INTRODUCTION

The process of economic development of any country demands a sound system of financial market which includes both capital market and money market or markets for long term and short term security. As a dominant player in the financial market, a Merchant Banker must equip himself with various aspects of the financial market, especially the capital market.

MEANING AND DEFINITIONS OF MERCHANT BANK

In the economic sense, market means a place where the prospective buyers and sellers meet to buy and sell goods. By extending this, financial market should mean a place where the financial assets and obligations are exchanged, either for money or for other assets. Here one peculiar feature of the financial market distinct from other commodity market is that generally the exchange is done over the telephone and there will not be any physical market place.¹

The Indian Government has successfully implemented seven five year plans and the eighth one is being implemented. In all the plan greater emphasis is made on shift from agrarian economy to an industrialised economy. Towards this end, new industrial policies are formulated in tune with the rhythms of the changing economic scenario. Starting from industrial finance corporation of India formed in 1949, a few specialised Development Finance institutions came into existence to cater to the increasing financial needs of the industrial sector of the country. Most of the commercial banks were brought under the ownership and control of the union government. Certainly all these measures do a lot in financing projects. But none else, other than the Merchant Banks have discovered the wonders of the effect of mobilising savings of the general public. Merchant Bankers always claim that they are the suppliers of long term capital, through the dis-intermediation mechanism. 2

In the early novelties there is a trend of liberalising the economy from the clutches of self imposed restrictions. Towards that end the economy opened to the world. There were drastic changes in the industrial policy, which avoided certain restrictions under FERA, MRTP etc. There was liberalisation in EXIM Policy, foreign institutional investors (FIIS) can now invest in Indian stock exchanges. This will hasten industrial development.

The Indian industrialist can compete directly with their counterparts in the world over. In effect there will be further advancement in the science and

\textsuperscript{2} ibid. p.24
technology in India. Shifting from the traditional agricultural nation to the modern industrialised nation should be approached with caution and need a constant review of our system. In this process more financial service institutions are necessary in order to satisfy the growing needs of the industrial sector. Special financial services should assist the industries in major areas like Finance, Production, Marketing etc. of an organisation.

Under similar circumstances specialised financial institutions emerged in the industrially developed nations. The merchant bankers are one of such specialised financial service institutions which assist corporate world mainly in corporate counselling, project appraisal, issue management and portfolio management.

Merchant Banking business is a variety of services offered to the corporate customers for establishing new companies and commissioning projects, undertaking modernisation/expansion/diversification of existing units, amalgamation and absorption of companies etc. Merchant Banking broadly means providing largely non fund based financial services.

In brief any related job right from incorporation of the company till the implementation of the project can be undertaken under the Merchant Banking services.  

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Merchant Banking involves the following serv.

i. Managing capital issues of corporations.
ii. Underwriting such issues.
iii. Corporate Advisory Services.
iv. Portfolio Management Services.
v. Registrar & Transfer Agents.
vi. Trusteeship functions.

Thus the ultimate aim of a Merchant Banker is to feed the industry with capital and give a happy gain to the investors.

While Merchant Bankers who are Bankers within the meaning of Banking regulation Act can engage in only such permitted activities mentioned in sec 6 of the Act, those who are not Bankers may undertake in other similar activities which are not prohibited by any law for the time being in force in India.

The so called merchant banks in London, are now seldom merchants and by no means always bankers; the title is often misused as a generic description of businesses that operate in the financial sector, whether they perform pure banking services, or merchant banking services or not.
In the past there was nothing to prevent any plaque on its premises on which it was described. However, since the passing of the Banking Act, 1979 no his business as a bank or himself as a banker unless the by the Bank of England's List of Recognised Banks. All the are Recognised Banks. A number of institutions which for. might have been described as Merchant Banks (and which the general public might still so described) are in fact in the different category of licensed deposit-taking institutions (i.e., licensed under the Banking Act) other institutions which might likewise have been loosely described as merchant banks (particularly those conducting no substantial banking business) have no standing at all under the Act.

The Late Sir. Edward J. Reid, Bt. himself the chairman of the Accepting Houses Committee from 1946 until 1966, wrote:

An Acceptance House is a firm or Company an important part of whose business consist of accepting bills of exchange to provide short term finance for the trade of others. We have in the past been described as merchant banks and this description is historically correct as we, or most of us, started as merchants trading on our own account and the business gradually developed in to a mercantile bank. The term "Accepting House" is, however, a more accurate description.

One further Quotation, taken from the Report of the Working of the Monetary System (Radcliffe-Report, 15, underline the high measure of responsibility and reputation accepting houses, which they zealously guard at all levels of et.

All companies, including some Public Companies, retain a strong element of their traditional ownership and management by families, some of whose names have stood high in world finance for a century or more.

The merchant banks, when acting in their role as Issuing Houses, are principally concerned in providing Corporate Finance Services (i.e. advising companies, partnerships or government or semi-govt organisations and agencies on their financial requirements), including the advising of parties involved on either side of a take-over bid and in mergers. Strictly in that role, they do no banking business.

The dictionary meaning of "Merchant Bank" refers to an organisation that underwrites corporate securities and advises such clients on issues like corporate mergers involved in the ownership of commercial ventures. This organisation may be a bank, corporate body, firm or proprietary concern.

In the Indian context this definition suits well. Merchant Banking in India presently assumes the main activity of management of public issues and loan syndication and scantily assimilate the efforts done by intermediaries
towards mergers and amalgamations of corporate firms. Although, Merchant Banking organisations present a long list of services they contemplate to render to their clients.

It is very difficult to define Merchant Banks in precise terms. However, there were several attempted definitions on merchant banking. The prominent among them are⁵

Herbert J.A.P. "Merchant Banking is what merchant bank does".

Rosenberg M.I. has defined merchant banking "as an organisation that underwrites securities for corporations advises such clients on mergers and is involved in the ownership of commercial ventures".

Reid, E. in his presidential address to Institute of Bankers, London stated" these organisations are sometimes merchants who are not banks and sometimes houses which are neither merchants nor banks".

"Merchant banking is not commercial banking though the term 'merchant' and 'commercial' have similar connotations. In fact, merchant banks do some commercial banking; and commercial banks may do some merchant banking".

The role of merchant banks varies from one country to other and changes according to social, economical and political variations. A merchant bank can only borrow ideas from foreign countries but it has to develop its own procedures and practices conducive to the Indian environment. It is quite

⁵ Ibid. p.10.
impossible to have a full-fledged merchant banking involving all merchant banking services. Thus merchant banking services vary among themselves. Thus in an era of specialisation a merchant bank specialises only in one of the two services instead of specialising every activity.

(Basically a merchant bank means managing the issue of shares. But merchant Banks give advice as well, handle investment portfolios and advise large industrial groups on what their financial strategies should be.)

The scope and working of merchant banking is always changing and the only certainty is that the Merchant Bank will continue to adapt with their traditional flexibility to the challenges of each succeeding era. Much change is the consequence of competition and of development in the market place. Other changes have been consequent on legislation. Merchant banks give highly qualified advice to business organisation and wide range of specialist financial services conducive to their needs.

Merchant banks are neither merchants nor are they necessarily banks. Merchant banking originated through the entering of London merchants in financing of foreign trade through acceptance of bill. Later the merchant also assisted the government of undeveloped countries in raising long term funds through floatation of bonds in the London market and obtaining their quotation on the London stock Exchange. Over a period merchant banks extended their activities to domestic business of syndication of short term and long-term
finance, underwriting of new issues, acting as registrars and share transfer agents, debenture trustees, portfolio managers' negotiating agents for mergers and take-overs etc.  

The post-war period has witnessed the rapid growth of merchant banking through the innovation of instruments, such as "Euro-Dollars" and growth of various financial centres like Singapore, Hong Kong, Bahamas and more recently Bahrain, Kuwait and Dubai.

The Merchant Bankers are the most vital intermediaries of the securities market. Their activities and scope have grown tremendously and more and more firms started making their entry into this areas of financial services. But there were not much regulation of the functioning of the Merchant Bankers, except for their authorisation by the SEBI (without any legal status) and some monitoring requirements of Merchant Bankers.

MERCHANT BANKING Vs COMMERCIAL BANKING

By Virtue of clause (c) of section 5 of Banking Regulation Act, 1949, the main business of a Bank is to "accept, for the purpose of lending or investment, of the deposits of money from the public, repayable on demand or otherwise and withdrawal by cheques, drafts, orders or otherwise".

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Subsection (1) of section 6 deals with the provisions of permissible business, a Banking company could undertake. Clause (d) of that subsection enables a Banking company to internal underwriting support and to manage any issue. The clause reads as under:

"The effecting, insuring, guaranteeing, underwriting, participating in managing and carrying out of any issue, public or private, of state, Municipal or other loans or shares, stock, debentures or debenture stock of any company, corporation or Association and the lending of money for the purpose of any such issue".

Thus one could conclude that a Banking Company can undertake merchant Banking business, but a merchant bank cannot undertake the business of banking, unless it is a banking company within the meaning of Banking Regulation Act, 1949.

In India Commercial Banking play a great role in rural development. It not only raises fund from internal sources but also from foreign sources. The banks help the development of economy through the mobilisation of savings. This kind of bank gives loans to individuals for various agricultural purposes and "working capital finance to industries whereas merchant bank on the other hand neither accepts nor lends money. It is now controlled by SEBI guidelines. As a financial disintermediary it gives a variety of services like issue
Management, Portfolio Management, Project Counselling, Credit Syndication. Advising on amalgamation and mergers and take-overs etc.

**MERCHANT BANKING Vs INVESTMENT BANKING**

There is a very small difference between a merchant bank and an investment bank. An investment bank undertakes the following functions:

- Selling issues of Securities of Companies.
- Underwriting functions
- Helps companies in Mergers and Acquisition.
- Investment advice
- Finding buyers for private placement
- Dealing in Securities.

Services for (iv) and (vi) referred above are generally not performed by a Merchant Banker. But for this, investment banking and merchant banking are the same.

In India Investment Banking and Merchant Banking are two different entities, albeit it means the same in USA. The major investment banks of India are LIC, GIC and UTI. These three institutions came into existence under special Act in the Parliament. LIC is mobilising savings from different persons by offering Life Insurance Policies and GIC is providing risk cover to items other than life. UTI mobilises savings by selling units, while merchant banks do none of these services.
MERCHANT BANKING Vs MANAGEMENT CONSULTANCY

The services rendered by a Management Consultant looks to resemble to that rendered by a Merchant Banker. There is no specific range of services that could be offered either by a Merchant Banker or a Management Consultant. But by practice, a Merchant Banker does undertake so many services that are offered by a Management Consultant. The Institute of chartered Accountants of India has defined the expression "Management consultancy services" by excluding and including certain nature of services. The definition runs as follows:

"Management consultancy does not include the function of statutory periodical audits, tax representation or advice concerning matters or acting as Liquidator, Trustee, Executor, Administrator, Arbitrator or Receiver", but shall include the following:  

i. Financial Management planning and financial policy determination.

ii. Capital Structure Planning and advice regarding raising finance.

iii. Working capital management.

iv. Preparing project reports and feasibility studies.

Thus the scope of Management consultancy is wider than that of Merchant Banking. Nevertheless, subject to SEBI (Merchant Bankers)
Regulations, 1992, a Merchant Banker could offer the services of a Management Consultant. But Indian Merchant Bankers are not equipped with the necessary expertise and infrastructure to do so.

**MERCHANT BANKING Vs DEVELOPMENT BANKS**

The major development banks at the national level are IDBI, ICICI, IFCI, SIDBI, IRBI, NABARD etc. These banks came into operation after the respective Act was passed in the Parliament concerning each of them. NBFCs such as Housing Finance, Leasing, Mutual Benefit companies, Loan Companies, Hire Purchasers are basically development banks. There are several other development banks constituted under state level. These development banks assist corporate world on long term basis under various schemes. Whereas merchant banks on the other hand help companies in getting loans from these development banks, by following various procedural aspect. This includes seed capital for beginning operations. Merchant banks assist companies in deciding the best suitable assistance in a time frame.

Merchant banks are basically development banks. But they do not lend, as a development bank does. They undertake the risks of underwriting as a financial institution by lending their own name to instil confidence among the investors, advise on financial structure and arrange for financial planning, etc. The merchant bank functions are infact flexible and client-oriented.
MERCHANT BANKING Vs PROJECT BANKING

Merchant banking is largely project banking. It does not lend against security but it lends against viable business propositions of an entrepreneur. Effective and successful project evaluation cannot be done only on the basis of financial considerations. It has to be based on the underlying economic, technological, commercial and management factors.

ORIGIN AND GROWTH OF MERCHANT BANKS

The emergence of Merchant Bank was from England. The term Merchant Banking has its origin in the British banking system of antiquity. Sir Hugh Veeks defined a merchant bank as one that performs most of the functions of Merchant Banking. The origin of the concept of merchant banking in India is the British Merchant Banking.

During the 13th century, a few families owned and managed firms which were engaged in coastal trade and finance were spread throughout the European Continent. The first known such firms were Riccardi of Lucca, Medici and Fugger. These firms besides their commercial activity involving sale and purchase of commodities were engaged in banking activity also. These firms had acted as the bankers to the kings of European nations. The motivation behind their banking activity was profit maximisation and to achieve this aim they invested their funds where they expected higher returns despite high

\[ \text{Op.cit., p.32} \]
degree of risk. For this reason, merchant bankers used to charge heavy rate of return for financing the highly risky ventures.

Acceptance houses financed trade by accepting bills of exchange drawn on others. In the process, acceptance houses used to do the business of Merchant Banking. However, issue houses began to develop as specialist institutions which were later called merchant banks. In western countries merchant banking business has become more specialised and career oriented over the last two decades.

During the seventeenth century also, a banker and a Dutch trader, lent freely to finance continental wars. William III of England borrowed huge sums in Amsterdam to fight the continental wars. During the beginning of the eighteenth century most of the European states including Germany, Russia and Sweden had borrowed in Amsterdam such huge sums.10

During the eighteenth century the merchant bankers traded in different nations by expanding their activities. For example John Hope & co., were the bankers in Amsterdam and at the same time were engaged in trading of all commodities they could sell at a profit.11 In Frankfurt, Meyer Aosschel Rochschild traded coffee, sugar, tobacco along with the British manufacturers.

In Britavi, on the death of James Morrison in 1857, a wealthier textile whole sale and ware house man, his son took over the business and extended into the merchant banking.  

In Germany, a Sdnaffhausen, a private bank, acted as merchant banking house, traded in wine for export and hide and leather for imports in 1848 and then went into trouble but survived.  

In France, the Bank of France was established in 1800, doing International trade. And this goes the history of all the merchant bankers with long standing name, fame and activities all over the globe.

Several of the present day merchant banks started in business during the late eighteenth and early nineteenth centuries. Their origins are similar to those of the private country banks in that their founders were merchants, but they traded overseas rather than in Britain. The Industrial revolution made Britain a powerful trading nation. It already had a vast colonial market and the Industrial revolution gave a boost to the development of its overseas trade, resulting in a continual inflow of wealth into the country. It was during this period that many rich merchant houses slowly diversified their business by entering into the area of banking operations. This entry marked the beginning of the activities of merchants in the field of banking.

12 Ibid p.189
13 Ibid. p.122
14 Ibid p.100.
After the first world war ended in 1918, the merchant banks attempted to restore their business to that of the pre-1914. Not only were they hampered by exchange control regulations which restricted the movement of money round the world but also the clearing banks and the foreign and London-based overseas banks also moved into the market for overseas trade, as their competitors. A shrinkage of world trade in the early 1930's hit the merchant banks hard, and sterling declined as a world currency.

In the 1930’s the merchant banks accordingly began to look for other areas of business; in particular, their role in the share issue function developed. Also the late 1920's and early 1930's saw the founding of a number of investment trusts, and the merchant banks became involved in the management of their investment.

In the post-war period, merchant banks did not restrict their relationships only to large corporations. They got interested in small and medium firms as well. They specialised in arranging mergers and amalgamations between firms and corporations. Merchant banks do not have the large financial resources of commercial banks.

Since the end of the second world war, merchant banks have considerably expanded their range of services and most are now active in the field of corporate finance, that is, providing companies with financial expertise. They assist their company customers to find suitable sources of finance often
by arranging to sell or issue the company's share to members of the public and, 
obtain a stock exchange quotation for the shares.

The new merchant banking houses set up in London by the families who 
had crossed and recrossed the Atlantic within a generation were naturally those 
most prominently identified with New world financing. The most famous 
banking hierarchy of the Western world, the Morgans, was first established in London.

In UK and USA, the investment banker has since the last century been 
engaged in the promotion of large corporations. The investment banking firms 
deal in investment advisory services for domestic issue of capital on behalf of 
foreign governments and foreign corporate bodies.

These merchant bankers, have developed a high order of integrity, 
financial expertise, management standards, loyalty and close relationship with 
the clients.

During the post-war period, new trends have emerged in the work-frame 
of commercial banks in the West European Countries, which indicate that 
banks are now prepared to offer multiple service, including merchant banking 
service, to their individuals and corporate clients. British banks were set up 
either as subsidiary companies or as separate divisions in their own
organisations to offer these services. Commercial banks had this to compete with the old-established merchant banks in Britain.\textsuperscript{16}

During the post world War-II period, despite inflation, currency depreciation and indebtedness, the merchant banking business expanded as the developmental activity both in the developed as well as in the under-developed nations. Some of the merchant banks have remained in their traditional business and some of them have moved into new financial activities. But the merchant banks still had specialisation of activities viz. those in issuing business had formed their association known as issuing House Association in 1945 whose membership exceeded sixty including the then sixteen members of the Accepting House Committee.\textsuperscript{17} Those who moved into other spheres of specialisation covered the following fields.

Merchant banking is in its nascent stage in India. Its activity at present has been undertaken by some of the commercial banks and others as a subsidiary business. This is an unsatisfactory approach to the development of the new issues market. It is desirable to have an exclusive and apex merchant banking institution in the country. Initially, the new institution may be set up as a subsidiary of the Reserve Bank of India. Which has the expertise and resources to establish new institutions.\textsuperscript{18}

\textsuperscript{16} Op.cit., p.32.
\textsuperscript{17} Verma, J.C., "Merchant Banking organisation and Management", Tata Mc Graw, Hill Publishing Co., Ltd., New Delhi, 1986, p.6
\textsuperscript{18} Op.cit., p.32
Table 2.1
AREAS COVERED BY MERCHANT BANKERS.

<table>
<thead>
<tr>
<th>Name of the activity / service</th>
<th>Number of merchant banks which participated in the activity or rendered the service.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance Credit</td>
<td>All merchant bankers.</td>
</tr>
<tr>
<td>Issuing House</td>
<td>Many of them.</td>
</tr>
<tr>
<td>Banking Account for customer at home and abroad.</td>
<td>All of them.</td>
</tr>
<tr>
<td>Stock exchange business on behalf of customers</td>
<td>All of them.</td>
</tr>
<tr>
<td>Managing Investment of Private Customers, Pensions Funds, Colleges and Charities.</td>
<td>Most of them.</td>
</tr>
<tr>
<td>Trustee business</td>
<td>Several of them.</td>
</tr>
<tr>
<td>Conducting registration work for companies.</td>
<td>Several of them.</td>
</tr>
<tr>
<td>Doing business in Bullion market.</td>
<td>A few prominent of them.</td>
</tr>
<tr>
<td>Active Dealers in Foreign exchange.</td>
<td>Many of them.</td>
</tr>
<tr>
<td>Handle Insurance business</td>
<td>Several of them.</td>
</tr>
<tr>
<td>Run Merchant Companies</td>
<td>A few of them.</td>
</tr>
<tr>
<td>Own subsidiary Company in Production and marketing.</td>
<td>One</td>
</tr>
<tr>
<td>Prominent in London Coffee Market.</td>
<td>One</td>
</tr>
</tbody>
</table>
The Indian Industrialist can compete directly with their counterparts in the world over. In effect there will be further advancement in the science and technology in India. Our shifting from the traditional agricultural nation to the modern, Industrialised nation should be approached with caution and need a constant review of our system. In this process more financial service institutions are needed in order to satisfy the growing needs of industrial sector special financial services to assist them, in major areas like finance, production, marketing etc. of an organisation.

Under the similar circumstances specialised financial institutions emerged in the industrially developed nations. The Merchant Banking concept is one of such specialised financial service institutions which assist corporate world mainly in corporate counselling, project appraisal, issue management, portfolio management.

The multifarious activities of the corporate sector and the spectacular growth of industries in our country have created a need for having expert advice on many aspects for the success of industrial projects. The entire process right from the conception of an idea of starting a new venture, its promotion, expansion, diversification, marketing of product, availability of finances requires the services of professionals, where the actual role of a merchant banker starts.
The merchant banking in fact is a serv.

Merchant Banking divisions are only rendering some services and are not producing any tangible good.

have to establish liaison and friendly relations with

them by reposing some sort of confidence. These div

and be prompt and accurate in providing services. T

Banking Division should be professionals only, who can give expert advice

and should be in a position to convince the service taker that his interests would

be kept safe in the matter of services required by him. Thus merchant banking

is nothing, but a Division of Banks / Consultancy firms / Companies, providing

professional consultancy services to the industry / corporate sector i.e., to the

merchants on various fields.

MERCHANT BANKING IN INDIA

(Merchant banking in India is of recent origin. It had its beginning in

India in 1967, when Grindlays Bank the largest foreign bank in the country

established a separate division by obtaining a licence from RBI.

They brought to India the whole concept of British Merchant Banking.

Presently they converted their name to ANZ Grindlays Bank. The main

services offered at that time to the corporate enterprises of the merchant banks

included the management of public issues and some aspect of financial

consultancy. Other foreign banks set up merchant Banking division in 1970 and
Chartered Bank also assumed the merchant banking act.
Indian Bank to set up its merchant banking division was
1972, this was based on the recommendation of the
constituted in 1971 by Government of India. Now State
up a separate associate called SBI Capital Market Ltd
biggest Merchant Banker in India. Later in 1973 Industrial Credit and
Investment Corporation of India set up its merchant banking division followed
by a few other banks like Syndicate Bank, Bank of India, Bank of Baroda and
Mercantile Bank. Some leading brokers also entered the field. (Chart 1). But
SBI and ICICI emerged as leaders in merchant banking having done significant
business during the period of 1974-85 in comparison to foreign banks. The
early and mid-seventies witnessed a boom in the growth of merchant banking
operations in the country.

The early growth of merchant banking in the country is assigned to the
Foreign Exchange Regulation Act, 1973 (FERA) where under large number for
foreign companies operating in India were required to dilute their foreign
holdings in order to continue business in the country. This had caused
two-pronged effect.

a) In the form of spate in Foreign Exchange Regulation Act, issues
evincing interests of investors by creating massive awareness about capital
markets amongst the new class of investing public,
b) Merchant banking activity became attractive to banks and the firms of consultants and share brokers.  

**Incorporation of the Merchant Bank**

Merchant Bank has to be incorporated under the companies Act and must have a registered office with or without any branches or regional offices. As a company it comes under the purview of the Registrar of companies and as such the necessary formalities of the companies Act have to be fulfilled. The Memorandum and Articles of Association and authorised and paid up capital of the company have to be approved. Prior permission from RBI is necessary in case of a bank, public or private, setting up of a subsidiary for the merchant banking business. For example if the public sector bank, say, United Bank of India is setting up a merchant bank, it has to get the approval of its Memorandum and Articles by the Registrar of companies and the RBI. The securities and Exchange Board of India has been insisting that all the merchant banks should have public representation of experts, professionals etc., on their boards.

Generally registered office and corporate office may be at the same place. But in certain cases there may be different offices to suit the requirements of customers. There may be branches or regional offices in big

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cities like Delhi, Bombay, Calcutta and Ahmedabad depending potentiality for business.

Corporate office is the place from where the policies of the management are implemented and where the principal place of business is located. But the governing board meets at the registered office. Generally, the chairman and the board meet there. \(^{20}\)

Management

The Administration and management is in the hands of the officer, of the promoting bank. The Chairman of the bank is also the Chairman of the governing board of the merchant bank. But there is a whole time President for the merchant bank from out of the experienced senior officers, of the bank to head the merchant bank as President.

The President of the bank is the administrative head of the merchant bank assisted by an executive vice-president at the head office and a number of vice presidents at various branches or regional offices. The executive vice president may co-ordinate the activities of the regional offices and he is assisted by the finance manager a secretary and a host of specialists in both the head office and regional offices. These specialists who fit in functional aspects

of these offices are legal experts, senior bankers, finance MBAs and Chartered Accountants, referred to later.

ROLE OF MERCHANT BANKERS

The merchant banker is the most critical link between a company raising funds and the investors. And his reputation goes a long way in the making or breaking of a public issue. He is the only player who can pass on the buck without any qualms and today he rides the high horse in the capital market. The role of merchant banker is dynamic in the wake of diverse nature of merchant banking services. Merchant bankers' dynamism lies in promptly attending to the corporate problems and suggest ways and means to solve it. Merchant bankers have to think and devise new instruments of financing industrial projects.

Merchant bankers are accountable for activities connected with an issue right up to the allotment of shares. They have to certify the statements in the prospects in the SEBI. Penalty points are awarded to merchant bankers who do not comply with the stipulated conditions.

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

Merchant banker is always awake to renew his skills, develop expertise in new areas so as to equip himself with the knowledge and techniques to deal with emerging new problems of corporate business world. He has to keep pace with the changing environment where government rules, regulations and policies affecting business conditions frequently change. Merchant banker has to guide the wider section of the community keeping surplus money to invest in corporate securities and other productive investment channels.

Merchant banker has to assume wider responsibilities of saving industrial units from going sick and guiding industries to be set up in industrially backward areas to eliminate regional imbalances in the industrial development of the country. Merchant banker now has an important role to play in capital and debt structuring too. Due to the proposed reductions in debt / equity ratio from 2:1 to 1:5:1, the merchant banker has been identified as the prime intermediary between the capital market and the investors.

The formation of the Association of Merchant Bankers of India (AMBI) has seen the industry streamline its activities and come to specific conclusions on the roles they have to play. The association serves in bringing errant
merchant bankers to book. Its very presence will prevent a merchant banker from playing foul.

Liberalisation has been the main cause for the jump in the number of companies going public. It also paved the way for the abolition of the office of the controller of capital issues (CCI). In the changing environment of specialised functions, the future is likely to see the merchant bankers focus to marketing of issues with inherent strengths.

The merchant banker must bridge the communication gap between different sections and resolve the problem being faced in different areas concerned with the business world. To discharge the above role, a merchant banker has to be dynamic. In respect of many joint enterprises and overseas ventures in the Middle-East, South, East Asia, Africa, etc., advice on the financial structuring of these projects, as well as assistance in syndication of the finance itself, is now increasingly available through the Indian Merchant Banks. Merchant banker has to help the industry and ensure it to run risk free and devoid of uncertainty by assisting the promoters with his knowledge and skills to resolve the problems being faced by them.

Accountability

Merchant banking is a public service in the capital market. They are accountable to the companies, who are issuers of securities for raising funds,
investors who contribute these funds and coordinating intermediaries like underwriters, brokers and marketing agents. SEBI has laid down a number of guidelines for their operations and a code of conduct to observe.

The merchant banks have their own auditors, who are appointed by the government. Besides in the case of public sector banks, the RBI auditors also make surprise audits. Generally the merchant bankers keep their own internal auditors to keep a scrutiny of their accounts and caution the authorities on any misdirection and lapses in accounting practices and procedures.

**Environmental factors**

The variety of services which a merchant bank can undertake depends on its own resources, expertise and background. But more importantly, environmental factors, operate influencing the type and nature of merchant banking activity being undertaken by them. These environmental factors can be many.

The variety of services that a merchant bank undertakes are influenced by the geographical areas where the bank operates. With the change in the industrial and labour climate the environment that the companies face changes and the demands for services of merchant banks from companies would also change. The services that they render will decide the types of organisational structure, administration and personnel expertise required and employed by the
merchant banks. Changing times and change in government policies are the major factors influencing the services rendered by the merchant banks.

**Finance**

The sources of funds for a merchant bank are its paid up capital, reserves and surpluses. They can also borrow or accept deposits from companies and institutions. The public sector merchant banks have limits with the sponsoring banks against securities. SEBI regulations prohibit the sponsoring banks to be financially committed to the subsidiaries like merchant banks and mutual funds.

The funds collected can be used for investment, underwriting commitments, hire purchase, leasing finance and other related services. Some commitment's may also be involved in OTCEI and stock market dealings.

By analysing the income and expenditure statement, one can find that the bulk of income is generated from new issue management, underwriting and investment income. Depending upon other activities of the merchant bank, income may also arise from lease and hire purchase business, stock brokershio or other incidental and consequential activities.

The profits generated by merchant bank are generally used for expansion of business. This involves that bulk of the surpluses are ploughed
back into reserves. But to prove the profitability of funds invested by the parent
bank, a nominal dividend may also be declared and paid to the parent bank.

Today, merchant bankers undertake a myriad of services; they act as
managers of public issues. Financial bankers do foreign exchange business or
are engaged in the bullion business. All of them do banking in some form by
keeping money in current or other deposit accounts for their customers at home
or abroad.

In the present context, merchant bankers are very instrumental in
achieving the objects of liberalisation. With the abolition of the controller of
capital issues and its subsequent replacement by the SEBI Act, 1992, the
operations of merchant banking have been brought within the regulatory
framework of the SEBI (Securities and Exchange Board of India) providing a
safety net to a multitude of investors.

Merchant bankers are under obligation to register with the SEBI and
abide by the code of conduct framed. They act as important mediators in the
capital market.

The code of conduct specifies that every merchant banker should
observe high standards of integrity and fairness in his dealings with clients and
other merchant banker.

22 Op.cit., p.17
With the deregulation and liberalisation policies gathering momentum, the future of merchant bankers appears bright.

No person shall carry on any activity as a merchant banker unless he holds a certificate granted by the board under the regulations; provided that such person, who was engaged as merchant banker prior to coming into force of the SEBI Act,\textsuperscript{24} may continue to carry on activity as merchant banker if he has made an application for such registration till the disposal of such application.

**SUMMARY**

Thus one can say that in the era of free pricing, the role of the merchant banker has changed tremendously as he has to keep abreast of the changes in the capital market scenario, national as well as international. His ability to effectively scan the environment and advise accordingly would determine the success or otherwise of the merchant banking firm. The rules of game are constantly changing and "survival of the fittest" will be the name of the game.

\textsuperscript{24} Op.cit., p.18.