CHAPTER III

THE SERVICES RENDERED BY MERCHANT BANKERS

INTRODUCTION

The fast developing scenario in the capital market aided by relaxation of capital issue norms have made the role of a Merchant Banker more responsible than ever before. In the present context, the expertise and involvement of a merchant banker have become crucial in sourcing funds for the corporate sector.¹

The Economic system including financial system is moving from regulation to deregulated environment. This process will enable our financial system to become more efficient and dynamic offering similar facilities/services available elsewhere in the developed world. Controls through industrial licensing, MRTP Act, FERA Act etc., have been liberalised and CCI Act has been re-activated. SEBI has become the Authority for monitoring the development of the securities market with wide powers. In this scenario, it becomes all the more important for all of us to be aware of these developments and act accordingly. ²

The merchant bankers have been performing a wide variety of services. They have become innovative, creative and path setters in the capital market, but SEBI wants them to be much more responsive to

¹ "Brochure on Merchant Banking Services", Empire Finance Company Limited.
² Dinesh Nayak, H., "Compendium on Merchant Banking", Canara Bank, Bangalore.
investors responsible for all that the companies do and know all and all for the capital market. They have to act as leaders and co-ordinators for all intermediaries in the new issue market and certify to the SEBI to go to the genuineness of the facts stated in the draft prospectus and related materials issued by the companies. 3

The various liberalisation measures and economic and banking reforms are aimed to integrate the Indian economy with the global economy by making it competitive and expanding its base. The policies of protectionism and subsidies are giving way to market orientation and global competitiveness to tap the vast international markets. 4 In this process, banks are facing new challenges and seeing new opportunities which were never heard of before.

Merchant bankers are masters in all trading activities. For an industry, which just two-and-a-half decades old, the merchant bankers have indeed come a long way. Starting out as issue managers, now these merchant banker's role extends to such services as company formation, FERA activities, Working Capital Management, syndication of project finance, feasibility explorations, global loans, international finance, mergers, capital restructuring and corporate tax planning.

One of the most crucial aspects in the corporate world at present is the merchant banking division. Without this division of rather without its

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impeccable services, the Indian industry would be nowhere near where it is today.

The Functions of merchant banking in India can be categorised in four broad sections: (Chart 2).

- To provide long term source of funds required by industries/trade/commerce, for investment. The merchant banker primarily came into being as corporate counsellors for restructuring base of capital, thereafter for issue management and underwriting of the same.
- Project counselling which includes credit syndication and the working capital.
- Capital structuring
- Portfolio management.

ISSUE MANAGEMENT

Management of public issues of corporate securities viz. equity shares, preference share and Debentures or bonds is an act involving mobilisation of money resources from the capital market by way of public issues/offers for sale of equity shares, preference shares, debenture or bond etc. 5

Issue management is the high profile service of a merchant banker, in which they act as managers, co-managers and advisors or registrars to the issue. It is one of the lucrative service of the merchant banker. A merchant banker can raise funds from public by issuing equity shares, preference

5 Op. cit., p.47
shares or debentures. Issue of share: further issue or new issue.

Management of public issues "advice or the designing of a sound financial institutions and determining the issues of different forms of securities, and deployment of internal sources." It is public issue and compliance with the regulations of public issue and compliance with the regulations of the Companies Act/stock exchanges, etc. Stock exchange clearances and listing of the securities" are the necessary arrangements which are also assisted by the merchant banker.

Thus, merchant bankers' involvement with the public issue of equity shares or debentures spans the entire gamut of the various stages of such an operation.

Issue management embraces the following functions:

- Structuring the financing mix of the company
- Co-ordination with the term lending institutions
- Liaison with other Merchant Banker connected with the issue
- Appointment of Registrars/Bankers, to the issue.

"Merchant Banking Service", PNB Brochure, Merchant Banking Division, PNB.
"Merchant Banking Service", Canara Bank Brochure, Merchant Banking Division, Canara Bank.
Sundararajan,T., "Compendium on Merchant Banking, Merchant Banking Division, Canara Bank."
UNDERWRITING

In terms of section 69 of company
be made of any share capital of com,
subscription unless the amount stated in
amount to be subscribed has been subscribe
been received by the company whether
instrument which has been paid". If the m
in the prospectus is not subscribed with in 120 days from the date of issue of
prospectus, all the application money are forthwith liable to be refunded by
the company. In view of the far reaching consequences of failure to raise the
"minimum subscription", there is need to ensure that this subscription is
procured. Hence, the need for an insulation or insurance against under
subscription.

Since it is the duty of the underwriters to subscribe to the
unsubscribed portion offered to the public, they should be solvent enough to
discharge their commitments in case of developments on their account. The
major underwriters in India are: 11

• Commercial Banks
• Financial Institutions
• Brokers who are members of the stock Exchanges.

10 Handbook on Financial Services, Canara Bank.
Underwriters will be eligible for uncompanies while issuing the capital, a c reserved as preferential allotment to employ portion of capital issue is also underwriting underwriting. No fee is generally payab. subscribed by such category of investors. In s only on the portion not subscribed by the pe allotment.

Particulars of underwriting arrangement are mentioned in the prospectus issued by the company. Benefits of underwriting of capital issue:

- Income generation by way of underwriting commission.
- Bank will be designated as bankers to the issue thereby enabling collection of subscription amount from the investors. Thus, low cost funds can be garnered.
- Other acceptable business from the company.
- Publicity in the capital market.

**Payment of underwriting commission**

This is governed by section 76 of the companies Act, directive of the Govt of India (Stock Exchange Division, Ministry of Finance) as a part of listing requirements and Articles of Association of the Company. Gist of the provisions prevailing at present is as under:
• Payment of the commission should have been by the Association.
• Present rates of commission is 2.5% on equity participation, and will not be payable on amounts taken by employees, directors, their friends and business associates.
• Rates of commission payable should be disclosed in the contract for the payment of commission to the Registrar of Companies.
• Underwriting commission is normally payable within seven days of completion of allotment.

Sub-Underwriting

Underwriters are entitled to enter into subsidiary arrangements with other persons commonly known as sub-underwriters with which the company is not concerned. Commission is normally 50% of the original underwriting commission.

CORPORATE COUNSELLING

Rendering assistance of corporate clients on various aspects of business operations particularly in the areas of financial planning, restructuring capital and performance budgeting, liquidity management, other aspects of financial management and monitoring systems, amalgamations and mergers.\(^\text{12}\)

\(^\text{12}\) Op. cit., p.60
Corporate counselling is done to ensure efficiently at its maximum potential through finance. It also rejuvenates old-line companies existing units in locating areas/activities of growth.

The following are the services of corporate enterprise:

Merchant Bank’s move to aid the ailing industrial units is a well thought service which remained wanted for years. PNB claims to have special expertise in the area and contemplates to offer help in this sensitive area in one or more of the following ways namely:

- Commissioning of diagnostic studies
- Assessment of revival prospect, and preparation of rehabilitation plans - schemes of modernisation and diversification revamping of the financial and organisational structure.
- Arranging approval of the financial institutions/banks for schemes of rehabilitation involving financial relief, assistance in getting soft loans from the financial institutions for capital expenditure and the requisite credit facilities from the bank.
- Monitoring of rehabilitation schemes, and
- Exploring possibilities of take over of sick units and assistance in making consequential arrangement and negotiations with financial institutions/ banks and other interests / authorities involved.  

13 “Complete Perspective”, SBI Brochure, Merchant Banking Division, SBI.
The functions of merchant banking in the follows:

- Providing assistance in the area of diversification
- Getting licence from the government
- Studying the feasibility of the project
- Forecasting the future trends
- Assisting the company in getting the appropriate personnel through its placement cell
- Continuing the services till the company is capable of doing this service independently

In the finance side of the company, it

- Assists company in proper debt equity ratio
- Raising funds from the public through the issue of shares, debentures and commercial paper.
- Commissioning diagnostic studies
- Assisting companies in mergers, acquisitions and takeovers
- Credit syndication, factoring
- Arranging finance from development bank and investment banks
- Rehabilitation of sick units.
- Arrangement of underwriters.
The scope of corporate counselling is very wide. It includes managerial economies, investment and corporate laws and the related legal aspects. A merchant banker guides its client as a managerial economist on the following:

- Goal
- Locational factors
- Organisations size and operations
- Product and market survey
- Forecasting of product
- Analysis
- Allocation of resources
- Investment decisions
- Management and expenditure control
- Pricing methods
- Marketing strategy

As a financial and investment expert, a merchant banker has to guide the corporate clients in areas covering financial reporting, project measurement, working capital management, financial requirement and the sources of finance, evaluating financial alternatives, rate of return and cost of capital besides basic corporate change management, reorganisation, mergers and acquisitions are the areas to be covered.

PROJECT COUNSELLING

This is one of the major activities of a merchant banker and has much similarity between corporate counselling and project counselling. The only difference between the two is that project counselling begins when one moves a proposal to start a project. After an in-depth study into the project it shows green signal for the proposed project, to begin its production commercially. The next process is to get approval from the government. Towards this effect a merchant banker has to go through functional processes.

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formalities such as technical, financial and economic project, which include the arrangement of finance.

Project counselling may include identifying investment avenues. 16

CAPITAL RESTRUCTURING SERVICES

The capital restructuring is one of the important functions of a merchant banker. Capital restructuring is made to achieve financial manoeuvrability and to reduce the tax implication without diluting its ownership pattern. If the existing company going for expansion through diversification of activities or through mergers, amalgamations or acquisitions, there is a need for changing the present capital structure. The basic objective behind the capital restructuring services is to "enable projects to achieve their maximum potential through effective capital structure and suggest various strategies to widen the restructure of the capital base, diversify operations and implement schemes for amalgamations, mergers or change in business status. It also advises companies governed by FERA on disinvestment to their maximum advantage and restructuring the capital for the ailing sick units". 17

Over capitalisation and under capitalisation can be avoided through capital restructuring. A merchant banker advises on proper debt equity mix without breaking the existing and future ownership pattern. With the

16 "Total Package", BOB Brochure, Merchant Banking Division, BOB.
abolition of controller of capital issues, companies can raise capital from the public by issue of shares or deben

In the capital restructuring the main thrust remains side so as to reincarnate the capital structure ratios, asset ratios and the debt service coverage with overall impact on fund generating capacity of the client corporate unit.

CREDIT SYNDICATION

The economic significance of this function is that it avoids the concentration of pressure on resources in a particular area. A merchant banker avoids it by the modern concept of risk sharing. Credit syndication is also known as credit procurement and project finance service. The main task involved in credit syndication is to raise the rupee and foreign currency loans with the banks and financial institutions both in India and abroad. It also arranges to bridge finance and the resources for cost escalations or cost over-runs. 18

Loan syndication services overlap with those of the project counselling and project finance. Different banks have tried to cover the services under this head ranging from preparing the applications for the financial assistance from financial institutions/banks and monitoring their progress including the pre-sanction negotiations, post sanction negotiations / liaison with the term lenders, completing the formalities for drawal of the

sanctioned loan amount and thus assisting in the av ailment of the .
disbursal of the sanctioned loan amount in rupee or foreign currencies.  

Some merchant banks have combined loan syndication and project
finance.  

Services covered under the project finance may or may not involve
credit/loan syndication. The stage of availing of project finance arrives only
after a client has taken a decision on the specific project to embark on, the
merchant bank can provide a comprehensive package for the project
funding.

Broadly speaking credit syndication involves

• Estimating the total costs
• Drawing a financial plan for the total project cost - conforming to the require-
ments of the promoters and their collaboration, financial institutions and
banks, govt agencies and underwriters
• Preparing loan application for financial assistance from term lender/banks
and monitoring their progress
• Selecting the institutions and banks for participation in financing
• Follow-up of the term loan application with the financial institution and
banks
• Arranging bridge finance
• Assisting in completion of formalities

20 "Merchant Banking of the Calibre you are accustomed to", CBI Brochure, Merchant Banking
Division, CBI.
Assessing the working capital requirements

Credit syndication may be for financing the project or capital needs or simply a short, medium or long-term arrangement, done in domestic money or in foreign currency.

PORTFOLIO MANAGEMENT

It may refer to any type of securities belonging to an investor at a particular time with a certain definite objectives. It may be equity shares, debentures or govt securities or bonds which are in the possession of an investor.

In other words portfolio management involves making of decision to invest cash resources into marketable securities as to the quantum of amount and the type of security in which to invest. Investors always face a difficult situation of making a decision for a choice on investment at the right time.

At this juncture, merchant banks play a vital role by rendering various services to the investors by advising on the optimum investment mix taking into account factors like objectives of the investment, tax bracket of the investor, need for maximising yield and capital appreciation.

The portfolio system is a technical aspect which requires proper knowledge and skill, judgement and intelligence on the part of those who want to manage it very efficiently and effectively. It involves decision making aspect, the correctness of which cannot be ensured in all the cases.
Besides the above the merchant banker renders the following services.

- Investment in securities
- Investment for non-resident Indians on both repatriation and non-repatriation basis and
- Review of provident fund investment and trust investment

The main objective of portfolio management is safety of funds, liquidity of the funds invested, profitability and capital appreciation. Thus a merchant banker "advises" individuals, NRI, a trust, corporate bodies, provident fund, pension fund and commercial banks. In discharging this function the merchant bankers have to go through a number of formalities listed below:

- Carrying out market/Economic Surveys
- Financial analysis of data
- Study of share market
- Study of industry.

WORKING CAPITAL FINANCE

Working capital finance, traditionally a commercial banking function is a merchant banking function too. Still there is a condition whether working capital finance could be included as a merchant banking function. State bank of India and ICICI, the pioneers in merchant banking activity do not consider grant of working capital as merchant banking service. However, some other banks (Canara bank, Grindlays bank and central bank
of India) have included grant of working capital in their merchant banking services.

A merchant banker assists a company in assessing the actual requirement of working capital and make arrangement for it. Thus it reduces the pressure on commercial banks for unnecessary working capital requirement. Any way merchant banker can assist a company in assessing scientifically the actual need of working capital of the company and can save the company from resource crunch.

Canara bank offers the following services in the matter of working capital finance

- assessment of working capital requirements
- preparing necessary application for submission to bankers
- if more than one bank is involved, assistance in negotiations with all the banks and suggesting sharing pattern of limits amongst participating banks
- assisting, co-ordinating and expediting documentation and other formalities for disbursement and
- advise on the proposal for the issue of debentures for augmenting long term requirements of working capital

LEASING

The term "Leasing" implies getting the services of an asset on 'rent'. Leasing involves the use of an asset without the desire to assume or intend to assume ownership. People desirous of using the services of various types of assets - productive or consumer - usually go in for purchase of such
assets through outright payment of their market prices. When they do not possess the required amount of money to pay for the assets on their own, they go to the commercial banks and other financial institutions to get term loans for the purpose. 21

Leasing is an agreement under which the lessor agrees to pay a certain sum of money against the property leased of both movable or immovable to the lessor for a stipulated period of time.

Leasing is an alternative way of using assets for production and thereby an innovation. It provides for use of an asset of a company (called the lessor) by a company (called the lessee) without owning it against commitment for payment of rent for use. It divides the traditional 'firm' into two independent parts, owner of the asset and user of the asset. A user firm will prefer leasing if the present value of net benefits of leasing exceed, that of owning assets duly adjusted for risk of ownership and tax implications, RBI. 22 has permitted the commercial banks to take up leasing activity through their subsidiaries.

Recently the tendency of the commercial banks and other financial institutions to act as a leasing intermediary, and to dominate the lessors market is increasing dramatically. The important reason, perhaps, is the ability of the financial institutions (because of their high profitability and relatively high tax brackets) to exploit the attractive tax concessions in the

form of depreciation allowance and investment allowance, allowance for investment and deposit amount, granted by the income Tax Act, 1961.

Leasing plays an important role in capital formation in the developing countries like India. Leases come in all sizes, varieties and modes. The rapid growth of equipment leasing in India is obvious, even to the casual observer. In the last 4 to 5 years, leasing has come in a big way to India. This is evidenced by the mushroom growth of leasing companies as well as volume of business in the last 4 years.

Types of Leasing

Lease contracts are of several types. The most important among them are financial and operating lease. In a financial lease, the lessor takes the role of a financier and the lessee takes the responsibility of selecting, ordering, taking delivery of and maintaining the equipment. It is a full payment and non-cancellable lease wherein the lessor would seek to recover more than 90% of the cost and a financing charge during the primary lease period (usually about 75% of the economic life).

A lease is classified as an operating lease, if it does not secure for the lessor, the recovery of his capital outlay plus a return on the funds invested during the lease term.

Leasing as a source of finance

Leasing is very important source of finance from the point of view of the lessee to finance.
• Modernisation up to moderate amount related to his existing business operation.

• Balancing equipment

• Cars, scooters and other vehicles and other durables required for business of the assessee or for providing the same to employees/directors.

• Vehicles

• Items entitled to 100% or 50% depreciation.

• Assets which are not being financed by banks/institutions.

VENTURE CAPITAL

'Venture capital' is the term applied to investments in new and untried enterprises that are 'lacking a stable record of growth. Wherever an enterprise is to be constituted with innovative technology relatively new and not hither to tried in the country. It shall involve great element of risk and thereby the entrepreneurs find it difficult to raise equity capital from the market. Such entrepreneurs fall back upon the assistance of venture capital companies/funds.

Venture capital represents financial investment in a highly risky proposition in the hope of earning a high rate of return.

The concept of venture capital originated in USA in 1950s when the capital markets like Rockfeller group financed the new technology.

companies. The concept became more popular during 1960s and 1970s when several private enterprises undertook financing high risk and high reward projects.

Venture capital is otherwise called as high risk capital. Which implies investment of equity finance on high risk projects with high reward or absolute failure possibilities like high-tech industries.

The main features of venture capital investment is as follows:

- Investments are made in equity shares. The venture capitalist may have huge fund, who is essentially a portfolio manager. A venture capitalist invests in this high risk business and reap huge profits if it is found successful.
- The technology used is entirely new which is not applied anywhere before it is essentially a new product derived out of research.
- The venture Capitalist will not get the amount until the shares are listed in any stock exchange. If the business is a failure he will get hardly any money.
- The venture capitalist is always a passive onlooker on capital market who do not indulge in any speculation in capital market on his shares.

Venture capital companies/fund shall invest in such potential new companies by way of equity support. They can also provide loan assistance to supplement the equity support. By virtue of such investment, VCC/VCF will be eligible for the concessional treatment of capital gains available in the non-corporate entities.  

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Establishment of VCC/VCF

Funds and companies willing to take up venture capital finance activity have to seek approval from the department of Economic Affairs, Ministry of finance or such authority as may be nominated by the government.

All India Public Sector Financial Institutions, SBI and other scheduled banks, including Foreign banks operating in India and their subsidiaries would be eligible to start Venture Capital Funds / Companies, subject to such approval as may be required from Reserve Bank of India in respect of Banking Companies.

Size

The minimum investment size of a VCC/VCF would be Rs 10 crores. If it desires funds from the public, the promoters' share shall not be less than 40%.

Capital Issue

Funds may be raised through the public issues and/or Private placement to finance VCF/VCC.

Foreign equity up to 25% multilateral/international financial organisations, development finance institutes and reputed mutual funds would be permitted, provided these are management neutral and are for medium to long term investments.
NRI investment would be permitted up to 74% on a non-repatriable basis and up to 25% / 40% on a repatriable basis.

Management

It is required that venture capital funds/companies are managed by professionals such as Bankers, Managers and Administrators and persons with adequate experience of industry, finance and accounts etc. If established by subsidiaries of Banks/institutions or in house schemes, they should maintain their independence. They would however be free to draw up to the professional expertise and infrastructure of the parent organisation in the interest of their share holders and clients and minimising costs.

No person would be permitted to be the full time chairman/president, chief executors, MD or Executive Director or a whole time Director of a VCC/VCF if he holds any of the above positions in any other company, except that he may hold such a position in an associated company by virtue of his position in the VCC/VCF.

Criteria for VCC/VCF assistance

It is intended that the Venture Capital Assistance should go mainly to enterprises where the risk element is comparatively high due to the technology involved being relatively new and not affluent though otherwise qualified and the size being modest. The assistance should initially be for equity support, though loan support to supplement this may also be done.
The assistance should cover those enterprises which fulfil the following parameters:

- The total investment not to exceed Rs.10 crores
- The technology is new or being taken from pilot to commercial stage or which incorporates some significant improvement over the existing ones in India
- Promoters/enterpreneurs are to be professionally or technically qualified, with adequate resources or backing to finance the project
- Investment in assisted units for their expansion or strengthening or investment for the revival of sick units would be permitted as a part of venture capital activity
- The recipient venture should be established as a limited company and must employ professionally qualified persons to maintain its account
- The VCC/VCF should invest at least 75% of its funds in to venture capital activity
- During the first 12 months, any permissible investment may be made (including leasing up to 15% of the fund) but a level of 30% should be reached for venture capital activity by the end of the second year, and 60% by the end of third year and 75% by the end of the fifth year of operation

The balance amounts may be invested in any new issue, by an existing or a new company, of equity, CCPS, debentures, bond or other securities approved for this purpose by CCI. A part of this may also be employed for leasing but this should not, at any stage, exceed 15% of the total funds deployed, including in the first year.
MUTUAL FUNDS

Mutual fund has been defined as follows. It is a non-depository or non-banking financial intermediary which acts as "important vehicle for bringing wealth holder, and deficit units together indirectly".  

Under a mutual fund arrangement, investor pool their money in a fund which is run by professional fund manager. The fund managers invest the pooled funds in a wide selection of securities. Investors contributions to the pool are divided into units (or shares). The value of each unit/share reflects the performance of the shares of the companies in which the pooled funds have been invested. It is a form of collective investment.

A mutual fund is basically a risk reduction tool. Risk reduction is achieved by diversification of the portfolio. Diversification means that a mutual fund invests in a large number of shares and instruments which lower the risk. Further the fund manager, investment decisions are based on the basis of intensive research and are backed by informed judgement and experience.

The important yard stick for judging the performance of mutual funds is the Net Asset Value (NAV). This represents the current market

28 Loknath Mishra, "Mutual funds and Banks", IOB Monthly News Review, p.3.
29 Madan Goyal, "Mutual Fund in India", SBI monthly review, p.229.
value of the fund's portfolio (net of liabilities if any). When the NAV is divided by the number of shares issued, we get the net asset value per share.

**How does a mutual fund operate?**

A mutual fund invests the money received from investors in instruments which are in line with the objectives of the respective schemes. Regular expenses like custodial fee, cost of dividend warrants, registrar fee, registrar fee and the asset management fee are borne by the respective schemes. These expenses however cannot exceed 3% of the assets in the respective schemes every year. Balance everything is given back to the investors in full. 31

Mutual funds are of two types close ended and open ended. In the case of a close ended fund, a fixed number of shares are issued to investors, after where the shares are traded like any other security. In an open ended fund, shares are issued up to any amount. These shares are not traded in the stock market. However, the fund stands ready to redeem the units offered by any existing investor or to sell additional units to any new entrant, at any time during the life of the fund.

Unit Trust of India (UTI) is the largest mutual fund in India which is established by an Act of parliament in 1963. SBI, Canara Bank, Indian Bank, Punjab National Bank, GIC, LIC and several other mutual funds are there in Indian market. In addition to that Private Sector Mutual funds like

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31 The centurion guide to mutual funds published by 20th Century Mutual Fund.
Kothari mutual fund and ICICI mutual fund are functioning. Mutual funds too have come under the orbit of SEBI.

FACTORIZING

Factoring is defined as an arrangement under which a financial institution assumed the credit control, credit protection and collection role for its client. Besides purchasing receivables, maintains the sales ledger attends other bookkeeping duties related to such accounts and performs other auxiliary functions.  

Factoring is the management and in most of cases the purchase of business debts. It has its genesis in the old concept of factor as an agent. Factoring is the process whereby a seller sells his trade (bills) debts on continuing basis to a factor. The customer of the supplier consequently, becomes a debtor of the factor and has to pay the factor directly in order to discharge the debt.

Main aspects of factoring functions

- An administrative service under which the factor manages the trade debts of the client company. The factor will maintain the sales ledger, issue invoices, collect payments when due and generally relieves the client of the administrative hassles
- A system of credit protection, by which the factor assumed responsibility for the trade debts due to the client company and thereby relieves the client of the risk of loss. However, it is the central but not essential aspect of factoring

Bajaj, K.K., - "Factoring Services make a debut in India", The Banker, June,92.p.55
A method of financing in that the factor who takes over the clients in trade debts will in certain circumstances, advance a proportion of their value immediately and the balance on the maturity of the debts. The client's liquidity is improved to the extent that a cash balance has been substituted for book debts.

A study group under the chairmanship of Shri. C.S. Kalyana Sundaram was set up in Jan 1988 to examine the feasibility of setting up factoring organisations in the country. It also looks into the feasibility of export factoring. The RBI has accepted, in principle, the recommendations of the study group especially for launching domestic factoring on zonal basis. As the economy becomes diversified and the number of units increases, manual control over trade dues will become progressively difficult and factoring, with the support of computerised accounting can be of great help. SBI factors and commercial services Pvt Ltd., was set up on February 26, 1991 for rendering factoring services to the western India. The company, since its commencement of operations on 18th April 1991, confined to domestic factoring, is now well-established in the last 2 years and poised for a further leap presently.

At present there are only three factoring agencies viz., SBI factors and commercial services Pvt. Ltd., (Western India) Canbank factors Ltd., (southern India) and fair growth factors Ltd. Fair growth factors, the country's first private sector factoring agency, which came into existence in

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April 1992. Vysya Bank and the International finance corporation (IFC) have agreed in principle to participate in this venture. A number of private sector firms are also eyeing this high potential area for their future development.

ACCEPTANCE CREDIT and BILL DISCOUNTING

Acceptance credit and bill discounting is the early mechanism in the trade and commerce. Acceptance credit and bill discounting is the principal activity of merchant banker round the world and more particularly in UK. But in India acceptance and discounting not yet developed. For acceptance and discounting there must be a developed capital market and money market. For a merchant banker there must be well developed bill market for which there should be increased trading from across the border and export activity within the nation. Merchant banker gets a commission for acceptance. Bills of Exchange has a higher liquidity than over draft because it can be encashed through rediscounting.

Accepting service over the bills is not free of cost. Traders who avail of this service from the merchant bankers have to pay for service charges in the following form of costs:

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\text{service charges} = \text{Discount on bills.} + \text{Acceptance commission} + \text{Stamp duty on bills.}
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Acceptance commission is fixed by the acceptance house and is the remuneration for taking the credit risk. Accepting house firms are competing to such an extent that their commission also almost remains same i.e. 1-1/4 to 1-1/2% but those which are not the members of the Accepting House Committee, their rates differ and exceptionally go much above the rate of the member merchant banks.

MERGER, AMALGAMATION and ACQUISITIONS

Mergers, Amalgamations and acquisitions of companies are highly complicated and have restrictions throughout the process both legal and technical. These are specialised services which all the merchant banks in India have not been able to render excepting the ICICI, Canara Bank and Grindlays Bank. Grindlays Bank claims to provide this service as "specialised service attuned to the individual requirements of their clients".

Mergers, Amalgamations and Acquisitions will only take place in a free economy. As far as a merchant banker is concerned this process involves a number of problems viz. Valuation of shares, goodwill, Assets, New pattern of ownership, creditorship, decision on going public both new issue or further issue. These are purely internal problems concerning both companies. The external problems are government restrictions, legal hurdles and lobbyists. A merchant banker has to take timely decisions to solve all these problems.
RELIEF TO SICK INDUSTRIES

A merchant bank through its expert packages helps sick units to revive. Sickness of industries in India have blocked huge amount. This is indeed a set back to the modern economy. Most of the sick industries could be revived through proper guidance and assistance.

Sickness of industries aggravate unemployment and poverty.

FOREIGN CURRENCY FINANCE

A merchant banker provides foreign currency finance mainly for industrial purposes. Foreign currency is important for import trade. It may be for importing raw material or finished goods or a technology. For promoting Indian goods abroad a considerable amount of foreign currency is needed.

Foreign banks operating in India through their merchant banking departments are rendering significant services in this regard.

SUMMARY

The prospects for merchant banking activity are increasing fast. The activities and functions that they can perform have also widened; with increasing deregulation and financial sophistication the growth of non-banking financial services is going to be enormous. It is in this context that merchant banks will increase in number. Competition among themselves will also grow. The profits and profitability of the merchant banking activity thus has vast potential. With the growth of capital market, merchant banking activity and that of new issues are bound to grow in an exponential order in the years to come.