CHAPTER-VIII

SUMMARY AND CONCLUSION
8.1 Introduction
This chapter, the concluding one, first makes an endeavour to sum up the main issues that have emerged from the study of the earlier chapters. Then it outlines few suggestions on improvement of the functioning of the merchant bankers, specially on capital issue management. Finally, by way of conclusion, an attempt has been made to recommend some areas for further research and to have a better knowledge about these specialised organisations.

8.2 Summary of findings
Merchant bankers are constituted in rendering services to meet the needs of trade, industry and investors as well. These institutions are regarded as service oriented entities specialising in assessing capital needs and supporting in procuring the equity and debt funds for corporate sectors, investment and financial decision making, assisting in projecting corporate strategies and ultimately helping in establishing favourable economic environment.

The present study has made a humble attempt to enquire the role of selected merchant bankers as lead managers in corporate financing through capital issue management in India during 1990-2000. The period is relevant as it has witnessed both the rise and fall of this specialised institutional activity. It is observed that, during the early 1990s the merchant bankers participated in a series of activities in favouring corporate environment and as such a need was earnestly felt by the corporate entities for acknowledging their services. Indian capital market witnessed a proliferation in the merchant banking activities during 1990-96. However, an unfavourable economic environment brought a reverse trend in regards to corporate financing through capital issues. It began from 1994-95 and continued till 1996-97 affecting the merchant banking activities in India in a major way. This also led to less participation of the merchant bankers as lead managers on capital issue management.
With a view to enquire the function of merchant bankers as lead managers on capital issue management in India during the period, the study has been made through eight chapters. Chapter-I, i.e. the introductory one, contains some basic ideas on merchant bankers in India, the objectives of the study, the limitation of the study, the research methodology adopted to pursue the research work and also the plan of the study.

Chapter-II deals with the evolution of merchant bankers in general. These specialized institutions were traced back to the 13th century when firms like Riccardi of Lucca, Medici and Fugger, Bruges, Avign, besides their customary trading operations of purchases and sales of their products, were associated with financial activities throughout the European continent. These firms acted as bankers to the kings of European states and financed continental wars and coastal traders. The name 'merchant' was used because of its roots in merchant trade. In fact, the concept of merchant banking is the brainchild of some Dutch and Scottish traders. Activities of merchant bankers came into reckoning in Britain, particularly in London, as the place proved to the immigrants as a place of attraction with brighter prospects of business activities. During 1850-60, a number of merchant banks (named as 'investment bankers') were established in USA, with European background, in arranging finance for promoting railways, industrial projects and trade and commerce. Merchant banking in other countries (like South Africa, Australia, Hongkong, ASEAN countries and India, etc.) throughout the world was also influenced by the traditions and experiences of the British/European merchant bankers.

During late 19th century, the European merchant bankers set up their agency houses in India with the objective of providing services to

---

1 Chapter-II, Section-2.2, pp.17-18.
2 Chapter-II, Section-2.3.1(a), p.18.
3 Chapter-II, Section-2.3.2,p.27.
corporate entities through project appraisal, planning long term investments, providing risk capital and managing the business. During 1956 when Companies Act in India was amended drastically, services rendered by the old managing agency firms as “issue houses” in connection with management and financing of expanding corporate sector were soon found to be inadequate and consequently managing agency system in India was abolished. Moreover, With a view to bringing buoyancy in the capital market, few financial institutions (i.e. IFCI, SFCs, ICICI, LIC, IDBI, UTI, etc) were formed to provide long and medium term finance to the industrial enterprises and to perform underwriting activity to new capital issues. During the late sixties most of the companies in India were in need of increased capital for their growth. However, this requirement could not be met by the financial institutions including banks, which ultimately prompted the Indian corporate entities to enter into the capital market for generating long-term funds. Basically, with the abolition of managing agency system, a gap was felt in this area and the services of the merchant bankers were soon realised to become indispensable in responding to the challenges of the Indian economy. Merchant banking services in India were first introduced by National Grindlays Bank during 1969. The banking commission in its report in 1972 also made recommendations to the necessity of merchant banking services as specialized one and fortunately, the recommendation had given an opportunity for the commercial banks and financial institutions to enter into merchant banking activities. To accept this opportunity, State Bank of India (SBI) in 1972 and other commercial banks, financial institutions opened up the merchant banking division as subsidiaries in rendering financial advisory services to the corporate sectors. The chapter-III portrays on the diversified services rendered by the merchant bankers in India. Merchant bankers are regarded as specialized banks having expertise in providing merchant activities. They basically

---

4 Chapter-II, Section-2.3.9(a), pp.39-43
5 Chapter-II, Section-2.3.9(b), p.43 and Section-2.4, pp.48-49.
have concentrated their merchant activities on services like: (a) corporate counselling; (b) project counselling and pre-investment studies; (c) credit syndication and project finance; (d) capital issue management; (e) underwriting capital issues; (f) portfolio management; (g) venture capital finance and lease finance; (h) non-resident investment counselling and management; (i) mutual funds; (j) advisory services for capital restructuring through mergers, amalgamations and takeovers. These institutions also render services to their clients in procuring and managing funds from the public. Indeed, among all these above activities they have played a prime role as lead managers to the corporate sectors through capital issue management.

Chapter-IV has concentrated on the detailed guidelines prescribed by SEBI for smooth functioning of these entities in India. The various guidelines prescribed by Controller of Capital Issues (CCI) under Capital Issues (Control) Act, 1947 outlived their objectives as unnecessary controls made an adverse impact on the growth of the then capital market. All these matters were taken up seriously by the Government in order to bring all round reforms in the capital market. The Securities and Exchange Board of India (SEBI), constituted on 12th April, 1988, came into operation on 30th January, 1992 under the SEBI Act, 1992. The objectives were: protecting the interest of investors, promoting development of and regulating securities market, preventing malpractices in the capital issues of corporate sectors and others. At present, all capital issues of corporate securities and activities of merchant bankers in India are governed by the rules and regulations prescribed by SEBI. The SEBI, as a vigilant watchdog, has been instrumental in bringing greater transparency in issue management of corporate securities. However, it is handicapped by excess bureaucratic mindset, lack of understanding of the markets and an incurable suspicion of market intermediaries.

---

6 Chapter-III, Section-3.3,p.52.
7 Chapter-IV, Section-4.2,pp.72-75.
8 Chapter-IV, Section-4.9,p.105.
The chapter-V has made an attempt to elaborate the economic growth and growth of corporate sector in India. Some major reforms programmes were introduced by the Government during 1991 and there was an overall improvement in GDP growth at 7.5% during the first phase of reforms (1992-93 to 1996-97) which was facilitated by improvement in the rate of aggregate domestic saving at 24.4% and rate of aggregate domestic capital formation (i.e. investment) at 25.8%\textsuperscript{9}. However, there is an evidence of deceleration in the growth momentum at 5.3% in the second phase of reforms (1997-98 to 2001-02). During the first half of 1990s, the increased domestic saving enabled a rise in rate of investment in the economy, on the other, with the weakening global business cycle there were also the slowing down of structural reforms and declining rate of savings in the domestic front at 23%.\textsuperscript{10} The chapter has also made a study exhibiting the growth of government and non-government companies. There was an improvement in the growth rate of companies during 1994-95 and it continued till 1995-96 (the growth rate of 15.8% showed the highest growth rate during 1990-2000). The growth rate, however, slowed down since 1996-97 and continued till 1998-99\textsuperscript{11}. It is also observed that the year 1995-96 experienced the boom period, witnessing the highest growth in terms of corporate profitability in respect of PBDIT at 13.3% and PAT at 4.1%. When comparing growth of corporate sectors (as is expressed in terms of formation of companies, sales and profitability) with the economic growth during the same period, there is a similar trend\textsuperscript{12}. Where a favourable trend is evidenced in all segments of corporate sectors during 1990-1996 due to economic and financial sector reforms, there is, on the other, a reversal trend in almost every indicator of corporate performance since 1996-97\textsuperscript{13}.

\textsuperscript{9} Chapter-V, Table-5.8 and Chart-5.4, p.125.
\textsuperscript{10} Chapter-V, Section-5.6, pp. 125-126.
\textsuperscript{11} Chapter-V, Table-5.5 and Chart-5.1, pp. 121-122.
\textsuperscript{12} Chapter-V, Table-5.8, Table-5.9, Chart-5.4, Chart-5.5, pp. 125-127.
\textsuperscript{13} Chapter-V, Section-5.7, pp.127-128.
Chapter-VI deals with the role of merchant bankers on pre-issue management of capital issues in India. Merchant bankers (Category-I), as lead managers, take decision upon the volume of issue and the amount to be underwritten in consultation with the issuing company and appoint the underwriters in managing the same. Merchant bankers also act as underwriters as per SEBI regulations. It is revealed from this chapter that the participation of merchant bankers into public and rights issues as lead managers has been in a rising mood during 1990-96, whereas there has been a declining mood since 1996-97. However, there seems a little improvement in 1999-2000 onwards. This particular trend is more or less similar with the economic growth and growth in corporate sectors during first and second phase of economic reforms in India. The role of the top 25 merchant bankers in India as underwriters is studied here in terms of number of issues and amount involved in those issues. While a rising trend gives a positive outlook during the initial years up to 1994-95, the trend reverses since 1995-96 onwards in both the cases. However, the most significant trend is observed during 1998-99. While the number involved is not so encouraging, but the amount of issues is worth mentioning. The cause of sudden spurt in issue amount during the period is discussed here. The chapter opines that there is a significant relationship among economic growth, the growth of corporate sectors as well as the role of these financial entities in the form of merchant bankers. Prudential Capital Markets Ltd. with 962 issues during this entire period has topped the list and Bank of Baroda (BOB Capital Markets Ltd.) with 897 issues comes behind out of the total 286 merchant bankers who have participated in underwriting services during 1990-2000. In regard to role of merchant bankers on the basis of total amount of issues handled, IDBI has played a major role during the period under

14 Chapter-VI, Section-6.11.2, pp.156-158.
15 Chapter-VI, Chart-6.1, p.154.
16 Chapter-VI, Section-6.12, pp.166-168.
17 Chapter-VI, Chart-6.2 and 6.3, p.165-166.
18 Chapter-VI, Section-6.12, pp.166-168.
Chapter-VII has made an enquiry on capital mobilisation in the primary market through public and rights issues and the role of the top 25 merchant bankers as lead managers on post-issue management of capital issues in India. It is pointed out that issue of total number of corporate securities gives a gradually increasing trend during 1990-96 and then it shows a decreasing mood up to 1998-99. However, since 1999-2000, the total number of corporate securities shows a rising tendency. The impact of the declining trend is found on the amount of capital raised from the primary market from the year 1994-95 to 1997-98 and subsequently it shows an improvement since 1998-99. The reasons behind such achievements of mobilising money from the primary capital market during first phase of reform are: (a) free pricing of financial assets in almost all segments, (c) removal of barriers to entry, (d) new methods of flotation / issuance of securities, (e) influx of unscrupulous and fly by night companies and (g) favourable trend in almost every indicator of corporate performance. It is also evident from this chapter that though the total number of capital issues has increased gradually up to 1995-96 (1719), total amount of capital issues have also accelerated to Rs.2185026.12 up to 1993-94. The main reason behind such situation is

19 Chapter-VI, Table-6.5, p.161.
20 Chapter-VI, Table-6.6, p.163.
21 Chapter-VI, Section-6.11.4, p.159.
22 Chapter-VII, Chart-7.1, p.177.
23 Chapter-VII, Chart-7.2, p. 177.
that while the issuing companies tried their best to allure the investors, but later did not respond positively and remained lackadaisical about the primary capital market during 1994-95 to 1997-98. Such a negative approach of investors was the outcome of some eventful securities scams in the Indian stock market, which created uncertainty and panic in the sentiments of investors and the capital market as well. It is also derived that there is a significant mutually exclusive relationship among growth of corporate sectors, activities of merchant bankers as well as growth of securities as is observed when highlighting the individual aspects during the period of study. It is found here that SBI Capital Markets Ltd., the first Indian merchant banker, is a consistent performer in this specialised service and takes up the cudgels in promoting this specialised service. The institution is ranked first while analysing the role of merchant bankers as lead managers in India on post-issue management of corporate securities [public issues as well as right issues in terms of number of issues and amount of issues] during 1990-2000. It is also experienced that number of issues managed by the top 25 merchant bankers gradually increased during 1990-95 and then started to decline till 1997-98. However, there has been a considerable improvement in the performance since 1998-99. The amount involved in issue of corporate securities has increased sharply from Rs. 1072339.20 lacs to Rs. 5920836.75 lacs during 1990-94, which reduced to Rs. 4139671.90 lacs during 1995-96. The study has further revealed that role of merchant bankers in respect of number of issues managed is not akin to the amount involved with the issues during 1990-2000, as merchant bankers' role in terms of amount of issues has fluctuated widely since 1996-97. The main reason behind such situation is that while merchant bankers made some sincere efforts in encouraging the prospective investors by assisting issuing companies, the prospective investors did not respond

24 Chapter-VII, Section-7.4.1, Table-7.1, p.175.
25 Chapter-VII, Section-7.4.2(A) & 7.4.2(B), pp.179-195.
26 Chapter-VII, Section-7.4.3, Chart-7.3(A), p.196.
27 Chapter-VII, Table-7.7 and Chart 7.3(B), pp.196.
positively during the said period\textsuperscript{28}. Also such a declining show is the outcome of the reversal trend in almost every indicators of corporate performance, depressive mood in the Indian stock market and also the recessionary effect in the global economic environment\textsuperscript{29}. It is, therefore, observed that the growth of securities (which is supposed to reflect the corporate growth), economic growth and the merchant bankers' role are interactive as well as inter-related. And these activities are, however, directly and indirectly influenced by the changes in the Indian economy.

8.2 A few suggestions

With a view to enhancing the role of all merchant bankers and bringing out the buoyancy in the Indian capital market the following points may be considered:

(1) A printed performance report covering all the activities by the merchant bankers should be published separately that may be helpful to the other merchant bankers, issuing companies and investors as well. This performance report should not be clubbed with the traditional financial reports.

(2) According to the SEBI's rules and regulations, merchant bankers are required to submit a half-yearly as well as annual performance report to the SEBI. SEBI should impose exemplary punishment if any of these institutions fail to follow the same.

(3) Previous performance of merchant bankers as lead managers must be disclosed at the time of managing issue of corporate securities. Such reports will help increasing the investors' confidence in taking decisions.

(4) Merchant bankers should be made accountable to the stakeholders for their performance and they should also be required to compensate their clients for any loss suffered due to their negligence of duties, ingenuity, dishonesty, etc.

\textsuperscript{28} Chapter-VII, Section-7.4.3,pp.195-197.
\textsuperscript{29} Chapter-VII, Section-7.6,p.198.
Apart from the activities of Association of Merchant Bankers in India (AMBI), state wise association of merchant bankers should be formed to act as a forum for their professional improvement and skill development. This association should initiate some strategies in bringing out the buoyancy in the capital market.

Merchant bankers should extend exclusive guidance to investors in articulating their portfolio and suggesting avenues for favourable investment to get the best return out of the same.

Merchant bankers in India mostly devote their services on capital issue management. It is suggested that they should make some structural modifications in their organisational and management pattern to participate in non-fund based activities like corporate counselling, loan syndication, working capital financing, etc. This can ultimately bring an improvement in the capital market environment.

Merchant bankers should take a major role in preventing the malpractices of the unscrupulous promoters/ bankers to safeguard the interest of the investors.

With a view to improving the overall sentiment of the primary market, merchant bankers should devise strategies to encourage those small savers who desire to invest their hard-earned income in capital market for a better return, as the millions of small investors are not in a good position to manage their funds in a decent manner.

8.3 Proposals for further research

In this section, some areas associated with the present study requiring further research have been identified.

A detailed study may be made on the role of merchant bankers in syndicating loan to the corporate sectors, which has brought a new era in corporate financing in India.
Indian merchant bankers as lead managers undertake the management and organisation of mutual funds. A study can also be made on role of merchant bankers on mutual funds.

Finally, merchant bankers act as an intermediary in settling negotiations for merger between the offeree and offerer companies. A study can also be undertaken on the performance of merchant bankers participating in advisory services for capital re-structuring through mergers, amalgamations and takeovers.

8.4 Conclusion

Merchant bankers as lead managers play a vital role on corporate issue management. Such issues again, promote the corporate growth which influences and is influenced by the economic growth of a country. Merchant bankers can anticipate the opportunities in changing scenario of the capital market. They also advise the promoters to exploit new found opportunities in mobilising money from small savers to the corporate sectors. From the macro-economic point of view, it can be stated that they help in allocating scarce resources among efficient economic agents.

But what has been actually done by merchant bankers in reality? It is questionable whether they are the people who identify the opportunities or try to reap the benefits once opportunities are identified. Another question is whether they are the growth finder or they are growth follower. In the times of boom they form a bee-line, their activities multiply. But at the time of recession, usually they close down their doors keeping their clients aback. To minimize the gravity of such contradiction authorities take various steps through promulgating rules and regulations.

SEBI has recently made a move to introduce mandatory rating for initial public offerings (IPOs) of companies by specialised credit rating agencies. However, an effective way would be to fix greater responsibility on merchant bankers and company promoters. Merchant bankers are anyway closely associated with the issuer company. Strengthening the
due diligence process at their end, combined with a system of penalising merchant bankers found guilty of falling short in this regard, is a far better method of improving the quality of corporate issues that come to the capital market. The regulator also needs to find out a system to lift the corporate veil in cases where promoters are suspected to have acted with less than honourable intentions. It is only when promoters realise they can be personally hauled up for their acts that they will perform responsibly.\(^3^0\)

But rules and regulations are not enough to evolve and nurture sound traditions and practices in merchant banking for bringing in buoyancy in the capital market. The Government, SEBI, and above all the public in general should be more vigilant in this respect to keep this system under control. In the days ahead, merchant bankers must be more dynamic, strategic and vigorous to meet the challenges with a view to improving the corporate finance and establishing a healthy corporate environment. This is the high time to the merchant bankers to sharpen their skills, expertise and efforts to harmonise their activities for the economic development of the country. They will have to initiate new instruments and innovative means of financing to meet the growing financial requirements of the corporate sector. They have to conduct capital issues management in a different fashion than what is being done at present. Merchant bankers have to tap the economic opportunities efficiently and to guide the corporate entities for developing in built stability in themselves. Some arrangement should be made to make the role of merchant bankers transparent to the public to enhance their confidence and credibility. If all these tasks proceed together to meet the challenges, it is expected, role of merchant bankers must be improved and consequently the Indian capital market will be highly benefited in future.

\(^3^0\) The Economics Times, 7th May, 2004.