CHAPTER-III

MERCHANT BANKING SERVICES IN INDIA
3.1 Introduction

The preceding chapter highlights on the origin of merchant banking, the historical background of these entities and their growth in India and also in various countries of the world. Recommendations of Banking Commission on merchant banking in India and the changing scenario of regulatory framework in Indian capital market have also been discussed in brief. In this chapter, it is intended to portray a brief sketch on the various activities performed by these entities to serve the corporate sectors in India.

3.2 Scope of services as was anticipated

During seventies, the permission of setting up of a separate merchant banking division by leading commercial banks, foreign banks, financial institutions and private merchant bankers was regarded as a very encouraging step towards development of Indian economy as a whole. The specialised services rendered by the merchant bankers were accepted as a protective and promoting force to entrepreneurs, corporate sectors and also to the investors. The growing popularity of the various services of the merchant bankers during the initial years represented a clear indication of the vast scope of services, which lay ahead to those entities. However, in the context of the massive investment policies taken up by the various sectors of the economy and the industries as well, merchant banking expertise was likely expected to be in a much greater demand in the future years. Merchant banking, a service oriented industry, was providing nearly the same services which are being rendered traditionally in United Kingdom and other European countries and by the investment banks in USA and also in other countries like Australia, West Germany, Hongkong, Singapore and South Africa to cater to the needs of the corporate sectors.
3.3 Functions of merchant bankers in India

Before beginning the services of merchant bankers in India, the capital issues were managed and controlled by the managing agency houses as "Issue Houses". The services included were managing issue of securities, advising on the capital restructuring, providing underwriting activities, arranging finance from various institutions, preparing prospectus and listing of issues in the stock exchanges\(^2\). Though merchant banking activity was initiated in about three decades ago, it was only in 1992 when SEBI was formed and the rules and regulations regarding merchant banking activities were redesigned for a more disciplined performance of these entities. The concept merchant banking assumed a serious concern only after SEBI thought it positively as a very important intermediary in the functioning of the capital markets and also performing other financial services.

The merchant banks in India basically have concentrated their activities on the following services:

3.3.1 Corporate counselling.
3.3.2 Project counselling and pre-investment studies.
3.3.3 Credit syndication and project finance.
3.3.4 Capital issue management.
3.3.5 Underwriting of capital issues.
3.3.6 Portfolio management.
3.3.7 Venture capital financing.
3.3.8 Lease finance.
3.3.9 Non-resident investment counselling and management.
3.3.10 Mutual funds.
3.3.11 Advisory services for capital re-structuring through mergers, amalgamations and takeovers.

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The following few lines make a detailed discussion on the above activities to have a better idea about the overall performance of these institutions.

3.3.1 Corporate Counselling

Corporate counselling refers to the activities performed by the merchant banks to provide expertise knowledge to a corporate entity to ensure better performance and also to portray a better image to investors resulting from distribution of dividend and ensuring appreciation in market value of its equity shares. It covers a wide spectrum of services for a business enterprise that includes, providing guidance in connection with government rules and regulations, appraising product lines and analysing their growth and profitability and forecasting future trends in the market.

Generally, there is a difference between corporate counselling and secretarial counselling. Merchant banker is concerned with the corporate counselling in helping a corporate unit to survive and bring development in the overall business environment. Basically, corporate counselling refers to an intermediary function, which requires ability to develop strategies, expertise knowledge, skills and experience to resolve the business problems. The scope of corporate counselling ranges from managerial economics, investment and financial management to corporate laws and the related legal aspects. The corporate counselling services concentrate on the following aspects:

(i) Determination of organisational goals, size of the organisations and operational scale

To determine the goal is the most crucial consideration for any business enterprise. The merchant bankers take up the cudgels in relieving of pains of their corporate clients by setting up the business goal, in planning strategies to achieve the goal and also suggesting the future growth path of these entities. Generally, the size of the organisation and the scale of operation

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are the determinants of the organisational goal. In this aspect, certain factors are to be critically considered and evaluated by the merchant bankers in making their valued judgements. These factors are (a) resources available like technology, managerial skills and financial background, etc., (b) environmental support like government policies, regulations, incentives and protections, (c) existence of favourable legislative framework, (d) cost of production as compared to other existing firms at the optimum scale of production, etc\textsuperscript{4}.

(ii) **Determination of optimum product line**

The advice of the merchant banker may be sought by the corporate clients to shut down one or more of the existing products while adding new products to the list. Because some problems may be faced by the corporate enterprises in choosing between discontinuing an existing product and/or adding new products in order to capitalise an opportunity and also to fulfil the business objectives. In such cases, the merchant banker gives necessary guidance through techno-economic feasibility study and makes assessment of financial resources for determination of optimum product line.

(iii) **Advising on overcoming problems of cost reduction**

Rising costs of production is the common problem of business organisations and it is a very tedious task to find out the means for reduction of costs and also to enhance the profitability of the business. Merchant bankers render the specialised services of corporate counselling for developing the ways to overcome such problems. Generally, for cost reduction measures, the merchant bankers concentrate on factors like efficiency of management, degree of technological adaptation, size of plant,

productivity and quality of input factors including manpower and the material.

(iv) Solving the problems of pricing policies
Problems relating to pricing of the products affect the revenue of the business. Pricing of the products is based on cost of inputs as well as quantum of output. Merchant bankers study the problem areas and find out the ready alternative solutions for pricing policies and decisions.

(v) Assisting company in solving problems on corporate planning and control
Effective corporate planning usually depends upon appropriate corporate policy of the business organisations. Merchant bankers help companies in making appropriate functional policies within the overall corporate policy frame. Such functional policies include the production policy, marketing policy, purchasing policy, research and development policy, etc. There are certain other factors which are considered by the merchant bankers in rendering assistance to the clients through corporate counselling are (a) size of the organisations, (b) organisational set-up, (c) management pattern, etc.

3.3.2 Project counselling and pre-investment studies for investors
Project counselling refers to preparation of project report, decision on financing pattern of project, appraisal of project report and arranging funds with financial institutions or banks, etc. Corporate entities are advised by merchant bankers in respect to preparing project report, which includes technical feasibility, marketing survey and other information relating to project covering management aspects, location, means of financing, projected cost of production, working results, cash flow statements and balance sheets. Project reports are prepared (a) to have the approval of the project from the respective authorities, (b) to

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obtain financial assistance from financial institutions, banks and other sources, (c) to make planned utilisation of resources and implementation of the project within scheduled time, (d) to explore market for the proposed product, (e) to have an idea about specified technical process and engineering requirements for manufacturing of products and (f) to make plan for capital issues of corporate securities.

Arranging funds for project is another important aspect of project counselling. The sources of funds are comprised of owner's funds and borrowed funds. Owner's funds include promoter's contribution in the form of equity, public and right issues, retained earnings and issue of bonus shares for an existing company. On the other hand, borrowed funds are procured in the form of loans from banks, financial institutions and by issue of debentures from public. Merchant bankers are always there to make arrangement of funds, both indirectly and directly, for their clients.

3.3.1 Credit syndication and project finance

Credit syndication refers to the services rendered by the merchant banks in arranging and raising credit from financial institutions, banks and other leading investment organisations for financing the clients in regards to project cost or in meeting working capital requirements. Basically, credit syndication is the outcome of project counselling process through which various sources of funds could be traced to arrange finance. There are three types of periodic sources of funds, namely, (a) short term funds, (b) medium term funds and (c) long term funds.

Short-term funds are obtained from commercial banks, trade credit, public deposits, business finance companies and customers in order to meet working capital requirements. Such funds are generally arranged for a very short period like one year. Medium term funds are procured

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from state financial corporations, commercial banks, all India financial institutions, industrial finance corporations of India (IFCI), industrial development bank of India (IDBI), investment institutions and the general public by way of fixed deposits. These funds are required for permanent working capital, expansion or replacement of assets and such type of funds are arranged generally for a period of five years. Long term funds are for more than five years and such type of funds are required for initiating a new project, for modernisation or for diversification of an existing unit of corporate entities and for other purposes. Loan syndication activity, basically, is concerned with arrangement of borrowed funds from different sources except the funds raised from the public.

Once the decision to embark on a particular project or expansion or modernisation scheme has been taken by the client company, then the merchant banker, on behalf of his client, has to locate the sources of funds and makes arrangement to comply with the formalities required in procuring such funds. The services generally include (a) preparing project details, (b) locating sources of funds, (c) selecting suppliers of funds, (d) preparing and filing of the loan applications, (e) obtaining sanction letter, (f) complying with the terms and conditions for the availability of the loan and (g) arranging bridge finance.

3.3.1 Capital Issue management

The abolition of the managing agency system, the growth of the public limited companies in numbers and in sizes, the imposition of new rules and regulations regarding the public issues of securities by SEBI have compelled the merchant bankers to play a key role in managing the public issues of corporate houses in India. Merchant bankers in India undertake the capital issue management as the most prolific professional service. The performance includes procuring long term finance for their

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7 Ibid.pp. 296-311.
clients through issue of equity, preference shares, rights shares and debentures/bonds to the public. Capital issue management involves specialised marketing of corporate securities through offering securities to the public, procuring private subscription of securities (i.e. private placement) and granting securities to the existing shareholders of the company\(^8\).

In case of a public issue, a merchant banker in respect of pre-issue management (as lead manager) has (a) to take requisite actions as per SEBI guidelines; (b) to appoint managers, bankers, underwriters, brokers, etc.; (c) to advise the company on appointment of auditors, solicitors and board of directors; (d) to draft prospectus and obtain consent from company's legal advisors, board of directors and other concerned parties; (f) to file the prospectus with registrar; (h) to make an application for enlistment with stock exchanges and finally (i) to make an arrangement for advertisement about the issue\(^9\).

The post-issue activities (as lead manager), on the other, include (a) final allotment and/or refund of subscription amount; (b) calculation of underwriters' liabilities in case of under-subscription; (c) complying with the necessary statutory requirements for listing of securities on the stock exchanges\(^10\). The detailed discussion about this topic is made under the headings pre-issue management and post-issue management in Chapter-VI and VII respectively.

3.3.1 Underwriting of public issues

Underwriting is an agreement made between an issuing company and other party called as underwriter who binds himself to accept the under-subscription of securities in consideration of certain amount of commission\(^11\). A fully underwritten public issue spells confidence to the

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\(^{8}\) Ibid. pp. 140-142.
investing public, which generally ensures a good response to the issue. Keeping this in view, companies when float any public issues must have full understanding about such issue. Merchant bankers, managing an issue, have to decide very carefully after going through detail of the issue and also the issue amount to be underwritten\textsuperscript{12}. The underwriters must be the SEBI authorised and registered merchant bankers, brokers, banks, financial institutions, etc. This topic has also been discussed in Chapter –VI in detail.

3.3.1 Portfolio management

The general investors are not aware of profitable investment decisions. As such, they face a lot of difficulties in selecting the right opportunity, the right time to get in and get out to have the right return. Portfolio is a combination of securities such as stocks, bonds and money market instruments. The process of blending together the broad assets classes so as to obtain optimum return with minimum risk is referred to as portfolio management. It suggests that keeping a portfolio of single security may lead to higher risk than to a diversified portfolio which may provide a balanced return. Portfolio management service is one of the merchant banking activities recognised by SEBI. Presently, portfolio management services can be performed by SEBI authorised Category-I merchant bankers or the portfolio managers or the discretionary portfolio manager as defined in clauses (e) and (f) of Rule 2 of SEBI (Portfolio Managers) Rules, 1993. According to the definition, a portfolio manager means any person who pursuant to a contract or arrangement with a client, advises or directs or undertakes on behalf of the client (whether as a discretionary portfolio manager or otherwise) the management or administration of a portfolio of securities or the funds of the client, as the case may be [Clause (e) of Rule2]. Discretionary portfolio manager means a portfolio manager who exercises or may, under a contract relating to portfolio management, exercise any degree of discretion as to

the investments or management of the portfolio of securities or the funds of the client, as the case may be [Clause (f) of Rule 2].

Merchant bankers take up the management of a portfolio of securities on behalf of their clients, providing special services with a view to ensuring maximum return by such investment with minimum risk of loss of return on the money invested in securities. In performing the services of portfolio management, a merchant banker has to enquire the investment needs of clients, their tax bracket, ability to bear risk, marketability and liquidity of securities, reasonable return on investment etc\textsuperscript{13}. In addition to that, merchant bankers and portfolio managers are required to perform other set of functions including (a) studying capital market environment, (b) studying price trends of securities in stock exchanges, (c) identifying blue-chip companies where investments may be proved better and safe, (d) collecting necessary information on financial performance of various companies, (e) maintaining complete records of latest amendments in Government policies, stock exchange, RBI regulations, etc, (f) studying the behavioural pattern of brokers community engaging in different stock exchanges, (g) educating prospective investors, (h) guiding on purchase and sale of securities on behalf of their clients to achieve maximum return at lesser risk\textsuperscript{14}.

In order to become successful in portfolio management the merchant bankers or portfolio managers take into account a well planned programme including appropriate return on investment, selection of a balanced mix of capital structure of a company, diversification of portfolio, etc\textsuperscript{15}. They assist in this area not only to individual and corporate investors but also to non-resident Indians (NRI).

3.3.1 Venture capital financing

Venture capital may be termed as risk capital as risk is involved with such capital investment. Venture capital financing refers to long term equity financing for high risk and high reward projects, which is assisted by merchant bankers\(^{16}\). In this form of financing, capital is invested either for starting up a new project or for developing an existing business enterprise with high degree of risks associated with. An entrepreneur is generally motivated towards such venture with the expectation of higher return as investment in other alternative funds may prove unwise. Innovative, hi-tech ideas are necessarily risky. It is here that the concept of venture capital steps in. Venture capital provides long-term start up costs to high risk and return projects. Typically, these projects have high mortality rates and, therefore, are unattractive to risk-averse bankers and private sectors companies\(^{17}\). Some of the characteristic features of venture capital financing are:

(i) Venture capital is basically equity finance in relatively new companies when it is too early to go to the capital market to raise funds. It involves not only equity investments but also loan finance/ convertible debts.

(ii) The objective of venture capital financing is to earn capital gains on equity investment and debt financing is only supplementary.

(iii) Venture capital also provides business skills to the investee firm, which is termed as 'hands-on' approach/ management.

(iv) Venture capital financing involves high risk-return spectrum.

(v) Venture capital is not technology finance, though technology finance may form a sub-set of venture capital financing.

The concept of venture capital came to India with an initiative by the Central Government on presentation of a document of long-term fiscal policy by the Finance Ministry on 20\(^{th}\) December, 1985, which announced the creation of Venture Capital Fund (VCF) for providing


initial equity capital of Rs. 10 crores for pilot plants. The VCF is in operations with effect from 1st April, 1986 and is administered by IDBI. In 1988, Technology Development and Information Company of India (TDICI) was the first of this kind set up by ICICI in collaboration with UTI in order to render required assistance for technical advancement in industry. In recent years major financial institutions, commercial banks and foreign banks set up their own venture capital funds. These are:

(i) IDBI’s Venture Capital Scheme: It provides venture capital finance facility to new entrepreneurs in three ways; (a) IDBI Venture Capital Fund, (b) IDBI Seed Capital Scheme administered through State Industrial Development/Investment Corporations (SIDCs/ SIICs), (c) Special Capital Scheme operated by State Financial Corporations (SFCs).

(ii) ICICI’s Venture Capital Fund assistance: It provides venture capital financing through; (a) Technology Development and Information Company of India Ltd (TDICI), (b) Programme for Application of Commercial Technology (PACT).

(iii) Industrial Finance Corporation of India Venture Capital Fund.

(iv) SBI Venture Capital Fund set up by SBI Capital Markets Ltd.

(v) Can Bank Venture Capital Fund set up by Can Bank Financial Services Ltd.

(vi) 20th Century Venture Capital Fund established by 20th Century Finance Co. Ltd.

(vii) Indus Venture Capital Fund, jointly promoted by Hindustan Levers and Mafatal Industries.

(viii) Venture Capital Ltd. was set up by Andhra Pradesh Industrial Development Corporation (APIDC).

(ix) India Investment Fund, as India’s First Private Venture Capital Fund, was set up by ANZ Grindlays Bank. Many merchant bankers in India are entering into this specialised services arena through arranging funds for the upcoming projects.
3.3.8 Leasing

A lease is a contractual arrangement under which one party (the lessee) is allowed by the owner of the asset (the lessor) for using the asset for a stipulated period of time on consideration of the payments of rentals. The terms of payment and other conditions relating to the insurance and maintenance of the asset etc. are, however, mentioned in lease agreement. At the end of the lease period, the lessor takes back the ownership of the asset unless the lease is renewed for further period. Leasing is regarded as an alternative source for financing capital outlays. Although India’s leading merchant bankers do not consider leasing as a specialised activity, they do leasing financing only as a separate activity distinct from its other regular activities. Grindlays Bank, Canara Bank, State bank of India (SBI), Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), and Industrial Financial Corporation of India (IFCI) and some private firms doing merchant banking activities have separate leasing units performing such activities\(^\text{18}\).

3.3.9 Non-resident investment counselling and management

In order to attract non-resident investment in the Indian primary and secondary markets, the merchant bankers have opened up new vistas by providing investment advisory services to the Non-Resident Indians (NRI) and also to the Persons of Indian Origin Residing Abroad (PIORA). The services include, advices on selection of investment, critical evaluation of investment portfolio, securing approval from RBI for the purchase and sale of securities, holding securities in safe custody, maintaining investment records and complying with ceiling requirements, collecting and remitting interest and dividend on investment, and also providing tax consultancy services\(^\text{19}\).


In addition to the above services, the following services are also rendered by some merchant bankers for portfolio management to Non-Resident Investors. They include:

(a) Advice on investment in securities, shares and deposits for NRI on both repatriation and non-repatriation basis,
(b) Evaluation of investment portfolio periodically at the request of the investors, and
(c) Circulation of investment news for the benefit of the investors.

3.3.10 Mutual funds

According to SEBI (Mutual Funds) Regulations 1993, mutual fund means a fund established in the form of a trust by a sponsor to raise money by the trustees through the sale of units to the public under one or more schemes for investing in securities in accordance with specific regulations. Mutual fund earns income by way of interest or dividend or both from the securities it holds. Fees, operating expenses and management incomes are deducted from total earnings and finally the remainder is passed to wealth holders through dividends on the mutual fund units. The dividend varies with the income on mutual funds investments. Indian merchant bankers as lead managers undertake the management and organisation of mutual funds and offer various services like designing of the scheme, drafting of other documents, planning and execution of the advertising and market study, compliance of statutory requirements, procuring subscription to the scheme through their network of sub-brokers and clients and overall successful launching of the scheme. Besides the various activities, a merchant banker also promotes mutual funds20.

3.3.11 Advisory services for capital re-structuring through mergers, amalgamation and takeovers.

Merger and acquisitions have become an integral part of the business houses due to their money making opportunities and means of letting
companies stay competitive. A merger is a generic term where two or more companies are combined together to form a single entity\textsuperscript{21}. In amalgamation, two or more transferor companies merge to form the transferee company, which ultimately comes into existence. An acquisition refers to the purchase of a plant or division of another firm by paying compensation, generally in cash. Takeover is normally an unfriendly acquisition by tender offers. Merchant bankers act as an intermediary in settling negotiations for merger between the offerer and offeree company. Their role is specific and specialised in managing the merger and takeover assignments. Merchant bankers assistance is useful for both the companies i.e. acquirer and the amalgamated company. Being professional, the expert merchant bankers use their expertise to safeguard the interest of the shareholders of both the companies\textsuperscript{22}. Their role in mergers includes (a) maintenance of professional norms like observance of secrecy, compliance of legal formalities, completion of financial arrangement, closing of the transactions etc.; (b) primary investigation about proposed merger through industry analysis, accounting and financial analysis, management analysis, marketing analysis, manufacturing and distribution analysis, economic analysis; (c) selection of methods for merger; (d) application of techniques of financial analysis in valuation and share exchange decision and completion of other procedural formalities.

3.4 **Present position of some of the leading merchant bankers in India**

Many of the commercial banks in India such as State Bank of India (SBI), Punjab National Bank (PNB), Bank of Boroda (BOB), Canara Bank, Indian Bank, Financial Institutions like Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India

(ICICI), and Industrial Financial Corporation of India (IFCI), foreign banks such as ANG Grindlays bank, Hongkong Bank, Bank of America, and private merchant bankers like ENAM Financial Consultants Pvt. Ltd., Kotak Mahindra Capital Co., JM Morgan Stanley Ltd., DSP Merrill Lynch Ltd., are providing merchant banking services to the corporate sector consistently. Let us make a brief review of some of the few merchant bankers operating in India.

(i) **Industrial Development Bank of India (IDBI)**

IDBI was setup on 1st July, 1964 as a wholly-owned subsidiary of Reserve Bank of India (RBI) under an Act of Parliament. In view of the manifold increase in its activities and diverse responsibilities, IDBI was restructured in 1976 through legislation enacted by Parliament and made the principal financial institution in India. The transfer of ownership of IDBI was made from RBI to Government of India and various responsibilities relating to financial institutions and other matters about institutional finance previously vested with RBI were entrusted to the restructured IDBI. Pursuant to the amendment to IDBI Act in 1995, IDBI made its initial public offering of equity shares in July 1995 reducing government holding to 72.14%. The amendment was also aimed at providing greater operational flexibility to IDBI. It has played a pioneering role in fulfilling its mission of promoting industrial growth in line with national plans and priorities

The main objective of this institution is to provide financial assistance to the new projects as well as for expansion, diversification, modernisation and technology upgradation of existing industrial enterprises. IDBI is vested with the responsibility of co-ordinating the working of institutions engaged in financing, promoting and developing industries. It also undertakes wide ranging promotional activities including entrepreneurship development programmes for new entrepreneurs, provision of consultancy services for small and medium enterprises,

\[23\] IDBI - A catalyst to industrial development, [http://www.shilpabichitra.com](http://www.shilpabichitra.com)
upgradation of technology and programmes for economic upliftment of the underprivileged. IDBI plays its role as a catalyst to industrial development, which encompasses a wide spectrum of activities. It can finance all types of industrial concerns covered under the provisions of the IDBI Act. Over more than three decades of its service to Indian industry, it has grown substantially in terms of size of operations and portfolio.

The operations of IDBI, as a category-I merchant banker, encompass professional advice and services for issue management, loan syndication, project counselling, corporate advisory services, project appraisal, capital restructuring and mergers & acquisitions.

(ii) Canara Bank

Canara bank is one of the leading merchant bankers in India, offering specialised services to banks, state owned corporations, local statutory bodies and corporate sector. Canara bank is a category-I merchant banker authorised by the Securities and Exchange Board of India (SEBI) for issue management, underwriting of issues, advisory services to an issue including corporate advisory services, etc. It covers areas like: (a) merchant banking; (b) commercial banking; (c) investments; (d) bankers to an issue; (e) underwriting; (f) loan syndication. In addition to these activities, Canara bank also renders few services like, equity issue (public/rights) management, debt issue management, private placement, project appraisal, leasing / hire purchase, corporate advisory services, mergers and acquisitions, buy back assignments24.

(iii) DSP Merrill Lynch Ltd

DSP Merrill Lynch Ltd., a Joint venture between DSP Financial Consultants and Merrill Lynch & Co., offers services in stock broking and investment banking to the corporate sectors25.

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24 http://www.canbankindia.com
25 http://www.khoj.com/Business_and_Economy
(iv) **ANZ Grindlays bank**

ANZ Grindlays bank based in Australia, has 40 branches in 15 centres in India. It offers full-fledged commercial banking and non-banking financial services, personal banking, card services, business banking, investment banking, asset finance, funds management, etc\(^{26}\).

(v) **SBI Capital Markets Ltd.**

SBI Capital Markets Ltd. undertakes merchant banking activities, advisory services, project appraisal, credit syndication and securities broking. It consolidated its position as a full service investment bank, particularly in areas like fund raising, infrastructure advisory services, mergers and acquisitions and securitization. It acted as the advisor and lead arranger to the India Millenium Deposit Programme of State Bank of India. It commenced broking operations with a view to further strengthening its placement capability. It is the sole advisor for restructuring of Delhi Vidyut Board. The Company handled large syndication mandates like a Rs.1400 crores loan for Petronet LNG and Rs.750 crores loan for New Tirupur Water Project which is the country's first commercial water project in urban infrastructure. The institution handled seven mergers and acquisition deals including open offers and an overseas acquisition deal on behalf of Exim Bank and is retained by Tractabel as advisors for the entire South East Asia. SBI Capital Markets Ltd was also awarded the prestigious mandate for disinvestments of VSNL along with Credit Suisse First Boston\(^{27}\).

(vi) **Industrial Financial Corporation of India (IFCI)**

The lending policies of IFCI have evolved over the last five decades of operations. The primary objective of this institution is to provide medium and long-term financial assistance to mainly manufacturing concerns and to fulfill the overall goals of industrial and economic development in India. The principal activities of IFCI include: (a) project finance; (b)

\(^{26}\) [http://www.khoj.com/Business_and_Economy](http://www.khoj.com/Business_and_Economy)

\(^{27}\) [http://www.statebankofindia.com](http://www.statebankofindia.com)
corporate advisory services; (c) financial services; (d) non-project specific assistance.28

(a) Project finance

It involves in providing credit and other facilities to green-field industrial projects (including infrastructure projects) as well as brown-field projects, viz., expansion, diversification and modernization of existing industrial concerns.

(b) Corporate Advisory Services

It provides project advisory and finance services (project conceptualization and other related services, credit syndication, documentation of various project reports, etc.), infrastructure advisory services (facilitation of credit documentation, due diligence, agreements and documentation review/ advice, pre-investment review, feasibility studies, risk allocation, assessment and reasonableness of cost, advice on financing options, financial analysis, negotiating support for equity buy-in, capital market advisory services, etc.), corporate finance and investment banking advisory services (placement of debt and equity, mergers and amalgamations strategy, etc.), corporate restructuring advisory services (buy/ sell advisory services, mergers, joint ventures and alliances, privatization, etc.), foreign direct investment (FDI) advisory services (facilitating foreign business entities through information services, office infrastructure for start-up operations, coordination for obtaining approvals and clearances from government departments, regulators and statutory agencies, syndication services, etc.) and other ancillary services (advising regulatory agencies, industry research and information services, legal advisory services, etc.).

(c) Financial services

It covers a wide range of activities wherein assistance is provided to existing concerns through various schemes for the acquisition of certain assets, as part of their expansion/ diversification/ modernization. These

28 http://www.ifcindia.com/products.htm
schemes are also extended to equipment which is either directly got fabricated by the actual user or procured from domestic suppliers or is imported. These are tailor-made schemes to suit the individual borrower's requirements and are intended to provide quick funds on the basis of need-based appraisal. Only financially sound concerns with good operational performance and fulfilling stringent criteria are eligible for assistance under these schemes.

(d) Non-project specific assistance

It is provided mainly in the form of corporate / short-term loans, working capital, bills discounting, etc. to meet expenditure, which is not specifically related to any particular project.

(vii) J M Morgan Stanley

JM Morgan Stanley (JMMS) is a pre-eminent financial services firm, a joint venture between JM Financial Group, one of India's most respected domestic investment banks and Morgan Stanley. JM Morgan Stanley started its operations in April 1999. JMMS combines the strong domestic franchise of the JM Financial Group with the international experience and expertise of Morgan Stanley. The joint venture leverages the complementary relationships and skills of both partners to assist clients in meeting their financial and investment needs. The asset management firms of both entities are independent of the joint venture. JM Morgan Stanley (JMMS) offers a wide range of services through four different companies:

(a) JM Morgan Stanley Pvt. Ltd.: It is the firm's investment banking arm that mainly concentrates on capital raising, mergers and acquisitions, private equity and advisory work for Indian corporations in both the international and domestic capital markets. It also performs in the areas of retail distribution and fixed income securities through two wholly owned subsidiaries: JM Morgan Stanley Retail Services Pvt. Ltd. and JM Morgan Stanley Fixed Income Securities Pvt. Ltd.

http://www.jmmorganstanley.com
(b) JM Morgan Stanley Retail Services Pvt. Ltd.: It acts in primary and secondary market business and operates with a private wealth management team. The entity specialises in asset allocation principles that offer portfolio management for high net worth individuals. There are eight retail branches all over India (Delhi, Mumbai, Calcutta, Chennai, Bangalore, Hyderabad, Ahmedabad and Pune). An expansion of technology and infrastructure in the retail division is underway for their entity in recent times.

(c) JM Morgan Stanley Fixed Income Securities Pvt. Ltd.: It performs the fixed income business with activities in both the primary and secondary debt market.

(d) JM Morgan Stanley Securities Pvt. Ltd.: It is involved in the areas of institutional equity sales and trading, supported by research for both foreign institutional investors and Indian institutional clients.

3.5 Conclusion

The multifarious activities performed by the merchant bankers in India are discussed in this chapter. In this regard, it is important to know how the activities performed by these entities are regulated in India. Hence, an attempt has been made to discuss the historical background of Securities and Exchange Board of India (SEBI) regulations, its objectives and guidelines prescribed by SEBI on merchant banking activities in the next chapter.