

MERCHANT BANKING

HYDERABAD

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MERCHANT BANKING

ABHINAV KUMAR K P



Agenda

- Merchant Banking
- Key Functions
- Role in Financial System and Economy
- SEBI Regulations
- Commercial Bank vs Merchant Bank
- Factors for selection of Merchant Banker



Merchant Bankers

Merchant Bankers

- Merchant banking is a specialized form of financial services provided by banks and financial institutions to corporations, governments, and high-net-worth individuals.
- Merchant bank is a firm or financial institution that invests equity capital directly in businesses and often provides those businesses with advisory services.
- A merchant bank offers the same services as an investment bank, but serves smaller clients and makes direct equity investments in them.
- Merchant banks mainly work with small-scale enterprises that are unable to raise funds through an initial public offering (IPO) by providing mezzanine financing, bridge financing, equity financing, and corporate credit products.

Merchant Bankers

Key points for evolution of Merchant Bankers in India are:

- Globalisation
- Increased competition
- Regulatory reforms
- Growth trajectory of the economy
- Professional support

Key Functions

Key Functions

Corporate Finance:

- Merchant banks assist corporations in raising capital for various purposes, such as expansion, mergers and acquisitions, restructuring, and project financing.
- They may help companies issue equity or debt securities in the capital markets through initial public offerings (IPOs), private placements, or debt syndication.

Underwriting:

- Merchant banks often act as underwriters for securities offerings, assuming the risk of purchasing securities from issuers and reselling them to investors.
- This underwriting process helps companies raise capital by guaranteeing the sale of securities at a predetermined price.

Key functions..

Mergers and Acquisitions (M&A):

- Merchant banks provide advisory services to companies involved in mergers, acquisitions, divestitures, and other strategic transactions.
- They assist clients in identifying potential targets or buyers, conducting due diligence, structuring deals, and negotiating terms to maximize value and mitigate risks.

Financial Advisory:

- Merchant banks offer financial advisory services to clients on a wide range of matters, including capital structure optimization, corporate restructuring, valuation, strategic planning, and risk management.
- They provide expert advice and guidance to help clients make informed decisions and achieve their financial objectives.

Key functions..

Private Equity and Venture Capital:

- Some merchant banks invest directly in private companies through private equity or venture capital funds, providing growth capital, management expertise, and strategic support to help businesses expand and succeed.
- They may also facilitate fundraising for private equity and venture capital funds from institutional investors and high-net-worth individuals.

Loan Syndication:

- Merchant banks arrange syndicated loans for corporations, governments, and other entities by pooling together funds from multiple lenders to finance large-scale projects or acquisitions.
- They act as intermediaries between borrowers and lenders, structuring loan agreements, negotiating terms, and coordinating the syndication process.

Key functions..

Securities Trading and Market Making:

- Merchant banks engage in securities trading activities, buying and selling financial instruments such as stocks, bonds, derivatives, and currencies on behalf of clients or for their own account.
- They may also serve as market makers, providing liquidity and facilitating trading in various financial markets.

Wealth Management:

- Some merchant banks offer wealth management services to high-net-worth individuals and families, providing personalized investment advice, portfolio management, estate planning, and other financial services tailored to their specific needs and objectives.

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Key functions..

Risk Management:

- Merchant banks help clients identify, assess, and manage financial risks related to market fluctuations, credit exposure, interest rate fluctuations, currency exchange rates, and other factors.
- They offer hedging solutions, derivative products, and risk management strategies to protect against adverse market movements and volatility.

Research and Analysis:

- Merchant banks conduct research and analysis on financial markets, industries, and companies to provide insights, forecasts, and investment recommendations to clients.
- They produce research reports, market commentaries, and economic analyses to help clients make informed investment decisions.

Role in Financial System and Economy

Role

Capital Formation:

- Merchant banks help companies raise capital by underwriting securities offerings, facilitating mergers and acquisitions, and providing financing for large-scale projects.
- This capital formation process is crucial for economic growth and development as it enables businesses to expand, invest in innovation, and create jobs.

Corporate Advisory:

- Merchant banks provide strategic advice and financial expertise to corporations on various matters, including capital structure optimization, corporate restructuring, and business valuation.
- This advisory role helps companies make informed decisions, navigate complex financial transactions, and maximize shareholder value.

Role...

Risk Management:

- Merchant banks offer risk management solutions to clients, helping them mitigate financial risks such as interest rate risk, currency risk, commodity price risk, and credit risk.
- By providing hedging strategies, derivatives products, and other risk management tools, merchant banks help companies safeguard their financial stability and resilience.

International Trade Facilitation:

- Merchant banks facilitate international trade by providing trade finance services, such as letters of credit, trade credit, and export financing.
- These services help importers and exporters mitigate risks, improve liquidity, and expand their global market reach, thereby promoting international commerce and economic integration.

Role...

Investment Management:

- Some merchant banks offer investment management services to institutional and individual clients, managing portfolios of securities and other assets on behalf of investors.
- By providing investment advice, portfolio management, and wealth management services, merchant banks help clients achieve their financial goals and objectives.

Private Equity and Venture Capital:

- Merchant banks play a key role in financing and supporting the growth of private companies through private equity and venture capital investments.
- By providing capital, strategic guidance, and operational support, merchant banks help innovative startups and emerging businesses scale up, create value, and contribute to economic dynamism and innovation.

SEBI Regulations

SEBI Regulations

Registration Requirements:

- Any entity wishing to act as a merchant banker in India must obtain registration from SEBI.
- The regulations specify the eligibility criteria, such as minimum net worth requirements, qualifications, and experience of key personnel.

Code of Conduct:

- Merchant bankers are required to adhere to a code of conduct prescribed by SEBI.
- This code outlines ethical standards, professional conduct, and responsibilities towards clients and investors.

SEBI Regulations...

Disclosure and Transparency:

- Merchant bankers are mandated to provide accurate and timely disclosure of information to clients and investors.
- They must ensure transparency in their dealings and provide all necessary information regarding securities offerings and transactions.

Due Diligence:

- Merchant bankers are responsible for conducting due diligence on issuers and securities offerings to ensure compliance with regulatory requirements and to protect the interests of investors.

Underwriting:

- Merchant bankers may engage in underwriting activities, wherein they commit to purchase securities from the issuer at a predetermined price in case the securities are not fully subscribed by investors during the offering.

SEBI Regulations...

Issue Management:

- Merchant bankers assist companies in the process of issuing securities to the public or private investors.
- This includes structuring the offering, pricing the securities, preparing offer documents, and marketing the issue.

Compliance and Reporting:

- Merchant bankers must comply with reporting requirements specified by SEBI, including periodic submission of financial statements, compliance certificates, and other relevant documents.

Commercial Bank vs Merchant Bank

Distinction

Primary function

- **Commercial Banks:** Commercial banks primarily focus on providing traditional banking services to the general public and businesses. This includes accepting deposits, offering loans, providing checking and savings accounts, issuing credit cards, and facilitating domestic and international payments.
- **Merchant Banks:** Merchant banks specialize in providing financial services to corporations and governments. Their services typically include corporate finance, investment banking, underwriting securities, advisory services for mergers and acquisitions (M&A), project finance, and trade finance.

Distinction...

Customer Base:

- **Commercial Banks:** Commercial banks serve a broad customer base, including individuals, small businesses, large corporations, government entities, and other financial institutions. They offer a wide range of retail and commercial banking products and services tailored to meet the needs of various customer segments.
- **Merchant Banks:** Merchant banks primarily cater to corporate clients, including large corporations, multinational companies, institutional investors, government agencies, and high-net-worth individuals. They provide specialized financial services and advisory support to help clients manage complex financial transactions and strategic initiatives.

Distinction...

Deposit-Taking Activities:

- **Commercial Banks:** Commercial banks accept deposits from customers, including savings deposits, checking deposits, time deposits (such as certificates of deposit), and other types of accounts. They use these deposits to fund lending activities and other banking operations.
- **Merchant Banks:** Merchant banks do not typically engage in retail banking activities or accept deposits from the general public. Instead, they rely on other sources of funding, such as capital markets, syndicated loans, and private placements, to finance their operations and support client transactions.

Distinction...

Regulatory Oversight:

- **Commercial Banks:** Commercial banks are subject to comprehensive regulatory oversight by banking regulators, such as the central bank or banking authority in their respective countries. They must comply with banking regulations related to capital adequacy, liquidity, risk management, consumer protection, and other aspects of banking operations.
- **Merchant Banks:** Merchant banks may be subject to regulatory oversight by financial regulators, but their regulatory requirements may differ from those of commercial banks. Since merchant banks primarily serve corporate clients and engage in specialized financial activities, their regulatory framework may focus more on securities regulations, investment banking rules, and other relevant financial regulations.

Distinction...

Risk Profiles:

- **Commercial Banks:** Commercial banks are exposed to a wide range of risks, including credit risk (default risk), interest rate risk, liquidity risk, operational risk, and regulatory risk. They manage these risks through prudent lending practices, risk diversification, capital adequacy requirements, and other risk management strategies.
- **Merchant Banks:** Merchant banks also face various risks, including market risk, credit risk, operational risk, and legal and regulatory risk. However, their risk profile may differ from that of commercial banks due to their focus on investment banking and corporate finance activities, which involve higher complexity and larger transaction sizes.

Factors for Selection of Merchant Banker

Factors for Selection

- Proven track record
- Good investor relations
- Industry focus
- Research skills
- Experience in marketing

Leading Merchant Bankers in India

Public sector:

- SBI Capital Markets
- Punjab National bank
- IFCI Financial Services

Private sector:

- ICICI Securities,
- Axis Bank
- Bajaj Capital
- Tata Capital Markets
- Yes Bank
- Kotak Mahindra Capital Company
- Reliance Securities

Leading Merchant Bankers - Globally

- Goldman Sachs (India) Securities
- Morgan Stanley India
- Barclays Securities (India)
- Bank of America
- Citigroup Global Markets India

Development in Merchant Banking Industry

- Setting up of Banks Subsidiaries
- Re-organisation of Private Firms
- Establishment of SUA
- Securities and Exchange Board of India (SEBI)
- Discount and Finance House of India (DFHI)
- Credit Rating Information Services of India Ltd. (CRISIL)
- Stock-Holding Corporation of India Ltd. (SHC)

THANK YOU