advertising agents to finalize arrangements relating to date of opening and closing of issue, registration of prospectus, launching publicity campaign and fixing date of board meeting to approve and sign prospectus and pass the necessary resolutions. Pricing of issues is done by the companies in consultant with the merchant bankers.

4) Design of Capital Structure

Capital Structure of a firm has to be distinguished from financial structure. Capital structure is financed by long term sources which consist of debt and equity. On the other hand, a financial structure which includes all forms debt and equity covers all financial resources. These include short term as well as long-term sources.

5) Managers, Consultants or Advisers to the Issue

The managers to the issue assist in the drafting of prospectus, application forms and completion of formalities under the Companies Act, appointment of Registrar for dealing with share applications and transfer and listing of shares of the company on the stock exchange. Companies can appoint one or more agencies as managers to the issue.

6) Underwriting of Public Issue

Underwriting is a guarantee given by the underwriter that in the occurrence of under subscription, the amount underwritten would be subscribed by him. Banks/Merchant banking institutions cannot underwrite more than 15% of any issue.

7) Portfolio Management

Portfolio indicates investment in different types of securities such as shares, debentures or bonds issued by different companies. Portfolio management means maintaining proper combinations of securities in a mode that they give maximum return with minimum risk.

8) Restructuring Strategies

A merger is a blending of two companies into a single company where one survives and other loses its corporate existence. A takeover is the purchase by one company obtaining controlling interest in the share capital of another existing company. Merchant bankers act as the middlemen in setting negotiation between the two companies. Merchant bankers assist the management of the client company to successfully restructure various activities such as mergers and acquisitions, divestitures, management buyouts, joint venture among others.

9) Off Shore Finance

The merchant bankers help their clients in the following areas involving foreign currency.

- Long term foreign currency loans
- Joint Ventures abroad
- Financing exports and imports
- Foreign collaboration arrangements

10) Non-Resident Investment

The services of merchant banker includes investment advisory services to NRI in terms of classification of investment opportunities, selection of securities, investment management, and operational services like purchase and sale of securities.

11) Loan Syndication

Loan syndication is an assistance provided by merchant bankers to get mainly term loans for projects. Such loans may be obtained from a single development finance institution or a syndicate or consortium. Merchant bankers help corporate clients to raise syndicated loans from banks and other financial institutions.

12) Corporate Counselling and Advisory Services

Corporate counselling involves the entire field of merchant banking activities such as project counselling, capital restructuring, public issue management, loan syndication, working capital, fixed deposit, lease financing acceptance credit, etc. Merchant bankers also provide customized solutions to their client's financial problems. Apart from this they also explore the refinancing alternatives of the client, and evaluate cheaper sources of funds. Rehabilitation and turnaround management is another area of advice. A merchant banker advises the client on different hedging strategies and suggests the appropriate strategy.

13) Placement and Distribution

The merchant banker helps in distributing different securities like equity shares, debt instruments, mutual fund products, fixed deposits, insurance products, commercial paper, etc. The distribution network of the merchant banker can be classified as institutional and retail in character. The institutional network consists of mutual funds, foreign institutional investors, private equity funds, pension funds, financial institutions etc. The size of such a network signifies the wholesale reach of the merchant banker. The retail network is purely depends on networking with investors.

5. Developments in Merchant Banking

The recent developments in Merchant banking are due to certain contributory factors in India. They are

- The Merchant Banking was at its best during 1985-1992 being when there were many new issues. It is expected that in upcoming financial years 2012-13 and in future is going to be party time for merchant banks, as many new issue are coming up.
- The foreign investors – both in the form of portfolio investment and through foreign direct investments are venturing in Indian Economy. It is increasing the scope of merchant bankers in many ways.
- Disinvestment in the government sector in the country gives a big scope to the merchant banks to function as consultants.
- New financial instruments are introduced in the market time and again. This basically provides more and more opportunity to the merchant banks.
- The mergers and corporate restructuring along with MOU and MOA are giving immense opportunity to the merchant bankers for consultancy jobs.

▪ Development in Merchant Banking Establishment in India

1) Setting up of banks subsidiaries = In order to meet the growing demand for broad-based financial services from the corporate sector more effectively, the merchant banking division of the nationalise banks have started forming independent subsidiaries. These subsidiaries offer more specialised services with professional expertise and skills. SBI capital market was incorporated as the first such subsidiaries of SBI on 2nd July, 1986. Then CAN BANK financial services Ltd. was set up as wholly owned subsidiary of Canara Bank in 1987. PNB Capital Market was promoted by PNB during mid-1988. Many more subsidiaries are being set up by another nationalise banks.

2) Recognition of Private firms = Expecting tough competition from growing number of merchant banking subsidiary of nationalised banks, private merchant banks have also started reorganising their activities e.g., J.M. Financial & Investment Consultancy Ltd., 20th Century finance corporation ltd., LKP Merchant Financing Ltd. Are some of the private sector firms of merchant bankers who have taken step to recognise their activities.

3) Establishment of SUA = In order to educate and protect the interest of investor, to provide information about new issues of capital market, to evolve a code conduct for underwriters & to render legal & other services to member & public, the STOCKBROKER UNDERWRITER ASSOCIATION (SUA) was established in 1984.

4) Discount & Finance House of India = DHFI was incorporated as a company act 1956 with an authorised & paid up capital of Rs.100 Crore. Out of this Rs. 51 Crores has been contributed by RBI, Rs. 16 crores by financial institutions & 33 crores by public sector banks. It would also have line of credit from public sector banks, refinance facility from the RBI in order to meet the working capital requirement. DFHI aims at providing liquidity in money market as it deals mainly in commercial bills.

5) Credit Rating Information Services of India Ltd. (CRISIL) = CRISIL has been set up in 1987 to provide help to investors, merchant bankers, underwriters, brokers, banks, & financial institutions etc. CRISIL rates various types of instruments such as debt, Equity, & fixed return security offered to public. It helps the investor in taking investment decisions.

6) Stock-Holding Corporation of India ltd. (SHC) = SHC was set up in 1986 by all Indian financial institutions to take care of Safe custody, delivery of shares & collection of sale proceed of the securities. The Setting up of SHC is bound to affect the capital market in future.

▪ **The Challenges Faced by Merchant Bankers in India are:-**

1. SEBI guideline has restricted their operations to Issue Management and Portfolio Management to some extent. So, the scope of work is limited.

2. In efficiency of the clients are often blamed on to the merchant banks, so they are into trouble without any fault of their own.

3. The net worth requirement is very high in categories I and II specially, so many professionally experienced person/ organizations cannot come into the picture.

4. Poor New issues market in India is drying up the business of the merchant bankers. Thus the merchant bankers are those financial intermediary involved with the activity of transferring capital funds to those borrowers who are interested in borrowing.

The activities of the merchant banking in India is very vast in the nature of

- The management of the customers securities
- The management of the portfolio
- The management of projects and counselling as well as appraisal
- The management of underwriting of shares and debentures
- The circumvention of the syndication of loans
- Management of the interest and dividend etc.

▪ **Problems of Merchant Bankers**

- 1) As per SEBI guidelines Merchant Bankers are authorized to undertake only issue related activities, which restrict their scope of activities.
- 2) Issuing companies do not adhere to the schedule in allotment and refund of application money thereby creating trouble for the image of these bankers at the investors.
- 3) Yet merchant banking is vast but should develop adequate expertise to provide a full range of merchant banking services.
- 4) SEBI stipulates high capital adequacy norms for authorisation which prevents young, specialised professionals into merchant banking business
- 5) Non co-operation of the issuing companies in timely allotment of securities and refund of application of money etc. is another problem.

Minimum net Worth of Rs. 1 Crore = SEBI guidelines stipulates that a maximum net worth of Rs. 1 Crore for authorization of merchant bankers.

Non co-operation of issuing companies = Non co-operation of the issuing companies in timely allotment of securities and refund of application money is another problem faced by merchant bankers.

Merchant Banker's Commission

- 1) Maximum :-0 0.5%
- 2) Project appraisal fees
- 3) Lead Manager :-
 - 0.5% up to Rs. 25 crores
 - 0.25 more in excess of Rs. 25 crores
- 4) Underwriting fee
- 5) Brokerage Commission :- 1.5%
- 6) Other expense :-
 - Advertising
 - Printing
 - Registrar's expenses
 - Stamp duty

6. Future of Merchant Banking in India

Investment banking India has always been very crucial for the smooth flow of market transactions between various investors, companies, firms and the government. These banks will have a role to play even in the future, irrespective of the economic conditions in the country.

- **Role of Merchant Banking Companies in India**

Investment banking companies generally help their clients to access capital through equity, debt and other kinds of investment products. These firms also trade in equities and derivative products and also help companies with merger and acquisition deals. About a couple of years back, when the world economy was reeling under a recession, many investment banking firms either collapsed or were on the brink of closure. Even a few firms in India were affected by this global downturn. This led to many skeptics writing off the revival of these firms.

- **What is in the store for the Future?**

The economic downturn revealed that only the strong can swim against the tide and still remain afloat. Those skeptical must realize that the market has its own upheavals and downturns. When you look at the financial strength of these companies, you just cannot ignore them. No wonder, most of these firms bounced back once again. However, the future of Investment banking companies in India looks good, even though we may see new investment guidelines.

- **Expected Investment Guidelines**

Considering what is happening after the economic crash in the United States, even our policy makers may be tempted to bring in some stringent guidelines for investment banking services in India. This may be done with a view to ensure better risk management. Another option which the law makers may think of is tinkering with the claw back option. This will certainly protect the investment companies against fraudulent and unethical traders and companies who might trigger a market crash, thereby causing huge losses. This provision will ensure recovery of their profits. Lastly, banks may be advised to go slow on short term funding in order to reduce mismatch between assets and liabilities.

- **Future Prospects of Merchant Banking in India**

As planning and industrial policy of the country envisaged the setting up of new industries and technology, greater financial sophistication and financial services are required. There is a well proven link between economic growth and financial technology. Economic development requires specialist financial skills: Savings banks to marshal individual savings; finance companies for consumer lending and mortgage finance; insurance companies for life and property cover; agriculture banks for rural development; and a range of sophisticated government or government sponsored institutions. As new units have been set up & business is expanding, they require additional financial services. A public equity or debt issue is the logical source of fund in this situation & merchant banks can tap this opportunity of growth.

Merchant bankers play a very important role in supporting the entrepreneurs

- 1) **Growth of Primary Market** = If the primary market grows and number of issues increases, the scope for merchant banking will be enhanced.
- 2) **Entry of Foreign Investors** = Now Indian capital market directly taps foreign capital euro issues. FDI increased in capital market. So merchant bankers are needed to advise them for their investment in India. The increase number of joint ventures also requires expert services of merchant bankers. If more and more NRIs participate in capital market, there will be great demand for merchant banker services.
- 3) **Changing Policy of Financial Institutions** = Now the lending policies of financial institutions are based on project orientation, so the merchant banker services will be needed by corporate enterprise to provide expert guidance.
- 4) **Development of Debt Market** = If the debt market is enhanced, there will be tremendous scope for merchant bankers. Now the NSE and OTCEI are planned to raise fund through debt instruments.
- 5) **Corporate Restructuring** = Due to liberalization and globalization, the companies are facing lot of competition. In order to compete, they have to go restructuring, merger, acquisitions, or disinvestments. This may offer good opportunity to merchant bankers.

- **The Scope could be Extended to:-**

- 1) Advising the company on designing of its capital structure.
- 2) Advising the company on the instrument to be offered to the public.
- 3) Pricing of the instrument
- 4) Advising the company on legal/ regulatory matters and interaction with SEBI/ ROC/ Stock.
- 5) Exchanges and other regulatory authorities.
- 6) Assisting the company in marketing the issue.
- 7) In channelizing the financial surplus of the general public into productive investment avenues.
- 8) To coordinate the activities of various intermediaries to the shares issue such as the registrar, bankers, advertising agency, printers underwriters, brokers etc.
- 9) To ensure the compliance with rules and regulations governing the securities market.

- **The Factors on which Growth of Merchant Banking Depends:**

- 1) Planning and industrial policy of the country.
- 2) Prevailing Economy condition of the country.
- 3) Regulatory system of the market and economy prevailing in India.
- 4) Confidence of the people, traders, buyers, marketers, business houses, financial institutions etc.
- 5) The economic environment of the outside world.
- 6) Competition among the existing players and upcoming entrants.

7. Association of Investment Bankers in India(AIBI)

<http://www.ambi.org.in/default.asp>

AIBI was granted recognition by SEBI to set up professional standards for providing efficient services and establish standard practices in investment banking and financial services. AIBI was promoted to exercise overall supervision over its members in the matters of compliance with statutory rules and regulations pertaining to investment banking and other activities. AIBI in consultation with SEBI is working towards improving disclosures standards in the offer document as well as meeting the statutory requirement in a systematic manner.

The organized conduct of any mutually set up organization rests on self-regulation which reflects standards to be imbibed by its members. Standards essentially evolve from within the membership of the organization and more importantly, from the distinctiveness which characterizes the set-up.

The activities of merchant banking have vital bearing on the quality and tenor of the capital market. During the last decade, merchant banking as a distinct activity has come into sharp focus from all the players in the capital market; not excluding the regulatory authority – SEBI. AMBI considers it its obligation and responsibility to formulate a Code of Conduct for voluntary adoption by its member/associate merchant bankers. This Code of Conduct has been prepared with the intention of regulating the activity of merchant banking by setting forth ethical standards based on integrity, discipline and probity in an evolving and ever changing economic environment. It is hoped that this Code will serve as a general guide light to merchant bankers whilst carrying out their day-to-day business. Its observance will pave the way towards making merchant banking dignified and respected.

▪ CODE OF CONDUCT

1. REGULATORY/STATUTORY COMPLIANCE:-

The Members/Associates of AMBI are custodians of confidence and a bridge between investors and investees. The role includes reporting obligations which have in essence a legal requirement for meeting certain specific objectives. Accordingly, various Government agencies on the local, state and federal level may require the filing of numerous records and reports which are designed to safeguard public interest. Members/Associates of AMBI are

expected to adhere to the Code of Conduct, regulations, guidelines, clarifications, rules, circulars and press releases issued by SEBI from time to time

2. CONFIDENTIALITY:-

Members/Associates may obtain financial and other “price sensitive” information, information about their client and/or competitors. The success of a Merchant Banker depends on the confidence of the client that its Merchant Banker would maintain confidentiality of the information obtained by it and the assurance that it would be utilized by the Merchant Banker in a proper manner. It goes with assurance that such information shall never be used for gain.

The Member/Associate shall:

- (a) Request its clients, other members and others for only such information as may be statutorily required or such information, as may be properly considered as necessary for rendering professional service as a Merchant Banker.
- (b) Restrict the use of the information, knowledge, secrets only for the purpose of discharging its functions as Merchant Banker.
- (c) Ensure that access to the information about the client and/or its competitors is accessed only by authorized employees/representatives of the Merchant Bankers.
- (d) Ensure that the files contained only pertinent data used for advising the client.
- (e) Ensure that access to all sensitive or privileged information is denied to others unless for good cause and/or reason and in discharge of their duties.

3. ACCURATE RECORDS, REPORTING AND FINANCIAL RECORD KEEPING:-

Merchant Bankers are required by law to maintain financial and other records that will accurately present its activities and transactions. All supporting documents, including agreements, invoices, cheque requests and expense reports, are likewise required to fairly and accurately reflect the information contained therein.

No false or misleading entries should be made in any books or records of the Members/Associates for any reason; either in its accounts or in accounts maintained for and on behalf of clients and no fund, asset or account of the company should be established for any purpose unless it is accurately and fairly recorded in the books and records of the company. All errors and adjustments should be promptly corrected and recorded when discovered.

4. CONFLICT OF INTEREST:-

Members/Associates shall always endeavour to avoid conflict of interest in performance of its service as a Merchant Banker. Conflict of interest may be actual or apparent. All situations which lead to a conflict of interest should be avoided. This would apply in relation to other Members/Associates, clients, employees, group companies and dealings with other regulatory authorities

5. COMMUNICATION:-

Members/Associates are required to communicate with the Regulatory Authority, Government departments and Agencies, Public etc. The Member/Associates shall communicate accurately in a manner which would ensure that the communication is truthful and accurate. All communication by a member to the investor at the instance of a client or based on information available with the client, should be made only if the member is fully aware of the facts and contents of the matter. Members/Associate would acknowledge the fact that they are an important link between the listed companies and the investment public.

6. PUBLIC DISCLOSURE AND REPORTING:-

Reporting of financial information to the investing stockholders, the SEBI and the financial institutions requires the highest standard of fairness and honesty. Much harm can be caused due to incorrect or fraudulent or misleading reporting. All advice which suppresses or does not wholly disclose the material nature of a transaction should be avoided as being prohibited.

7. CONTRACTS WITH CLIENTS:-

All agreements with clients shall be in writing and contain detailed scope of services to be rendered by the Members/Associates. The agreement shall include the amount of fees to be charged and the manner of payment thereof. The agreement between the Member/Associate and the client shall be entered into before any service is rendered by the Member/Associate. A Member/Associate before accepting any assignment from the client / prospective client shall obtain information as to whether the client / prospective client has already entered into an MOU / Agreement with any other Merchant Banker in respect of the same assignment and its status thereof.

Member/Associate shall ensure that their clients follow rules, regulations, guidelines etc. Issued by SEBI and other regulatory authorities from time to time. A Merchant Banker shall exercise Due Diligence to ensure fair and true disclosures in the offer document so that the investors are in a position to take well informed investment decisions. Apart from informing SEBI, Members/ Associates shall keep AMBI informed about the non-compliance, if any, concerning such matters as reflect the interaction of the clients with the member. Members/Associates shall also keep AMBI informed about the non-payment of fees etc. by the client as agreed.

8. EXPENSES REIMBURSEMENT:-

It is customary for a client to reimburse its Merchant Banker for all reasonable and necessary expenses actually incurred in the conduct of the client's business.

Members / Associates are expected to incur such expenditure as would normally have been incurred by them in the discharge of their duties. Without making it mandatory in any manner, Members / Associates are encourage to confirm with clients the particulars of expenses they would be incurring including the nature and class of travel, particulars regarding stay and expected duration etc.

9. PROCUREMENT / PURCHASING:-

AMBI may, from time to time, indicate minimum fees for the services to be rendered by members in certain select areas of merchant banking activities, e.g. Lead Managers/Joint Managers/ Co-Managers fees. While indicating such fees, AMBI shall keep in mind the cost expected to be incurred in rendering such services. Similarly all deals for procuring investments, either short, medium or long term should not be structured in a manner as not to be in keeping with the spirit and essence of this code.

10. INSIDE INFORMATION:-

A Merchant Banker will be considered as an "insider" in accordance with the meaning of the term as per the Securities and Exchange Board of India (Insider Trading) Regulations, 1992. A Member/Associate shall not:

- (a) Either on his behalf, or on behalf of any other person, deals in securities of a company listed on any stock exchange on the basis of any unpublished price sensitive information.
- (b) Communicate any unpublished price sensitive information to any person except as may be necessary to carry on the business ordinarily on or under any law;
- (c) Give advice, suggestions, recommendations, to any person to deal in securities of any company on the basis of unpublished price sensitive information.

11. TRADE SECRETS:-

During the course of employment, employees may work with innovative derivatives or other tools for financial management. They may also learn valuable information and gather materials relating to the business of the Member / Associate that are not otherwise known or available outside. This information and materials are of great importance in the present day highly competitive business; and to retain their value they must be kept confidential.

12. COMPLIANCE RESPONSIBILITY:-

Every Member/Associate is expected to be responsible for the conduct of its employees and will be reasonable for his or her compliance with this Code of Conduct. If there be any questions of interpretation they should be directed to AMBI.

13. POWER OF AMBI TO CALL FOR CERTAIN INFORMATION:-

AMBI may call for such information from members as it may feel necessary or appropriate.

14. QUALITY PERFORMANCE:-

It should be the objective of every Member/Associate, to encourage and develop high-quality performance and excellence in all aspect of operations and fostering of those characteristics in their employee.

15. CODE OF CONDUCT VIOLATIONS:-

AMBI expects every Member/Associate to assist in upholding the high traditions of the profession. AMBI may investigate the cases of violation of the Code of Conduct by its Members/Associates and may take such action against the Member/Associate as it may deem fit. The decision of AMBI Board in this regard shall be final.

9. Analysis of Merchant Banks in India

CANARA BANK

▪ AN INTRODUCTION :

Canara Bank is also one of the leading "Merchant Bankers" in India, offering specialized services to Banks, PSUs, State owned Corporations, Local Statutory bodies and Corporate sector. Company is SEBI registered Category I Merchant Banker to render Issue Management (Public / Rights / Private Placement Issues), Underwriting, Consultancy and Corporate Advisory Services etc. Company also hold SEBI Certificate to act as "Bankers to an Issue" with network of exclusive Capital Market Service Branches and designated CBS Branches to handle collecting / Refund / Paying Banker assignments. Company also undertake "project appraisals" with linkage to resource raising plans from Capital Market/ Debt Markets and facilitate tie-ups with Banks / Financial Institutions and Potential Investors. Company's uniqueness is extending services through single window concept covering the following areas:

1. **Merchant Banking**
2. **Commercial Banking**
3. **Investments**
4. **Bankers to Issue - Escrow Bankers**
5. **Underwriting**
6. **Loan Syndication**

As leading Merchant Bankers in India, we have associated with issues involving various types of industries, banks, statutory Bodies etc. and have an edge in handling Private Placement issues – both retail & HNIs.

▪ SPECTRUM OF SERVICES:

- Equity Issue (Public/Rights) Management
- Debt Issue Management
- Private Placements
- Project Appraisals

- Monitoring Agency Assignments
- IPO Funding
- Security Trustee Services
- Agriculture Consultancy Services
- Corporate Advisory Services
- Mergers and Acquisitions
- Buy Back Assignments
- Share Valuations
- Syndication
- ESOS Certification

- **ISSUE MANAGEMENT SERVICES :**

- Project Appraisal
- Capital structuring
- Preparation of offer document
- Tie Ups (placement)
- Formalities with SEBI / Stock Exchange / ROC etc.,
- Underwriting
- Promotion /Marketing of Issues
- Collecting Banker / Banker to an issue
- Post Issue Management
- Refund Bankers
- Debenture Trusteeship
- Registrar & Transfer Agency (our Subsidiary)

Canara bank constantly update the list of Potential Investors - Institutions, Provident, Pension & Gratuity Funds, High Net Worth Individuals and others and continuously assess their investment appetite and help issuers in effective marketing of the products.

- **A S B A [Applications Supported by Blocked Amount]**

Applications Supported by Blocked Amount [ASBA] is an initiative by SEBI to make the process of Subscription to Capital Issues (Primary) more efficient. Under this system, the

application money will remain in the account of the customer, earning interest till the basis of allotment of shares is completed.

Company have provided this facility to our CASA account holders intending to invest in capital issues. (both public and right issues). A hold is created in the account of the customer to the extent of shares applied for and the same is released after the finalization of Basis of Allotment. The blocked amount is transferred to the issuer company to match the quantum of shares allotted.

The following are the requirement for applying through the ASBA process by the Account holder:

- Account holder / Investor should be from the approved category eligible to apply as per SEBI guidelines.
- Should have a Savings or Current account with us.
- Should have a Demat Account with a Depository Participant.
- Should have a Permanent Account Number (PAN).
- Availability of sufficient balance in the account for creating a hold in the account to the extent of application money required/mentioned in the ASBA application.

The following options are available to the ASBA investor:

- A maximum of 5 applications can be submitted from a single account
 - ASBA Application can be submitted at any of our 152 Designated Branches.
 - Option available to the investor to revise the bid/delete the bid within the bidding period.
 - ASBA facility extended through IMB for our retail IMB clients.
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SBI CAPITAL MARKETS LIMITED

SBI CAPITAL MARKETS LIMITED (SBICAPS) is India's leading investment bank and project advisor, assisting domestic companies fund-mobilisation efforts for last many years.

Foreseeing the changing needs of clients in a rapidly opening economy, over the years, we have evolved an array of advisory services in almost all sectors of the economy. Company is known for professionalism and business ethics and provide a full range of Investment, Advisory and Financial Services under one umbrella. A pioneer in privatisation in India, Company have established ourselves as a leader in providing financial and advisory services in the core sector and infrastructure industries.

Company began operations in August 1986 as a wholly owned subsidiary of State Bank of India, which is the largest commercial bank in India. In January 1997, fresh equity shares were issued to Asian Development Bank (ADB) and ADB held 13.84% stake in the equity of SBICAPS.

The ADB's stake has been purchased by State Bank of India in March 2010. **SBICAPS is again a 'wholly owned subsidiary' of State Bank of India.**

Company's Mission - To provide Credible, Professional and Customer Focused world-class investment banking services.

Company's Vision - To be the best India based Investment Bank.

- **Project Advisory & Structured Finance**

SBI CAP has built a formidable presence in the area of Project Finance Advisory and Funds Syndication with several prestigious mandates in almost every sector of the industry to its credit.

Company's Product Portfolio Includes:

- Project Appraisal
- Structured Finance and Syndication
- Infrastructure Project Advisory
- Securitisation
- Debt & Equity Syndication

Company's Services Include:

- Concept to Commissioning Advisory to Developers in the public and private sector
- Policy Advisory to the Ministries/Departments of the Central and State Governments
- Tariff & Regulations Advisory to Regulatory bodies
- Restructuring & Reorganisation Advisory of Public Sector Utilities
- Corporatisation & Privatisation Advisory to the restructured entities
- Bid & Strategy Advisory to both Private and Public sector clients, for private sector participation in public utilities and infrastructure projects
- Acquisition/Divestment Advisory for infrastructure projects
- Business Valuation of energy infrastructure projects
- Valuation & Joint Venture Advisory of domestic & overseas
- Oil-fields & for Production Sharing Contracts
- Due Diligence and Capital Structuring Advisory for green-field and expansion projects
- Equity Mobilisation for infrastructure projects from Private Equity investors
- Syndication of Long & Short (Interim) Term Debt from domestic and overseas sources, primarily on 'Project Finance/Cash Flow' basis
- Arranging of Working Capital Finance from domestic banks
- Financial Closure Assistance for syndicated project finance debt
- Securitisation & Structured Finance Products, for off-balance sheet and receivables financing
- Facilitation of Corporate & Project Debt Refinancing especially for capitalizing on interest rate movements

- Project Appraisal with a focus on lenders' perspectives for bank-ability verification.
- Investment Appraisal in the nature of an independent review, for new/expansion/renovation & modernization.
- Projects of Navaratna PSUs for capital budgeting & decision making.
- Corporate Debt & Equity Restructuring in the nature of financial viability studies and assistance in restructuring of weak clients of Banks.

Project Advisory and Structured Finance (PA & SF) group is focussed towards providing advisory and fund arranging services across sectors like:

- Aviation
- Cement & Construction
- Energy: Power, Hydrocarbons
- Health Care
- Hotel
- Multiplexes
- Paper
- SEZ
- Shipping
- Steel
- Telecom
- Textile
- Transportation: Roads, Ports, Airport
- Shipping and Mass Transport.
- Urban Infrastructure.

▪ **Capital Markets**

Capital Markets Group handles transactions in the capital markets space across multiple instrument structures. Since inception, Company has been a leading merchant banker of choice, and over the past few years, we have had a significant presence in the areas of book-built transactions, and have also played a role in pioneering new equity-instrument related

solutions. Company has also been in the fore-front of debt transactions through the capital markets, and have been a leading player in structured debt transactions. Our relationships across investor categories such as corporates, banks, domestic and foreign financial Institutions, central and state public sector undertakings, high net-worth individuals and retail individuals have been long-standing and gives us an edge in our product and solution offerings both in the debt and equity space.

Company's experience in managing a vast array of transactions has enabled us to develop and accumulate expertise in this field. New product development is essentially based on assimilation of such expertise and helps us provide holistic solutions specific to our client's needs across various financing options. Company dip into our multiple business and product groups to deliver the most optimal and innovative financial solution.

Our product and solutions bouquet includes:

- Managing Initial Public Offerings and Follow-on Public offerings and Offers-for-Sale
- Managing Rights Offering, be it the traditional or the structured formats
- Qualified Institutional Placements
- Open offers, Buyback and Delisting of securities
- Bulk and Block trades on Exchanges, and off-market transactions (Auction based transactions for GOI divestments)
- Offerings of convertible securities
- Public offering of Corporate structured bonds
- Arranging Private Equity to include growth capital, pre-IPO convertibles, private investments in public equity (PIPES), mezzanine debt and equity, and equity offerings completed as a private placement.
- Private placement of bonds
- Capital restructuring advisory services
- Advisory and arrangement services for products such as AIM Listing, Indian Depository Receipts, ADR/GDR and other off-shore equity or bond listing options

Our services for a transaction typically entail

- Evaluation and understanding of the business to identify critical positioning levers and value drivers

- Due diligence and translation of the business understanding into an Offering Document (Prospectus/ Information Memorandum /Offer Document) - the company's primary marketing tool in the financial marketplace, within the purview of the various domestic and international regulatory and statutory frameworks
- Preparing the client organisation to meet the rigorous demands of public markets
- Obtaining regulatory approvals for the transaction, wherever necessary
- Advice on documentation and agreements for the process
- Liaison with various intermediaries for carrying out the transaction process
- Completion of post-issue formalities including listing and trading, wherever applicable

▪ **M&A and Advisory**

SBICAPS is the leading domestic investment bank offering advisory and "fund raising solutions to corporates" for organic as well as inorganic growth. In case of organic growth, we provide services to raise private equity, foreign currency convertible bonds (FCCBs), rights issue etc. In case of inorganic growth, we advise and assist companies in domestic and cross-border mergers & acquisitions as well as in raising "financing for acquisition".

SBI Capital Markets Limited is the sole Indian member of **M&A INTERNATIONAL**. M&A International Inc. offers the unparalleled resources of over 550 professionals in 47 M&A advisory and investment banking firms operating in 41 countries. Company has closed over 1400 transactions totalling more than USD 85 billion in transaction value in past five years.

The **M & A** product portfolio includes:-

- Mergers & Acquisitions
- Private Equity
- Foreign Currency Convertible Bonds (FCCB)
- Corporate Advisory.

Bank of Boroda Capital Markets Ltd.

Company Profile

BOB Capital Markets Ltd. (BOBCAPS) is a wholly owned subsidiary of **Bank of Baroda**. BOBCAPS is one of the Investment Banking Companies in India and is a SEBI registered Category I Investment Banker. Company is shortly commencing Broking/E-broking Business. BOBCAPS offers the entire spectrum of financial services that includes Initial Public Offerings, Private Placement of Debt, Corporate Restructuring, Business Valuation, Mergers & Acquisitions, Project Appraisal and Loan Syndication. BOBCAPS also undertakes advisory services on Securitisation and Structuring of Debts.

Strengths

- Patronage of Bank of Baroda
- Excellent association with Banks and Financial Institutions
- Good relationship with fellow market intermediaries
- Large client base consisting of blue chip and midcap companies
- Good rapport with regulatory authorities
- Patronage of over 101 years old "Bank of Baroda" having more than 3000 branches across India and 70 branches overseas.
- Excellent rapport with the concerned regulatory authorities.
- Good liaison with Banks and Financial Institutions.
- Strong relationship with fellow Market Intermediaries.
- Strong pool of clients consisting of Blue chip and mid cap companies.
- Experienced & qualified professionals wholly devoted towards their key areas

Philosophy:- Client Servicing through Professionalism, Knowledge honesty and due diligence.

Board of Directors

- Shri. R.K. Bakshi – Chairman
- Shri. T. R. Prashanth Kumar - Managing Director and Chief Executive Officer
- Shri. P. H. Ravi Kumar - Independent Director

- Shri. P. H. Ravi Kumar - Independent Director
- Shri. Raj Kumar Aggarwal - Independent Director
- Shri Pramod Singhvi – Whole Time Director

Financial Services

1) Investment Banking

- IPO / Rights Issue / FPO
- Mergers & Acquisition
- Private Placement of Debt / Equity
- Private Equity Advisory
- Corporate Advisory Services
- Project Appraisal / TEV Studies
- Debt Syndication
- Business Valuation

2) Retail Broking

- Online Trading
- Call n Trade
- Applying IPOs Online
- Applying MFs Online
- Back Office
- Retail Research

3) Institutional Broking

- Institutional Equity Broking Services
- Equity Research
- F & O Dealing and Sales

