DITRECTORATE OF DISTANCE EDUCATION
NALSAR University of Law, Hyderabad

Post-Graduate Diploma in
Financial Services & legislations

MERCHANT BANKING AND INVESTMENT BANKING

MODULE I

MERCHANT BANKING AND ISSUE MANAGEMENT

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MERCHANT BANKING AND ISSUE MANGEMENT

- Merchant Bank is a Financial Institution
- Provides advisory services
- Invests in Businesses
- Generally works with small business organisations
- Helps Companies in raising funds
- It’s an Intermediary registered with SEBI

Factors that accelerated Merchant Banking

- Special assistance required by small enterprises – Counsel on opportunities
- Getting Government approvals for the clients
- Credit syndication - Arranging finances
- Revival of Sick units – coordinating with various agencies

Investment Banker and Merchant Banker

- Investment Banker(IB) services large clients – Merchant Banker(MB)services smaller ones
- IB underwrites large issues – MB provides specialized services

Commercial Bank Vs Merchant Bank

- Commercial Banks collect deposits, provides loans – A MB provides specialized services
- Commercial Banks are regulated by RBI – A MB is regulated by SEBI

Choosing a Merchant Banker

- Good and proven track record
- Good Investor Relations
- Research skills
- Experience in market making
- Net working

Merchant Banking – Developments

- Subsidiary of Banks – exclusively dealing with MB activities
- Private Companies – JM Financials, Keynote
- SEBI – Investor Protection
- CRISIL – Credit Rating Information Services of India Limited
- Stock Holding Corporation – Custodial services of PSU shares

Merchant Bankers services

- IPO – Initial Public offer
- Follow on Public Offer
- Substantial Acquisition of Shares and Takeovers – SEBI (SAST)
- ESOP – Certification
- Acting as a bridge between seller and buyer of Businesses
- Underwriting of issues
- SEBI Intermediary by providing various certification

IPO – Initial Public Offering

- Public Companies get better rating – as more disclosures are made and public scrutiny
- Further issues possible to raise capital – performance and track record helps
- Liquidity of shares as the shares are traded in stock markets
- ESOPs can be granted to allow talent retention

IPO – Process – in brief

- Select a Merchant Bank or Investment Banker
- Due Diligence and filings
- Prospectus – primary document provides all information
- Valuation
- Marketing – Road shows to create awareness
- Book building – to determine the price of the share which majority shareholders prefer to pay
- Have the shares allotted
- Listing – Have the shares listed to create market place to buy and sell shares

Follow on Public Offer

- Offer of shares - post IPO by a Company is Follow –on Public offer
- Dilutive (issue of new shares by the Company)- Non -Dilutive offer (Offer of sale by Promoters)

Underwriting

- A Commitment to take the shares at a specific price which are unsubscribed to by public
- Underwriting Agreement – between the Merchant Banker and the issuer Company
- One or more Underwriters depending on the issue size – Syndicate
- To ensure minimum subscription is achieved – 90% of the issue – Underwriting is needed
- Else the entire amount received under the issue has to be returned by the Company
- Underwriter typically gets a commission
- Now it is not mandatory to have an underwriter
- Advantages of Underwriting - Confidence of public would increase - issue would be successful
- Bigger Underwriters – prestigious for the company – generates positive feel

Private Placement and its advantages

- Securities are offered to selected few
- Such selected few are generally accredited – Institutions or High Networth Individuals
- Funds are used for expansion of facilities, Repayment of debt, Acquisitions
- Lesser compliances and regulatory requirements
- Fixed coupon rate – at higher rate
- Lesser timelines for execution
- Sell to few accredited investors
- Long term – Repayment over a longer tenure – more time to pay back
- Privacy and control
- Offer to a maximum of 200 people – excluding Qualified Institutional buyers

Process to be followed for Private Placement

- Identify the persons to whom the invitation to participate shall be sent
- Prepare the offer document with all the details
- Have the Special Resolution for the issue approved by Members
- Board meeting convened and allotment done
- Issue of certificates and file necessary forms with the Registrar of Companies

Qualified Institutional Placemen (QIP)

- This is also a type of Private Placement but made to Institutions i.e., Mutual funds, Banks, Financial Institutions, Venture capital funds, Foreign institutional inestors
- Almost all advantages of Private placement is applicable to QIP
- QIP must be listed on Stock Exchange having nationwide terminal
- Minimum 2 Allottees if the issue size is upto Rs 250 crore and 5 in case above Rs. 250 crore

Primary and Secondary Market ntermediaries and their role

- Merchant Bankers
- Underwriters
- Bankers to an issue
- Debenture trustees
- Registrars to an issue and Share transfer agents
- Stock Brokers and Sub-Brokers

Intermediaries and their role

- Registration with SEBI is mandatory – SEBI issues a registration certificate
- Enter into agreement with the issuer
- Merchant Banker to comply with capital adequacy norms (Rs. 1.00 crore net worth),
- Conduct due diligence of the issuer
- Code of Conduct
- Debenture Trustees to monitor the issuer – protect the interest of the investors ,calling for reports from the company periodically, ensure timely payment or redemption, monitor adequacy of asset cover, take possession of the property charged in case of need, inform SEBI immediately in case of any breach.
- Registrars to an issue and share Transfer Agent – Primarily maintain records of investors and provide related services

Listing of Securities

- Admission of securities of a Company in Stock Exchanges for trading in the securities
- Provides Marketability and liquidity to shares
- Price is determined through demand for and supply of securities

Types of Listing

- Initial Listing – First time listing of new shares (IPO shares)
- Rights issue (given to existing shareholders
- Bonus Issue listing (issued free of cost to existing shareholders – capitalizing the reserves)
- Listing of shares issued pursuant to Merger/Amalgamation
- Obligations on the part of the issuer to disseminate information as prescribed in LODR
- Comply with LODR Regulations