CHAPTER-VII

MERCHANT BANKERS:
POST-ISSUE MANAGEMENT
7.1 Introduction

Merchant bankers like pre-issue managers (as discussed in detail in previous chapter), also perform a key role as lead managers on post-issue management of corporate entities for collecting finance from the public. However, such function is related to pre-issue management which is, in turn, influenced by economic growth in general and by the corporate growth in particular. The present chapter deals with reviewing primary market operations and the role of Category-I merchant bankers as lead managers on post issue management in India during 1990-2000. A humble attempt has also been made in this chapter to enquire a relation among the growth of securities, corporate growth and the function of Category-I merchant bankers as lead managers.

7.2 Post-issue management of capital issues

As lead managers to an issue merchant bankers perform various functions in respect to post-issue management. These include collection of application forms, handling of amount received from the issue, handling of over-subscription, processing of data, acting upon under-subscription, issue of refund order/allotment letter and managing listing on various stock exchanges. In post-issue management, generally, the relative success or failure of public issue mostly depends on response received for the issues. Thus, in a public issue, all the players associated with are very much eager to know about the number of applications received for subscription and also the amount collected thereon. The market intermediaries who take part in the primary market to provide specialised services in capital issue management are (a) merchant bankers, (b) registrars, (c) underwrites, (d) brokers to the issue, (e) advisors to the issue, (f) bankers to the issue, (g) advertising agencies, etc. An effective teamwork from all the intermediaries is absolutely necessary for success of the venture. SEBI as a regulatory authority also plays an important role in monitoring and regulating the entire capital issue management activities (Figure-7.1).
7.3 Post-issue obligations of merchant banker as prescribed by SEBI

The SEBI prescribes in detail the activities of merchant bank as lead managers in respect to post-issue management of corporate entities. They can be described here in brief in the following lines.

7.3.1 Reports on monitoring post-issue

Irrespective of the subscription accumulated, SEBI has prescribed post-issue monitoring reports for each issue to be submitted by the lead managers acting for the issue. These reports should be submitted within 3 working days from the due dates. In case of public issues, the due date for the 3-day post-issue monitoring report is the 3rd day from the date of closure of subscription of the issue and for the 78-day post-issue report.

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monitoring report, it is the 78th day from the date of closure of subscription of the issue as final report on public issues. In case of rights issues, the due date for the 3-day post-issue monitoring report is the 3rd day from the date of closure of subscription of the issue and for the 50-day post-issue monitoring report, it is the 50th day from the date of closure of subscription of the issue as final report on rights issues.

7.3.2 Redressal of investors grievances
The merchant bankers as lead managers should actively associate with post-issue activities like allotment, refund and despatch and should also take adequate steps to monitor redressal of investor grievances arising out of various issues handled by them.

7.3.3 Co-ordination with other intermediaries
With a view to monitoring the response of application from the collecting bank branches, merchant banker should maintain close co-ordination with the registrars to the issue and also with all other associated personnel after the expiry of the date of issue. If merchant banker finds any act of omission or commission on the part of any of the intermediaries, he should immediately report it to the SEBI. The merchant banker should also ensure compliance with the instructions issued by RBI on handling of stock invest by any person including the registrars to the issue.

The SEBI guidelines pronounce that if an issue is proposed to be closed at the earliest closing date, the merchant banker should satisfy himself that the issue is fully subscribed before announcing closure of the issue. It is to be confirmed by the merchant bankers to SEBI that the company has received atleast 90% of issued amount from public subscription plus accepted devolvement from underwriters within 120 days from the date of opening of the issues. If there is any devolvement on underwriters, the lead merchant banker should ensure that the underwriters have honoured their commitments within 60 days from the date of closure of the issue. In case of disputed devolvement upon underwriters for under-
subscribed issues, the merchant banker should furnish information in respect of underwriters who have failed their underwriting devolvement to the SEBI and should also ensure that the amount of subscription has been refunded to the applicants at the end of 90 days from the closure of the issues. In case of over subscription of public issue of securities, the lead merchant bankers and the registers to an issue are responsible for finalising the basis of allotment. The lead merchant banker must ensure that the money received from the issue is kept in a separate bank i.e. with the banker to the issue.

7.3.4 Post-issue advertisement
Lead merchant banker in respect of all issues will make an advertisement giving details of post-issue regarding over-subscription, basis of allotment, percentage of application received, date of completion of despatch of refund orders, date of despatch of certificates and date of filing of listing application. This must be released within 10 days from the date of completion of the various activities at least in an english national daily with wide circulation, one hindi national paper and a regional language daily circulated at the place where the registered office of the issuer company is situated. The lead merchant banker will also make an advertisement stating that the subscription is closed only after the closer of the issue.

7.2.5 Basis of allotment
In a public issue, the executive director / managing director of the regional stock exchange along with the post-issue lead merchant banker and registrar to the issue are responsible to ensure that the basis of allotment is finalised in a fair and proper manner.

7.3.5 Other responsibilities
The lead merchant banker should also ensure the following:

(i) despatch of refund orders, allotment letters, share certificates through mail,
(ii) payment of interest to the applicants for delayed despatch of allotment letters, refund orders etc. as prescribed in offer document,

(iii) submission within 2 weeks from the date of allotment, a certificate to SEBI certifying the stock invests on the basis of which allotment was finalised.

7.4 Role of merchant bankers as lead managers: A study on post-issue management of capital issues

The present survey is being confined to the specific function of Category-I merchant bankers as lead managers on capital issue management of securities, as they do not publish any related financial information of their activities separately for the public. As stated in Chapter-I, although they are required to submit the annual report containing financial information and performance relating to different activities undertaken by them to SEBI, however, such information are disclosed by SEBI in such a manner that are not sufficient enough for any further research. So, the study has exclusively concentrated on capital issue management to enquire the function of merchant bankers as lead managers. In this section, an effort has been made to study the securities growth through public and rights issues for the overall standing of primary market in India and also to know the related activity of lead managers during the period under study. Moreover, attempts are also made to find out a relation among the growth of securities, corporate growth expressed in terms of formation of companies, sales and profitability and the function of merchant bankers as lead managers.

7.4.1 Capital mobilisation from the primary capital market: An enquiry on public and rights issues in India

Till mid-1980s, Indian corporate sector had a moderate participation in the capital market and the quantum of funds mobilised through the primary market was not cheering enough, as investors were least interested in investing in the corporate securities. During late eighties, the government of India took a bold step towards liberalisation, which gave a fillip to industrialisation and brought a paradigm shift in the
corporate environment. As a result, the capital market in India has been transformed veritably since the early 1990s and the impact of which has already been faced by the corporate entities since then. We have already incorporated in chapter-VI, the reasons behind such changes considering the period 1990-2000 for the study.

Securities are generally issued by the companies in meeting their demand for funds from the primary market with the help of merchant bankers (Chapter-VI, Section-6.2). The initial and subsequent capital issue of securities like equity shares, preference shares, debentures or bonds are made through public issues, rights issues and private placement in the primary market. The present study exclusively deals with corporate financing through public as well as rights issues. Corporate financing through private placement is not considered here due to insufficiency of data. Details of public and rights issues of securities in India during 1990-2000 in the primary market are tabulated below (Table-7.1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Issues (in nos.)</th>
<th>Rights Issues (in nos.)</th>
<th>Total Issues (in nos.)</th>
<th>Public Issues (Rs. in lacs)</th>
<th>Rights Issues (Rs. in lacs)</th>
<th>Total Issues (Rs. in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>141</td>
<td>209</td>
<td>350</td>
<td>170434.82</td>
<td>225066.19</td>
<td>395501.01</td>
</tr>
<tr>
<td>1991-92</td>
<td>196</td>
<td>316</td>
<td>512</td>
<td>171136.23</td>
<td>385117.16</td>
<td>556253.39</td>
</tr>
<tr>
<td>1992-93</td>
<td>528</td>
<td>488</td>
<td>1016</td>
<td>606083.10</td>
<td>1262981.08</td>
<td>1869064.18</td>
</tr>
<tr>
<td>1993-94</td>
<td>770</td>
<td>384</td>
<td>1154</td>
<td>1254404.31</td>
<td>930621.81</td>
<td>2185026.12</td>
</tr>
<tr>
<td>1994-95</td>
<td>1343</td>
<td>351</td>
<td>1694</td>
<td>1331160.37</td>
<td>679339.14</td>
<td>2010499.95</td>
</tr>
<tr>
<td>1995-96</td>
<td>1428</td>
<td>291</td>
<td>1719</td>
<td>1182218.35</td>
<td>651969.14</td>
<td>1834187.49</td>
</tr>
<tr>
<td>1996-97</td>
<td>753</td>
<td>131</td>
<td>884</td>
<td>1164819.76</td>
<td>272443.08</td>
<td>1437262.84</td>
</tr>
<tr>
<td>1997-98</td>
<td>62</td>
<td>49</td>
<td>111</td>
<td>306121.70</td>
<td>170300.68</td>
<td>476422.38</td>
</tr>
<tr>
<td>1998-99</td>
<td>32</td>
<td>26</td>
<td>58</td>
<td>791074.13</td>
<td>56756.07</td>
<td>847830.20</td>
</tr>
<tr>
<td>1999-2000</td>
<td>65</td>
<td>28</td>
<td>93</td>
<td>767314.39</td>
<td>156024.20</td>
<td>923338.59</td>
</tr>
</tbody>
</table>

Source: Prime Directory

It is evident that there was higher resource mobilisation in primary market through rights issue during 1990-93 in comparison to public issues. The total fund mobilised through rights issues in 1990-91 was...
Rs.225066.19 lacs, which increased to Rs. 1262981.08 lacs in 1992-93. On the other, total fund mobilised through public issues in 1990-91 was Rs.170434.82 lacs, which increased to Rs. 606083.10 lacs in 1992-93 (Table-7.1). Thus, the total amount of capital raised during 1990-91 from the capital market was Rs.395501.01 lacs, which ultimately increased to Rs.2185026.12 lacs during 1993-94. The reason behind such favourable situation, perhaps, was the initial positive impact of financial reforms, which started since 1990s. In fact, the declining trend in mobilisation of resources from the primary market was experienced since 1994-95. The total amount of capital raised, through public and right issue started declining from 1994-95, which was Rs.2010499.95 lacs in comparison to Rs.2185026.12 lacs during 1993-94. Reasons for such trend were (a) depressive mood in the global economic environment, (b) political instability in the country, (c) influx of unscrupulous and fly-by-night operators in the primary market, who float companies and public issues in rapid succession, garner money from the public and then vanish without a trace, (d) tremendous depression in the Indian stock market due to securities scams, which opened up during the period (Chapter- VI, Section 6.4) and (g) reversal trend as evidenced in almost every indicator of corporate performance (Chapter- V, Section 5.6).

As such, the impact of declining trend in respect to capital mobilisation was evidenced, both in the primary as well as in the secondary market. The trend which initiated since 1994-95, carried through till 1997-98 and subsequently rebounded back in 1998-99 (Chart-7.2). The Indian stock market (i.e. secondary market) also went through a prolonged recession which persisted till 1997 and ultimately revived again during 1998 (Chapter-VI, Section 6.4) and continued during the subsequent years.

In 1998-99, fresh interest was seen mobilising in the primary market and the capital accumulation started increasing significantly. The amount raised during this period was Rs.847830.2 lacs, which showed a higher
figure than the amount of Rs.476422.38 lacs raised during 1997-98 and continued during 1999-2000 as well (Table-7.1). The reason behind such favourable situation in the primary capital market was due to growing interest of the investors on some sectors-specific shares comprising of Information Technology, Telecommunication, Pharmaceuticals, Entertainment and First Moving Consumer Goods (FMCG) etc. This trend continued till February 2000 and subsequently receded during later years (Chapter-VI, Section 6.4).

**Chart-7.1**

**Total number of issues (public and rights issues) in India during 1990-2000**

![Chart showing the total number of issues from 1990-1991 to 1999-2000](chart7.1)

Based on Table-7.1

**Chart-7.2**

**Total amount of issues (public and rights issues) in India during 1990-2000**

![Chart showing the total amount of issues in lacs from 1990-1991 to 1999-2000](chart7.2)

Based on Table-7.1

It is important to note that though total number of capital issues showed an increasing trend up to 1995-96 (1719), however, total amount involved in those issues restricted its acceleration up to 1993-94 (i.e.
Rs.2185026.12) (Chart-7.1). The main reason behind such situation was that while the issuing companies tried to allure the investors, investors did not show their confidence to come forward in investing their hard-earned money in primary market from 1994-95 to 1997-98. Such negative approach of investors was also the resultants of securities scam in the Indian stock market, which led to uncertainty and panic and consequently it affected the sentiments of the investors badly.

Table-7.2 shows the changes in percentage of amount of public issues, rights issues and total amount of capital issues during 1990-91 to 1999-2000.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Issues</td>
<td>-</td>
<td>+0.41</td>
<td>+54.15</td>
<td>+105.97</td>
<td>+6.17</td>
<td>-11.19</td>
<td>-1.47</td>
<td>-73.72</td>
<td>+158.42</td>
<td>-3</td>
</tr>
<tr>
<td>Total Capital Issues</td>
<td>+0.64</td>
<td>+236.02</td>
<td>+16.9</td>
<td>-7.99</td>
<td>-8.77</td>
<td>-21.64</td>
<td>-66.85</td>
<td>+77.96</td>
<td>+8.91</td>
<td></td>
</tr>
</tbody>
</table>

Based on Table-7.1

During financial year 1992-93, the fund mobilised in primary market increased by 236% as compared to a rise of about 41% in 1991-92. In 1997-98, the fund mobilised through primary market declined by about 67% as compared to fund which increased by about 78% during 1998-99 (Table-7.2). While during 1992-93, rights issues reported a rise by about 228% over the previous year, they recorded a decline of about 27% in 1993-94. Rights issues, during 1998-99, showed a decline over the previous year by about 67%, ultimately recorded an exponential growth nearly 175% during 1999-2000. In case of public issues, though an increasing trend in capital mobilisation was found during 1992-95, it was down in the next three years but then moved positively during 1998-99.
7.4.2(A) Post-issue management of securities in India: A survey on role of merchant Bankers as lead managers

The previous section has made a detailed deliberation on the trends of capital mobilisation in the primary market. The merchant bankers, as lead managers, play a very significant role in mobilising capital on behalf of the corporate entities. As such it is pertinent for us to enquire the performance of merchant bankers in respect to post-issue management. The top 25 merchant bankers (based on their activity under different assignments), are considered here for studying their role during 1990-2000 and to examine whether the same trend is observed as it is in pre-issue management. The reasons behind such selection have already been cited in Chapter-I. The study has been done based on the following assignments: (i) number of public issues managed, (ii) amount involved in such public issues, (iii) number of rights issues administered, (iv) amount associated with such right issues.

7.4.2(B) Striking Anomaly

Techniques of Presentation of data used by Prime Directory: A Clarification

As mentioned earlier in chapter-I, there are striking anomalies in the techniques of presentation of data relating to merchant banking activities used by Prime Directory.

It appears that percentages shown in the Tables 7.3 (A), 7.3 (B), 7.4 (A), 7.4 (B), 7.5 (A) and 7.5 (B), 7.6 (A) and 7.6 (B) represent the percentages of individual merchant banker's activity in relation to all capital issues (public and right issues) as a whole managed by 25 merchant bankers. But this is not the case. How these percentages are calculated by Prime Directory may be clarified through the following example.

Example:
The following capital issues were made by companies A, B, C and D during 1990-91
Name of the Issuing Companies | Amount of capital issues mobilised (Rs.)
---|---
Company-A | 5000
Company-B | 10000
Company-C | 15000
Company-D | 20000
Total | 50000

P, Q, R and S, the merchant bankers, were associated with the above issues in the following manner:

- Capital issues of A were managed by P, Q and R jointly as lead managers.
- P and Q jointly managed capital issues of B as lead managers.
- Capital issues of C were managed by P and S jointly as lead managers.
- Q and S jointly managed capital issues of D as lead managers.

Now let us calculate the percentage of activity by individual merchant banker in capital issue management of these companies for the year 1990-91 as adopted by *Prime Directory*. This is calculated in the following statement (shown in the next page).

Footnote of page 181

From the statement shown in the next page, it appears that the aggregate of percentages shown above (i.e. 235.71%) appear to be arithmetically inaccurate and conceptually wrong. But this method of calculation is adopted by Prime Directory. Since these issues are secret in nature and there is no other way to collect information from the related parties directly, this enquiry has depended on the report made by the Prime Directory. The report has its limitations. But this is the only source which can shed some light, however little it may be, on the area. Thus, the total number as well as amount of capital issues (shown in Table-7.1) mobilised during 1990-2000 will not be equal when accumulating participation of individual merchant bankers in any specialised assignment as is depicted in Table-7.3 (A) and Table-7.3 (B) 7.4 (A), 7.4 (B), 7.5 (A) and 7.5 (B), 7.6 (A) and 7.6 (B), respectively.

Footnote 5
At the first stage of research, researcher tried to meet to the chief executive officers (CEOs) of leading merchant bankers selected for the study and also some of the officers of SEBI for any kind of primary information in this regard. They did not provide such primary information and referred to only one secondary source, i.e., "Prime Directory". In fact, researcher failed to collect any primary individual data relating to merchant banking activities from the selected institutions after visiting some of the offices as well. Formal letter by registered post on 07.10.05 had also been sent to them (Vide Photo copy of the postal receipts showing the letters issued to various merchant bankers and SEBI in Appendix: II) to have relevant information. But he could not have any reply from sources till date.
It is found that Merchant Banker-P was involved in the capital issues of Company-A, B and C. Here, it is impossible to have a clear idea on exact share of activity of P on any particular issue. However, it can be said that merchant banker-P has made a 85.71% [i.e., (Rs.120 crores ■ = • Rs.140 crores) x 100] participation in the total capital mobilized by the four issuing companies. The same method is applied to other merchant bankers as well. This method is exactly what Prime Directory has followed on the issue and it is stated in the Prime Directory that “If an issue has been handled by more than one merchant banker, full credit for such an issue (both in number and in respect to amount involved) has been given to all the concerned merchant bankers”.

Credit to Merchant Banker-Q:
78.57 %=( Rs.110 crores - Rs.140 crores) x 100

Credit to Merchant Banker-R:
35.71 %=( Rs.50 crores - Rs.140 crores) x 100

Credit to Merchant Banker-S:
35.71 %=( Rs.50 crores - Rs.140 crores) x 100

The Anomaly: * In the calculation of percentage of participation of individual merchant banker, the percentage is calculated not on the total credit to all the merchant bankers (i.e., Rs. 330 crores) but on the total amount of capital issues mobilised (i.e., Rs. 140 crores) and as such there is a significant difference in the percentage calculation.

*Percentage of Participation of individual merchant banker on total amount of capital mobilised = [(Amount of capital issues managed by individual merchant banker) / (Total Amount of capital issues mobilised by all issuing companies as a whole)] x 100

<table>
<thead>
<tr>
<th>Merchant Banker(s) involved in issue management</th>
<th>Name of the Issuing Companies</th>
<th>Amount of capital issues mobilised (Rs. in Crores)</th>
<th>Credit given to individual merchant banker for managing capital issues (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P, Q and R</td>
<td>A</td>
<td>50</td>
<td>85.71% [1]</td>
</tr>
<tr>
<td>P and Q</td>
<td>B</td>
<td>40</td>
<td>78.57% [2]</td>
</tr>
<tr>
<td>P and S</td>
<td>C</td>
<td>30</td>
<td>35.71% [3]</td>
</tr>
<tr>
<td>Q and S</td>
<td>D</td>
<td>20</td>
<td>35.71% [4]</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>140</td>
<td>235.71%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>Q</th>
<th>R</th>
<th>S</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>P, Q and R</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>-</td>
<td>150</td>
</tr>
<tr>
<td>P and Q</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>-</td>
<td>80</td>
</tr>
<tr>
<td>P and S</td>
<td>30</td>
<td>-</td>
<td>-</td>
<td>30</td>
<td>60</td>
</tr>
<tr>
<td>Q and S</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>110</td>
<td>50</td>
<td>50</td>
<td>330</td>
</tr>
</tbody>
</table>

[1] Credit to Merchant Banker-P: It is found that Merchant Banker-P was involved in the capital issues of Company-A, B and C. Here, it is impossible to have a clear idea on exact share of activity of P on any particular issue. However, it can be said that merchant banker-P has made a 85.71% [i.e., (Rs.120 crores - Rs.140 crores) x 100] participation in the total capital mobilized by the four issuing companies. The same method is applied to other merchant bankers as well. This method is exactly what Prime Directory has followed on the issue and it is stated in the Prime Directory that “If an issue has been handled by more than one merchant banker, full credit for such an issue (both in number and in respect to amount involved) has been given to all the concerned merchant bankers”.

[2] Credit to Merchant Banker-Q: 78.57 %=( Rs.110 crores - Rs.140 crores) x 100

[3] Credit to Merchant Banker-R: 35.71 %=( Rs.50 crores - Rs.140 crores) x 100

[4] Credit to Merchant Banker-S: 35.71 %=( Rs.50 crores - Rs.140 crores) x 100
Let us, now make a study on the activity of merchant bankers as lead managers in managing number as well as amount of capital issues in the following sections:

(i) **Number of public issues of corporate securities managed by merchant bankers**

A study of merchant bankers' activity on the basis of number of public issues managed is considered here. The first 25 merchant bankers are selected here (out of total 305 merchant bankers performed randomly throughout the 10 years chosen for the study) based on the total number of issues handled by them during this period. The merchant bankers are then ranked subsequently on the basis of their overall function. Out of the 305 merchant bankers, the 25 merchant bankers (selected exclusively on the basis of number of issues) manage almost 51.26% of the total number of public issues and the remaining merchant bankers (i.e. 280) handle the rest 48.74% of the same during the period under study. As such, the study is restricted in respect to the role of those 25 merchant bankers (under this specific assignment) as representative of the whole community in India.

It is evident from Table-7.3 (A) and Table-7.3 (B) that SBI Capital Markets Ltd. with 733 public issues during the period 10 years is the most prolific performer. Though SBI Capital Markets Ltd. maintained the first position from 1990-91 to 1994-95 but it failed to maintain the same and slipped to 2nd and 3rd position in 1995-96 and 1996-97 respectively. In this regard it is important to note that act of SBI Capital Markets Ltd. (as lead manager on number of public issues) shown a steady picture from 1990-91 to 1994-95. But this trend faced a set back during the next three years and subsequently got reversed since 1998-99. In fact, all the merchant bankers had to face tremendous competition with each other and also due to the increased participation of fly-by-night entities. Prudential Capital Markets Ltd. with 286 public issues ranked overall 6th position during 1990-2000 but it achieved the first position with 129 and 53 public issues during 1995-96 and 1996-97 respectively.
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>NAME OF THE LEAD MANAGERS</td>
<td>NO. OF ISSUES</td>
<td>%</td>
<td>NO. OF ISSUES</td>
<td>%</td>
<td>NO. OF ISSUES</td>
</tr>
<tr>
<td>SBI CAPITAL MARKETS LTD.</td>
<td>67</td>
<td>47.5</td>
<td>62</td>
<td>41.8</td>
<td>126</td>
</tr>
<tr>
<td>PNB CAPITAL SERVICES LTD.</td>
<td>35</td>
<td>23.2</td>
<td>26</td>
<td>18.3</td>
<td>91</td>
</tr>
<tr>
<td>ICICI SECURITIES &amp; FINANCE CO. LTD</td>
<td>35</td>
<td>23.2</td>
<td>26</td>
<td>18.3</td>
<td>91</td>
</tr>
<tr>
<td>BOB CAPITAL MARKETS LTD</td>
<td>14</td>
<td>9.9</td>
<td>10</td>
<td>6.5</td>
<td>16</td>
</tr>
<tr>
<td>IND BANK MERCHANT BANKING SERVICES LTD</td>
<td>26</td>
<td>18.4</td>
<td>19</td>
<td>12.6</td>
<td>58</td>
</tr>
<tr>
<td>INDUSTRIAL DEVELOPMENT BANK OF INDIA</td>
<td>16</td>
<td>10.6</td>
<td>8</td>
<td>4.1</td>
<td>30</td>
</tr>
<tr>
<td>KOTAK MAHINDRA CAPITAL CO.</td>
<td>1</td>
<td>0.7</td>
<td>1</td>
<td>0.6</td>
<td>13</td>
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(Vide page 179-181 for clarification of percentages calculation)
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(Vide page 179-181 for clarification of percentages calculation)
Canara bank secured the 2nd position during 1990-2000 but it could not able to maintain the same in each and every of the 10 years of study. Overall performance of Kotak Mahindra Capital Co. was not so consistent but it ranked first position in 1999-2000 and 2nd position in 1997-98 and 1998-99. Doogar & Associates Ltd. showed a remarkable performance during 1995-96 when it was ranked 2nd position with 60 public issues. DSP Merrill Lynch Ltd. also done exceptionally well during 1997-98, 1998-99 and 1999-2000.

It is important to note that some merchant bankers like ENAM Financial Consultants Pvt. Ltd., Kotak Mahindra Capital Co., All Bank Finance Ltd., SMIFS Capital Markets Ltd., SDFC Finance Ltd., BOI Finance Ltd., IFCI Financial Services Ltd. etc. though found a place within the first best 25 merchant bankers on the basis of their overall activity during 1990-2000 but they failed to maintain the same in each and every of these ten-years. SDFC Finance Ltd. got the 25th position for the entire period of these years during 1990-2000. Another revealing fact is that of the top 25 merchant bankers, 11 of them belong to Indian private merchant banks, 9 belong to Indian commercial bank or their subsidiary, 3 of them from Indian financial institution and the next two are foreign private merchant bankers.

(ii) Amount associated with the public issues of corporate securities managed by merchant bankers

An attempt is made, here, to study the merchant bankers’ function on the basis of amount associated with the public issues managed. Out of the total 305 merchant bankers, the top 25 of them (selected exclusively on the basis of amount of issues) handled almost 91.14% of the total amount of public issues and remaining 8.86% of them were managed by the other 280 institutions. As such, the study is restricted within those leading merchant banking institutions (under this specific category) as representative of the whole community.
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(Vide page 179-181 for clarification of percentanges calculation)
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From Table-7.4(A) and Table-7.4(B), it is observed that SBI Capital Markets Ltd. has handled public issues involving amount of Rs. 4773853.50 lacs and has occupied the first position during the entire period of 1990-2000. But the institution failed to maintain its lead in each of the years. It obtained the 2nd position during 1995-96 when DSP Merrill Lynch Ltd. took the lead by managing almost 42.4% of total amount of public issues (i.e. Rs. 501364.90 lacs). Kotak Mahindra Capital Co., on the other, secured a respectable position in managing nearly 89.8% of total amount of public issues (i.e. Rs. 688756.76 lacs) during 1999-2000 where SBI Capital Markets Ltd. occupied 5th position by managing 70.2% of total amount of public issues (i.e. Rs. 539009.93 lacs). Even in the recession period during 1998-99, SBI Capital Market Ltd. and other six top merchant bankers (i.e. J M Morgan Stanley, DSP Merrill Lynch Ltd., Kotak Mahindra Capital Co., ENAM Financial Consultants Pvt. Ltd., RR Financial Consultants Ltd., Lloyds Capital Management Ltd.) performed satisfactorily. For instance, during the said period, while SBI Capital Market Ltd. managed almost 97% of the amount of public issues credited to them, the remaining 18 merchant bankers, however, performed miserably, barring two or three of them.

J M Morgan Stanley, likewise, performed fairly well during 1990-2000 and secured the 2nd position in 1996-97 by managing nearly 62% of the total amount of public issues (i.e. Rs.722208.50 lacs).It is also worth mentioning that, except SBI Capital Market Ltd. and J M Morgan Stanley, some other merchant bankers namely, United Bank of India, KJMC Financial Services Ltd., Citi Bank, UTI Securities Exchange Ltd., Hongkong & Shanghai Banking Corp. Ltd. made an average contribution in the issue management. The other observation is that of 25 top merchant bankers, 9 of them belong to Indian private merchant bankers, 7 of them belong to either Indian commercial bank or their subsidiary, 4 of them represent Indian financial institution, 3 of them are foreign bank and 2 of them are foreign private merchant bankers.
Administering rights issues can also be regarded as an important indicator for studying the role of these merchant banking institutions. During 1990-2000, 186 of such institutions have participated in this specific issue. Of them a group of 25 (selected exclusively on the basis of number of rights issues) is selected for the study as it is observed that this specific group has handled almost 74.75% of the total number of rights issues and the remaining institutions have managed the rest 25.25% during the said period. The study, as such, is restricted to those 25 institutions (under this specific assignment) to study their activity.

Table-7.5(A) and Table-7.5(B) indicate that SBI Capital Markets Ltd. with 450 rights issues is the overall leader. It has occupied the first position during 1990-93, 1994-95, and 1999-2000 and slipped to 2nd position during 1993-94 when ICICI Securities & Finance Co. Ltd. taken the lead handling 70 rights issues. ICICI Securities & Finance Co. Ltd. has performed fairly well with 378 rights issues during this period. Canara Bank is also not lagging behind and has managed 372 public issues. The front-runners of the top 25 have made a consistent performance where the others are the occasional performer.

ANZ Grindlays Bank (the first foreign merchant banker in India) with 77 rights issues has secured the 11th position during 1990-2000. It is relevant to state that some merchant bankers like H B Stock Holding Ltd., CRB Capital Markets Ltd., C D Capital Markets Ltd., Standard Chartered Bank, SMIFS Capital Markets Ltd. etc. have found a place within 25 on the basis of total number of rights issues during 1990-2000 but they have failed to maintain the same rhythm during the entire period of 10 years. C D Capital Markets Ltd. with only nine rights issues handled during the entire period of study has got the 25th position. Of the group of 25, 8 of them belong to Indian private merchant bankers, 9 represent either the Indian commercial bank or their subsidiary, 3 are Indian financial institution, 3 are foreign banks and rest 2 are foreign private merchant bankers.
### TABLE 7.5(A)

**TOP 25 MERCHANT BANKERS (AS LEAD MANAGERS) AND RIGHTS ISSUES (IN NUMBER) DURING 1990-91 TO 1994-95**

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(Vide page 179-181 for clarification of percentanges calculation)
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(Vide page 179-181 for clarification of percentages calculation)

191
(iv) **Amount of rights issues of corporate securities managed by merchant bankers**

Let us enquire the position of these institutions on the basis of amount of rights issues managed. The first 25 merchant bankers are selected here (out of total 186 merchant bankers performed randomly throughout the 10 years chosen for the study) based on the total amount of issues handled by them during this period. The merchant bankers are then ranked accordingly based on their overall activity. Of the total 186 merchant bankers this batch of 25 (selected exclusively on the basis of amount of rights issues) have managed almost 90.74% of the total amount of rights issues and remaining 9.26% by the rest 161 of them. Thus, the study is restricted to this group (under this specific assignment) who acts as representative of the whole community in India.

From Table-7.6(A) and Table-7.6(B), it is found that SBI Capital Markets Ltd. and ICICI Securities & Finance Co. Ltd. are the front-rankers in this specific area with an amount involved Rs 1855047.58 lacs and Rs 1777398.72 lacs respectively during 1990-2000. There is found a tremendous competition amongst the leading merchant bankers, both government and non-government, to grab the rights issues market during this period. JM Morgan Stanley Ltd. has obtained the 8th position in respect of total number of public issues managed and is ranked the 2nd position in respect of total amount of public issues managed during 1990-2000. However, in case of number of rights issues and amount of rights issues as are handled by the same entity, it is occupying the 4th and 3rd rank respectively during the same period. In case of ANZ Grindlays Bank Ltd. the overall performance is not so satisfactory in respect of public and right issues managed, though it is the first institution of this specific category in India.
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(Vide page 178-181 for clarification of percentages calculation)
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(Vide page 179-181 for clarification of percentages calculation)
Industrial Development Bank of India with issues amount of Rs.925231.57 lacs has been in a continuous endeavour to improve its role. Kotak Mahindra Capital Co. with Rs. 268470.36 lacs has got the 12th position in respect of amount of rights issues as compared to amount public issues managed where it has secured the 4th position. UTI Securities Exchange Ltd. is the 25th rank holder on the basis of amount of rights issues handled during 1990-2000. Of this group, 6 belong to Indian private merchant bankers, 8 are either Indian commercial bank or their subsidiary, 5 represent Indian financial institutions, 4 of them are foreign banks and the other 2 are foreign private merchant bankers.

### 7.4.3 Post-issue management of capital issues: A study on overall merchant bankers' function as lead managers

Table-7.7 makes an overview of the overall role of top 25 merchant bankers (selected under different assignments for the study) as lead managers in respect to public and rights issues and in terms of number and amount of issues managed by them during 1990-2000. As it is already mentioned as per Prime Directory, in respect of an issue handled by more than one merchant banker, full credit for such an issue has been given to all the concerned merchant bankers as it is quite difficult to ascertain the degree of involvement of each merchant banker in a particular case. Another significant point is worth mentioning here that the group of 25 merchant bankers under different assignments is considered as representative of the whole community in India here. Thus, total number of issues (shown in Table-7.1) will not tally with the number of issues managed by the individual merchant bankers (shown in Table-7.7) during the period under study. The same situation is observed while considering the amount of issues managed by the individual merchant banker.
Table-7.7

Overall function of top 25 merchant bankers as lead managers during 1990-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of issues managed</th>
<th>Total number of issues managed</th>
<th>Amount of public Issues Managed (Rs. in Lacs)</th>
<th>Total amount of issues managed (Rs. in Lacs)</th>
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<td>Public issues</td>
<td>Rights issues</td>
<td></td>
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<tr>
<td>1990-91</td>
<td>316</td>
<td>261</td>
<td>577</td>
<td>527664.89</td>
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<td>1991-92</td>
<td>312</td>
<td>356</td>
<td>668</td>
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<td>1992-93</td>
<td>709</td>
<td>647</td>
<td>1356</td>
<td>2006196.57</td>
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<td>1993-94</td>
<td>805</td>
<td>461</td>
<td>1266</td>
<td>3714819.95</td>
</tr>
<tr>
<td>1994-95</td>
<td>1123</td>
<td>360</td>
<td>1485</td>
<td>3560025.43</td>
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<tr>
<td>1995-96</td>
<td>718</td>
<td>202</td>
<td>920</td>
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<td>1996-97</td>
<td>285</td>
<td>78</td>
<td>363</td>
<td>4448328.97</td>
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<td>1997-98</td>
<td>63</td>
<td>37</td>
<td>100</td>
<td>2191850.41</td>
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<td>1998-99</td>
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<td>111</td>
<td>6905968.35</td>
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<tr>
<td>1999-2000</td>
<td>127</td>
<td>23</td>
<td>150</td>
<td>5382904.50</td>
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Based on Table-7.3 (A), Table-7.3 (B), Table-7.4 (A), Table-7.4 (B), Table-7.5 (A), Table-7.5 (B), Table-7.6 (A) and Table-7.6 (B).

Chart-7.3(A)

Number of issues managed by lead managers

Based on Table-7.7

Chart-7.3(B)

Amount of issues managed by lead managers

Based on Table-7.7
From the above table it is found that role of merchant bankers in respect of number of issues managed is not at par with the amount involved with the issues during 1990-2000. The function in terms of amount of issues managed has a very intermittent trend since 1996-97. The reason is that while those financial institutions have made all-out efforts in motivating the prospective investors, the latter, however, have shown little interest as they have experienced pains of negative consequences in the capital market.

Chart-7.3(A) and 7.3(B) present an overview of lead managers' position at a glance in terms of total number and total amount of issues respectively for the period under study.

7.5 Corporate Sectors and Merchant Bankers: their growth and relation

It is experienced that function of merchant bankers in managing issue of corporate securities is influenced by the growth of corporate securities, which in turn indirectly promotes the growth of corporate sectors. Thus, the three components, namely, function of merchant bankers, growth of corporate securities and growth of corporate sectors are very much related to each other. Hence, this section makes an attempt to study on such relationship.

It is shown in chapter-V in detail that the corporate sectors in India have experienced a growth trend in terms of formation of companies and profitability during 1995-96 and in terms of sale during 1994-95. However, the growth decelerated since 1996-97 in all cases excepting growth in sales, which started to decline since 1995-96 (Chapter-V, Chart-5.5). Likewise, the participation of merchant bankers into public and rights issues as lead managers also shows a similar pattern. It has expanded handsomely during 1990-96 and is in a declining mood since 1996-97 and again in turn has started to improve in 1999-2000 (Chapter-VI, Chart-6.1). This particular trend is indirectly related to the results of growth of corporate sectors during the reforms period under study. In the same way, the total number of corporate securities
managed by those 25 merchant bankers (as selected separately under different assignment) have gradually increased during 1990-95 and then started to decrease up to 1997-98. However, the performance has improved significantly with the growth of corporate sector since 1998-99 [Chart-7.3(A)]. Thus, there seems a direct relation between growth of corporate sectors and role of merchant bankers in India.

7.6 Conclusion
In reviewing the role of lead managers on the post-issue management of corporate securities during 1990-2000, it may be concluded that function of lead managers in managing corporate securities has been declining since mid-reform period in India. In this recession period, few merchant bankers showed their interest to revive the primary market in promoting growth where the others are the opportunist, who have come to the market in boom period and then vanished. The declining trend, however, is the outcome of the reversal trend in almost every indicator of corporate performance, stock market in India and also depressive mood in the global economic environment. It is, therefore, observed that the growth of securities (which is supposed to reflect the corporate growth), economic growth and the merchant bankers’ activity are interactive as well as inter-related. And these activities are, however, directly and indirectly influenced by the changes in the Indian economy.