CHAPTER - II
DESIGN OF THE STUDY
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Main Headings:

- Introduction
- Review of Literature
- Selection of the Problem
- Objectives of the Study
- Sample Selection
- Sources of Data
- Data Analysis
- Study Design
- Limitations of the Study
- Contribution to Knowledge

- References
- Annexures
DESIGN OF THE STUDY

INTRODUCTION

India has entered the 21st Century as one of the Asia’s most dynamic economics. This is the part of the assessment made by International Financial and Capital Market Institutions based on India’s economic and financial reforms initiated in 1991 and brought to fruition in various budgets. In fact, the achievement is the cumulative effect of yesteryears coupled with economic reforms in the Indian Economy. The economic and financial liberalization, based on the firm pillars of fiscal discipline, structural reform and Securities Market reforms has yielded strong dividends to the economy.

The Progress of any economy mainly depends on the efficient financial system of the country. Indian Economy is no exception to this. The importance of the financial sector reforms affirms an effective means for solving the problems of economic, financial and social in India and elsewhere in the developing nations of the world. The progress of the Securities Industry of any country depends mainly on the flow of funds. In fact, capital generation is the lifeblood of the capital market without which the health and soundness of the financial system cannot be geared up and for which well-developed capital market as well as money market is essential.

The Indian Financial System, as it has evolved, is comparable in many respects with the financial system of the most advanced developing countries as well as some of the developed countries. It has a well-diversified structure of financial institutions and instruments and, in fact financial development has out-placed economic development. India’s capital market is among the largest in the developing world. The market is comprised of 24 stock exchanges transacting long-term...
The capital market of the country, however, underwent dramatic changes since the beginning of
1980s basically because of a progressive realization that the command economy on which the
emphasis was placed could not lead to higher levels of economic development and that a slant
towards a market-oriented economy is necessary. Government did this gradually by opening up
progressively new vistas of economic activity for the Private sector. The real twist however, came
after June 1991 when the government initiated a series of measures to liberalize and to deregulate
the economy.²

It is in the context of fast expanding economy and a liberalized and deregulated atmosphere that
the growth of the Indian Stock Market activities has to be viewed. No wonder that the markets have
registered a quantum jump judge by any standards. India is now a major player in the emerging
markets of the world, next only to Mexico, Korea and Tiwan both in respect of market capitalization
and turnover.
A research work to be more realistic, rightly directed, properly analyzed, critically evaluated better conclusive and not duplicated is possible only when the Researcher make a complete note on and sincere effort to find out and study through all possible and relevant work done, if any, on the area of Research. The points in the previous chapter stresses on the fact that “Review of Literature” plays an equally important role, in the research work, as that of the real research work.

The study of earlier research work will certainly help the researcher in presenting the report in a clear and precise manner with valuable suggestions and conclusions. In fact, a brief history of yesteryears' reports, surveys and research articles in the similar area helps as a ‘backbone’ for the present study and further it provides a cushion for presenting the research report in a better way. To put it differently, the knowledge of earlier studies and if the conditions and/or circumstances prevailed under which the conclusions drawn and suggestions were made by the researchers would be of immense help and is imperative in the presentation of the analytical and critical report. Therefore, a review of the past, related studies in the field is as important as the present study.

A few value studies were conducted by the financial institutions, regulatory authorities and individual researchers and professionals concerning various aspects and the functional areas of Merchant Banking. Besides, regulatory authorities studying the market sentiments, changing scenario of the Securities Industry time to time for framing/amending the policies, procedures, rules and regulations to suit the environment. Most of studies/ Reports are concentrated on a specific objective, generally, to find out operational performance of Merchant Bankers and the effect of the
changing policies on capital market. In the process a good number of authors written books on this subject to provide basic concepts and related issues on Merchant Banking area.

"A Practical guide to Merchant Banking" is the contribution of Sundararajan. In this book, the author covered the concept of Merchant Banking, distinction between Merchant Banker and Commercial Bank, Merchant Banker and Investment Banker and "Merchant Banker and Management consultancy. Besides components of financial markets, the regulations of Merchant Banking, various issues related to private placements, underwriting, procedural formalities of offer documents, Public & Rights issue procedure also been included. Verma V., Tadashi Endo, Manchiraju H.R. are added to the literature with latest development in Merchant Banking area.

The role of market intermediaries signifies and necessity of capital market reforms is clearly brought out by SEBI in its maiden publication "Indian Securities Market – Agenda for Development and Reform – A Discussion paper". Subsequently, SEBI, in the process of regulating Capital Market in general Merchant Bankers in particular, issued "Merchant Banking Rules" and "Merchant Banking Regulations". To further reforms in the activities of Merchant Banker SEBI brought out "Underwriters Regulations" and "Underwriters Rules".

A report document on "Merchant Banking under SEBI guidelines-A study of Regulators in Developing Capital Markets" is the significant contribution of Sanker De and Sushil Kanna. In this study the authors examined the economic and the financial implications of some of the regulations introduced by SEBI, through the guidelines it has periodically issued, in execution of it's responsibilities. The regulations in question applied to Investment or Merchant Banking Services
required for corporate issues of long-term securities in India. The study, also discussed certain institutional features of Merchant Banking relating to issues of long-term corporate securities. In the process the authors drew the attention to some Merchant Banking practices which differ between the USA and India. In the third and fourth sections of the study, the authors presented a model of the choice of Merchant Banking Services by issuing corporations and the implications of the SEBI guidelines in terms of the result of the model. Some possible implications of the guidelines may be in conflict with the professed objective of the current economic policy of the Indian government to induce the Corporate Sector to raise external funds from Private investors is one of major findings of the study.

The other significant recommendations of the study are:

- The regulation requiring all issues to be managed and certified by a Merchant Banker should be relaxed in the case of rights offerings. Public offering being costlier, the proposed change will make it uneconomical for some low quality issues to seek certification in the hope of benefiting from imperfection of the certification process. Thus, separation in terms of quality between different types of issues will be more complete in equilibrium. Generally, the set of issues, which are placed through a public offering, will include all high quality and some low quality issues. On the other hand, only low quality issues will be placed through a rights offering.

- For the set of issues, which are placed through a public offering, further screening can be achieved by making underwriting optional. In that case, the issuing corporation's choice of the level of underwriting will signal the quality of its issue a low level indicating a high quality. The proposed change should also result in lower average issue costs for the set. However, it is not likely to make public offering a more attractive option for low quality, because cost reduction will not be uniform
across all issues within this set. Generally, in the case of high quality issues, which can expect a positive public response, it will be possible to task advantage of this option and achieve cost reduction.

- For the screening mechanism in the preceding recommendation to be effective, the current 90% subscription rule should be strengthened. In the case of the shortfall, the issuing corporations should be required to refund the subscriptions as well as pay a penalty proportional to the extent of the shortfall. A distinguishing feature of the above recommendations is that they substitute for the most part, market mechanism for government regulations such as mandatory certification for rights issues and mandatory full underwriting for public issues. It may be noticed that we have recommended the substitutions, not because we take the position that government interventions are in general inferior to market forces in achieving most economic objectives but because, in the present case, the SEBI's objective of improving disclosure of private information and investor protection can be achieved in a more economically efficient way through the market mechanism suggested above. Our rationale is pure economic efficiency. To make our case, it has not been necessary for us to appeal to any of the well-known economic and extra-economic arguments, which may be invoked against government interventions in general. Having said that, we must mention that at least one of them is very relevant to the present case. As Krueger (1984) has pointed out, a regulation, once introduced as a response to a real or perceived crisis, induces the regulated parties to attempt to circumvent it, which in turn motivates the regulatory authorities to intensify the regulation or introduced additional interventions. Since the regulations in the present case may fall short of their goals, it may very well result in escalation of controls and regulations. The experience with regulations in other sectors of the Indian economy provides little assurance that it will not happen.
While discussing about the pricing of securities Tirupal Raju expressed that the issuers and Merchant Bankers have been pricing securities on the basis of future financial projections given in the prospectus. Pricing of securities is based on the various factors like projectors, sales income, and earnings per share, gross profit, net profit, dividend per share. Some offer documents have been had more than one set of projections. One by the appraising agency and the other by the promoters themselves. Lead Manager swear by the projections and justification as the offer price is calculated on the basis of these projections. Mainly the study analyzed the performance of Merchant Bankers, with respect to four parameters viz., net profit, earnings per share, gross profit and sales. He has divided Merchant Bankers basically into two groups, bad performers and good performers. The major conclusions of the study are non-appraised issues are less reliable than appraised issues, the chances of failure is very high in the case of non-appraised issues, and the projections given in the prospectus do not serve much purpose in helping investors make investment decisions. In conclusion, he expressed that either Merchant Bankers do not have requisite skill or they do not have the necessary commitment to give accurate and useful forecast in the projectors.

Shekhar Sathe commented on the role of Merchant Bankers and their significance in the securities market. He rightly puts "during the CCI's control raj, brokers and investors alike thought that there was always money to be made in the primary equities market. CCI perpetuated under pricing of equity and overpricing of debt. As a result, investing public got hooked on to equity and shied away from debt (which existed only in the shape of bank deposits for the common investors). With the abolition of the office of the CCI and due to the bull run on the stock market during the
scam period equity listing and issue prices skyrocketed to ridiculous levels. Stock manipulation and fly by night Merchant Bankers and issuers ruined the market. Merchant Bankers mushroomed all over the country and were liberally registered by SEBI. The stock boom itself was a result of the scam burgeoning behind the facade of the iron-clad banking system. The common investors have seen an unprecedented diminution of their assets and are reluctant to come back to equities."

In September 1996, the "Merchant Banker -- Update" commissioned MARG*, a specialized market research organization, has conducted an opinion poll on an all India basis on "The Most Admired Financial Brands". A total of thirteen financial brands (organizations) were included in the study.

These include banks, Financial Institutions, Merchant Bankers NBFCs, AMCs, MFs, FII, Business Publications (English only), consultants, Information services, Educational Institutions, Credit cards, Registrars of Public Issues, Custodial / Depository services, and Credit rating agencies / Stock Exchanges / Government Bodies covering the major cities like Mumbai, Delhi, Calcutta, Chennai and Bangalore. In this study each category of financial brands was evaluated on the basis of a set of five parameters from financial soundness, quality of products and services, quality of management / people, innovation of products /services, efficiency of service, effective security of documents, effectiveness of controls, keeping up with the times, quality of creative work ability to meet deadlines and overall excellence.
Respondents were asked to rank the top three brands on each of the parameters in each category. The findings are based on "Mean Ranks". It is significant to note that the lower than a rank the better the brand is perceived to be, for example, in a particular category, as mean rank of "1" indicates the most admired (best) brand and a mean rank of 10 indicates the least admired brand. The findings with regard to "Merchant Bankers" category has been shown in the flowing table, in the decreasing order of Mean ranks, on the parameter "overall excellence".

<table>
<thead>
<tr>
<th>Merchant Banker</th>
<th>OE</th>
<th>FSS</th>
<th>QPS</th>
<th>QM</th>
<th>INN</th>
</tr>
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<tbody>
<tr>
<td>ICICI SECURITIES</td>
<td>4.0</td>
<td>4.0</td>
<td>4.2</td>
<td>3.8</td>
<td>4.3</td>
</tr>
<tr>
<td>IDBI</td>
<td>4.2</td>
<td>3.2</td>
<td>4.5</td>
<td>4.0</td>
<td>4.8</td>
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<tr>
<td>SBI Caps</td>
<td>4.4</td>
<td>3.9</td>
<td>4.6</td>
<td>6.7</td>
<td>5.2</td>
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<tr>
<td>DSP</td>
<td>5.4</td>
<td>6.3</td>
<td>5.3</td>
<td>5.5</td>
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<tr>
<td>Jardine Fleming</td>
<td>5.8</td>
<td>6.2</td>
<td>5.9</td>
<td>5.0</td>
<td>5.5</td>
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<td>JM financial</td>
<td>6.0</td>
<td>6.5</td>
<td>5.5</td>
<td>5.9</td>
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<tr>
<td>IFCI</td>
<td>6.1</td>
<td>5.7</td>
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<tr>
<td>ENAM</td>
<td>6.3</td>
<td>6.8</td>
<td>6.4</td>
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<tr>
<td>Bank of Baroda</td>
<td>6.7</td>
<td>6.5</td>
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<td>PNB Caps</td>
<td>6.8</td>
<td>6.8</td>
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</table>


The major findings with regard to "Merchant Bankers" category are, the Merchant Banking arms of the three large public sector financial organizations, namely ICICI, IDBI and SBI were the top three brands, IDBI, SBI Caps and I-SEC were the top three on financial soundness; but financial
corporate ranked I-SEC higher than SBI caps, on overall excellence, the clear favorite of the Calcutta based respondents was IDBI, with SBI Caps in the second place; ICICI also felt the same way for IDBI on this parameter, but ranked SBI Caps and I-SEC the same and though at an overall level SBI Caps was considered to be the best Merchant Banker for the future, the Calcutta based respondents strongly felt the best would be IDBI, whereas for their counterparts in Madras it was I-SEC.

The fixation of premium on shares of existing, profit making companies and newly started companies set up by existing companies have been freed by the Securities and Exchange Board of India (SEBI), but subject to the compliance of Merchant Bankers regarding publication of all relevant figures. Following this, the Government of India had also abolished the office of the Controller of Capital Issues (CCI) and vested all powers for laying down the ground rules for public offers to the SEBI. Freeing of the pricing has resulted in a situation where in the companies started charging exorbitant premia on their issues. The CCI office used to follow a conservative standard in fixing premium of shares and this was resented widely in the corporate sector. Responding to the criticisms and a part of the liberalization programme the office of the CCI was abolished and the powers for premium fixation on shares were scrapped. Thus, the companies in consultation with their Merchant Bankers could charge whatever premium they thought fit. It is necessary to indicate the premium as per CCI formula by way of a note, in any offer document. While the companies are still free to charge whatever premium they want the difference between the premium charged by the company and the premium as it works out on the basis of the CCI formula should give an
insight in to worth of shares. In addition companies charging higher premium should also be expected to justify why they are charging more.

Companies are given freehand in raising resources but at the same tie ensure that the investors are provided with adequate information and safe guards. The rationale for the liberalization is that undue regulation deprives the company from benefiting from its performance. To facilitate the investors to take a well-informed decision, the issuer has to make adequate disclosures.

An extensive study conducted by Anand V with the aim of the issues viz., to study the criteria for premium fixation – Lead Manager wise, to know whether all the Lead Managers are following the same pricing methodology or not and to identify the underlying factors for the same.

In his study he rightly said that the financial institutions have the right of raising objection to high premium fixation by companies, since they hold large chunk of shares of private sector companies from blue chip companies to the ordinary laggars and they are in a position to hold up issue in case they are not satisfied with the pricing of an issue by a company. The financial institutions have reportedly suggested that the premium should be the average of the prices in the last 12 months or these should reflect the book value of the shares, whichever is higher. The reasonable premium on the share should help the company in the long run as well as the investors. It is now for the Lead Managers and Merchant Bankers to maximize the issue price for companies while ensuring full subscription by fair means, as there is more to pricing than formulae and calculations, and the market mood is vital. Merchant Bankers have to be cautious in their exercise as they not only have
to explain to SEBI the arithmetic of their pricing but also ensure full subscription for the companies. The pricing methodologies adopted by the sample selected are shown in Annexure – II.1

The method for valuation of shares has taken into account the four factors viz., Net asset value, Profit earning capacity value, Market value, and Fair value. All the Lead Managers in fixing the premium commonly consider the qualitative factors viz., Companies long existence, consistent profitability and uninterrupted dividend payment Promoters Experience. Marketing network. Brand name. Parent group success. Export performance and potential. Apart from the qualitative factors indicated that above different Lead Manager’s followed certain other factors too. (Annexure – II.2)

In concluding session of the report the author expressed that, it is not only abolition of CCI office and freeing of pricing but also liberalization of Indian economy that counted among the main factors for the high premium fixation of equity issues. Liberalization made it easy for the companies to import sophisticated machinery and advanced technology from overseas. Foreign technical collaboration, financial tie-ups and joint ventures have become a common phenomenon. It enables the companies to compete in the international markets with international brand names and high quality goods at competitive prices. It improved the companies export potential and performance thus; leading to advance orders on hand which enables continuous business through out the year. All these factors resulted in optimistic future and better financial projections like high EPS and Dividend. After the abolition of CCI Office and freeing of pricing, these future projections assumed greater significance in determining the premium. Opening up of Indian economy lured the multinationals to enter in to the joint ventures with domestic companies, which are having good manufacturing base, wide distribution net work and market channels, to tap the huge Indian
markets. Because of India’s relatively cheap labour costs and huge reservoirs of human resources, India has become base for world markets. It ensures the bright future for the domestic companies, which have foreign tie-ups or export oriented companies. Therefore Merchant Bankers are unhesitatingly fixing high premium*.

The major conclusions in his study are,

- The study of pricing methodologies and criterion for premium fixation of Lead Managers clearly shows that the abolition of CCI, and freeing of pricing resulted in situation wherein the Lead Managers approving fancy premia to the issues which they are handling.

- The companies, which are eligible for just Rs. 10/- premium under erstwhile CCI formula, are coming public with a premium of five or six times higher than the CCI price under the free pricing.

- A new competition has started among Merchant Banking outfits in approving higher and higher premium to attract the business. Even the bigger Merchant Banking outfits like ICICI Securities, SBI Caps and IDBI, are also in the race. The smaller ones still aggressively quote high premium to gain business rapidly.

- The study reveals that they are not following any uniform pricing methodology and no Lead Manager is following the same methodology for all the issues handled by him.

- In many cases their pricing emphasis is on qualitative actors like promoters experience, marketing network, brand name and export potential and performance.

- The only common phenomenon observed in their pricing was favorable comparison of P/E used with the industry P/E. In this method while considering EPS, IDBI has taken sustainable
EPS by discounting profits. Kotak Mahindra considered weighted average EPS. In some cases SBI Caps considered cash EPS rest of the Lead Managers considered normal EPS.

Attempts were also made from several professionals, researchers particularly in the area of concepts, functions, operational efficiency, financial performance and growth of Merchant Banking in India. A few among them are Shekar Sathe 17, Sanjay Sinha 18, G.B.Desai 19, Bauer, Hans-Peter 20, Ramachandra Rao.B 21, Kar, Pratip 22, Mehta D.R. 23. A good number of articles were also published in daily newspapers viz., Economic Times 24 and Financial Express 25.

Though the above-mentioned researchers, professionals covered various issues of Merchant Banking in India, they lack in a comparative performance evaluation of Merchant Bankers. The above studies, research articles are based on different objectives. Hence, the present study captioned "Merchant Banking in India- A study with special Reference to Evaluation of Functions and Performance," has been carried out. The study has been aimed at the recent developments and changes in the regulations of Merchant Banking in India. Activity based performance of selective Merchant Bankers has been made to identify the position of Merchant Bankers in their achievements. This will certainly enable them to plan the future course of action effectively and efficiently, particularly in view of the abolition of different categories of Merchant Bank categories and reforms in overall securities Industry. Keeping this in view the researcher has made an attempt to study in Merchant Bankers with special reference to their performance evaluation.
SELECTION OF THE PROBLEM:

Merchant Bankers play a vital role in the economic and financial development of the country. As a result of economic and financial liberalization new companies are formed and number of issues floated to raise resources from the investor community. Considering the significance of the issue the Government of India instituted SEBI in 1990 to regulate and control various market intermediaries. SEBI issued various rules and regulations for each and every segment of the capital market. To regulate Merchant Bankers, with the twin objective viz., investor protection and development of the capital market, SEBI issued rules and regulations for Merchant Bankers. Subsequent amendments also, have been made to these regulations to further strengthen this segment of the securities industry. These regulations (Merchant Banking) specified that every company desires to float an issue to the public should engage Merchant Banker (Registered under these regulations with SEBI) as Lead Manager. In this context Merchant Banker gained the importance in the Indian Securities Industry. In the wake of economic reforms and financial liberalization the need for financial resources has significantly increased. As an intermediary-Merchant Banker plays a crucial role in exploring the ways and means for the funds. Besides, issue management, Merchant Banker also performs several other important functions like underwriting of securities, Private placement of securities, Corporate advisory services e.g., Take-overs, acquisitions, Disinvestment Managing and International offerings of debt/equity i.e. GDR, ADR, Primary or Satellite dealership of government securities, Syndication of rupee, term loans, international financial Advisory services etc which require special skills.
Having given a serious and careful thought to securities Industry reforms, SEBI has taken efforts seriously to boost the splendid endeavor of securities market intermediaries. As a result, Merchant Bankers came into being to look after the promotion and administration of issues. It is well known fact that without adequate professional support of Merchant Bankers the securities Industry cannot prosper. Keeping this in view the researcher has made an effort to find out the regulatory changes in Merchant Banking. In addition the performance evaluation of selective Merchant Banks also studied to identify their relative merits and demerits. Hence, the study on “Merchant Banking in India- A study with Special Reference to Evaluation of Functions and Performance.”

OBJECTIVES OF THE STUDY:

The present study “Merchant Banking in India-A study with Special Reference to Evaluation of Functions and Performances” has been taken up with the following specific objectives.

- To study the significance of Merchant Banking towards the development of securities industry.
- To analyze issue management regulations.
- To analyze the functions of Merchant Banking in relation to rules and regulations of SEBI.
- To evaluate the performance of Merchant Bankers, both activity performance; and operational and financial performance.
- To draw conclusions and suggestions based on the analysis and experiences during the study.
PERIOD OF THE STUDY:
The present study covers the period of five years from 1995 to 1999.

SAMPLE SELECTION:
Firstly the data related to all Merchant Bankers were collected based on the criteria of the Category I registration with SEBI. Secondly, the deregistered Merchant Bankers irrespective of their past experience and performance were deleted from the sample. The reason being is to avoid the Institutions, which are not presently engaging in Merchant Banking activities. Further, the data had been classified based on the study period and by considering the representation of public sector, private sector and foreign firms to the sample. A total of fourteen Merchant Banking firms were shortlisted on this criterion. Out of this sample, finally nine firms were selected for analysis based on the availability of relevant data and for maintaining uniformity in analysis.

SOURCES OF DATA:
The data for the present study have been mainly based on secondary sources and has been collected from the Journals, research reports, bulletins, and brochures. Rules and Regulations published by SEBI, Government of India notification, annual reports of Merchant Bankers also part of the sources of the data. The basic financial and activities related data have been collected from the prime database. Research studies done on the related topics, books published on the area, research papers/articles and the news appeared in various dailies on Merchant Banking are also become part of the sources of data for the present study. Besides, personal discussions with the professionals in the area also part of the sources.
DATA ANALYSIS:

Data secured from various sources have been analyzed and interpreted systematically with the help of suitable statistical tools and techniques to arrive at final inferences. Pictorial Presentation of the important data has been done to visualize the concept clearly and quickly.

STUDY DESIGN:

The present study "MERCHAND BANKING IN INDIA – A STUDY WITH SPECIAL REFERENCE TO EVALUATION OF FUNCTIONS AND PERFORMANCE" has been divided into five chapters, viz., Introduction, Design of the study, Merchant Banking: Regulatory Issues, Merchant Bankers: Performance Evaluation and Conclusions and Suggestions.

The Introductory chapter – INTRODUCTION- covers the overview of the Indian Financial system and securities market in India; Capital market regulations, Reforms, Policies and Programmes, issues related to primary market including reforms and disclosure requirements. All these aspects are classified into various sections to have clear distinction of the subject.

The second chapter- DESIGN OF THE STUDY - deals with mainly the methodology adopted to carry out this study. Besides, the historical background of the subject, the study covers objectives of the study, significance of the selection of the research project; review of precious research studies sources of data collection and presentation of the study.
The third chapter—"Merchant Banking-Regulatory Issues"—devoted for rules and regulations SEBI with regards to Merchant Banks. Historical evaluation of Merchant Banking and its distinction between USA & UK, conceptual clarity between investment Banking and Merchant Banking also touched in this chapter. The impact of these regulations on the securities industry and subsequent amendments of the regulations to suit the changing environment of the industry also part of this chapter.

The performance evaluation of the Merchant Bankers—both activities and financial performance occupies significant portion of the fourth chapter—"MERCHANT BANKERS: PERFORMANCE EVALUATION"—This chapter has been divided into two sections. Activity based Performance evaluation of selective Merchant Bankers placed in the first section. The second Section deals with the financial performance of selective Merchant Bankers.

In the fifth and the final chapter—"Conclusions and Suggestions"—a summary of findings and conclusions at different stages of the study is given and possible suggestions have been proposed for importing the performance of the Merchant Banker, and relevant changes required in the existing regulations.
LIMITATIONS OF THE STUDY:

Regulations of Merchant Banking is just a part of the capital market regulations of SEBI, and is comprised of a wide area involving many regulations. The present study confines itself to the important areas of regulations of Merchant Banking and Issue Management Rules and Guidelines. Since, the coverage is partial; the conclusions drawn on the basis of the study may not be fully supporting the view. Besides, the capital market regulations in general and Merchant Banking Regulations in particular are dynamic. These Rules and Regulations are amended time to time based on the changing environment of the Indian Securities Industry. However, proper care has been taken to overcome this paucity in the study. Secondly, the present study is mainly based on the secondary sources of data. So the inherent limitations of secondary data may be termed as another limitation of the study. The results drawn out of the representative sample as large as possible generally leads nearer to accuracy. However, for evaluation, we were to confine to nine samples. It paves the way for further research in the same field with large sample.

CONTRIBUTION TO KNOWLEDGE:

The Indian business scenario is undergoing, a dramatic metamorphosis, in view of the economic reforms. Investment opportunities have expanded, competition (both domestic and international) has heightened, financing options have widened and above all dependence on capital market has increased. As a result, no participant can afford to be inward looking. The multinational entry and the foreign capital inflow into this country are changing the scenario further. Hence, the study assumes further significance under the current/changing scenario of the Indian Securities Industry.
The study is likely to be found useful from several angles and, therefore, its justification is derived from wider considerations, both academic and practical in terms of national relevance. Its importance notwithstanding, the area remains largely an unexplored field in India, as far as an in-depth academic enquiry is concerned. The present study hopefully attempts to fill a serious gap in this important area of capital structure practices with focus on Merchant Banking Services. The importance of the present study, however, is not merely academic. The present study, *defecto*, covers the early stages of financial reforms, probably for the first time with a larger coverage. Hence it would be of considerable relevance to the national economy at the present stage of liberation and changing securities industry environment. The study, *inter-alia*, would also be helpful to regulatory authorities like securities Exchange Board Of India (SEBI). Apart from regulatory authorities, it would also be of interest to development banks, Commercial banks, investment community, Researchers, and corporate firms in general.

The present study, we hope will serve as a source of literature in the field of Merchant Banking. It may help the regulators, researchers, and professionals in the industry to have better understanding on the impact of Merchant Banking activities in the securities industry and also it may help the academicians and the researchers who study in this area.
ANNEXURE – II.1
PRICING METHODOLOGIES:

SBI capital markets

1. NAV + fair value of ex CCI formula + projected fair value / 3.
   • Net Asset value as per last audited balance sheet.
   • Fair value of ex CCI formula.
   • Projected fair value of share or profit earning capacity value (assuming a P/E multiple and multiplying with projected EPS)
2. Market price * RONW of the company / RONW of the industry
   RONW = return on net worth
3. NAV + PPECV + FPECV / 3
   • PPECV = present profit earning capacity value (EPS * p/e)
   • FPECV = future profit earning capacity value (proj. eps* p/e)
4. Offer price just below the book value
5. Industry p/e multiple and p/e multiple used favorable comparison industry p/e multiple for electronic industry is 18, here p/e multiple used is 12.
6. A + B + C / 3
   • Fair offer price
     a. 2 times the book value
     b. 12 times the EPS
     Average of the two gives fair value
   • Expected market price of the equity shares
     a. 2 times the book value
     b. 12 times of the EPS projected excluding the share premium reserves from the BV
     • Average book value and EPS for the past 5 years and next 3 years
       a. 2 times of average BV
       b. 12 times of average EPS
     • NAV + PECV + EXP MKT PRICE / 3
     • 60% OF THE MARKET PRICE IS FIXED AS ISSUE PRICE
     • 3 years projected EPS is discounted at 20% discounting factor comparing the p/e used with industry p/e favorably.

ICICI SECURITIES AND FIANCDE CO LTD
1. A. Past earnings
   Past average EPS for 3 years = a
   a * conservative p/e = present profit earning capacity value
   B. Projected discounted earnings method
   Projected earning for the next 5 years are discounted at a discounting factor of 20% then average discounted EPS comes to 4. Considering P/Multiple of 10
C. Net asset value (as per audited balance)
A+B+C+/3

2. A. Net asset value (b/v)
B. PPCV (avg. of past 3 years eps* p/e)
C. Future profit earning capacity value
   \[ A + B + C / 3 \]

3. P/E used favorable comparison with industry p/e
4. ISSUE PRICE 1.5 times above the projected B.V.

IDBI
- \( (\text{ISSUE PRICE}/\text{SUSTAINABLE EPS}) = \text{P/MULTIPLE} \)
  Favorable comparison with industry P/E
- OFFER PRICE IS AT AROUND BOOK VALUE
- A V G INDUSTRY COMPARISON
- FIXING IT AROUND A V G MARKET PRICE

CANARA BANK
- Offer price at around CCI price
- Avg. net asset value project for the coming three years
- A. BOOK VALUE METHOD
  Book value per share issue price is one and a half time to the book value
- B. PECV METHOD
  Assuming P/E multiple of 10 * EPS
  The fair market price of the company share based on the avg. of the above two methods
  Based on the future projections of B V and EPS the avg. book value, the avg. eps
  The estimated share price one and a half times by profit earning capacity value based on the P/E multiple 10.
- AVG projected EPS = premium

PNB CAPITAL SERVICES
- COMPANY P/E FAVOURABLE COMPARISON WITH THE P/E
- NET ASSET VALUE METHOD

Existing equity capital : xxx
Add reserves and surplus : xxx
Less misc exp written off : xxx
Divide by no of shares outstanding
Net worth per share
Net worth = issue price

KOTAK MAHINDRA
- THE WEIGHTED AVERAGE eps for the past three years is taken the same has been
capitalized at 15%

97
- They fixed premium in such a way that the eps discounts the issue price by less than 10 times (a very conservative p/e multiple)
- They took the p/e 3 times below the industry p/e
- Issue price is determined at around current net asset value

BOI FINANCE LTD
- Eps of the last audited balance sheet * conservative P/E = profit earning capacity value
  b. Projected book value after the issue
  c. expected market price using p/e multiple of 10 fair value = A + B + C/3

- Book value of the last year = Issue Price
- Market Comparison on average industry P/E Ratio
  CCI Price = Issue Price

ENAM FINANCIAL SECURITIES
- They fixed the premium in such a way that the projected eps discounts the issue price less than 10 times in many cases
- Issue price = projected book value

BANK OF BARODA
A. 1. A. the average book value per share of the preceding 3 years.
   B. estimated book value per share of the next 3 years
   C. estimated book value per share for the current year
    A+B+C/3
  
   2. profit earning capacity value
      avg eps of the preceding 3 years
      avg eps for the current year
      avg eps of the next 3 years

  3. By capitalizing the avg. eps at the rate of 12%
     Average of the above A B and C
  4. Industry p/e comparison with P/E taken

IND BANK
- Issue price around CCI PRICE
- IND p/e comparison
- Assuming conservative P/E CONSIDERING first year EPS

P/E * EPS = FAIR VALUE
## ANNEXURE - II.2
### QUALITATIVE FACTORS OF SELECTIVE MERCHANT BANKERS

<table>
<thead>
<tr>
<th>INSTITUTION</th>
<th>FACTORS</th>
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| ICICI Securities and Finance Company Ltd.       | • High quality products at competitive prices  
• Pioneering role and innovation (CRISIL).  
• Branches in important commercial and industrial estates (number of 1 accounts as in case of Federal bank issue), and benefits from liberalization. |
| SBI Capital Markets Ltd.                        | • Company is in core sector viz. Petroleum.  
• Issuing company has been maintaining good industrial relations  
• Reputed customers (clientele).  
• Hidden reserves (Toyoma Electrical) |
| IDBI Merchant Banking Division                   | • Low debt equity pattern of financing.  
• Income tax benefits |
| PNB Capital services                            | • Group to which issuing company is affiliated to.  
• Award for excellence in exports by Government of India.  
• Brand awareness in international markets.  
• The project location i.e., if the project is located in Himachal Pradesh which enjoys backward area benefits like 100% income tax holiday for five years  
• Company's monopoly in markets.  
• EOUs. |
| Bank of Baroda                                  | • Good clientele.  
• Proposed modernization and diversification of the company be able to reduce wastage and also substantial savings in energy and freight costs. |
| Enam financial services                         | • Company is deriving benefits from liberalization of economy (Birla group tapping international markets)  
• Future diversification plan  
• Pioneering ship.  
• In Zee tele films ltd case they have considered the senior experienced, qualified personalities from the films and consumer industries working for the company as the key factor.  
• The availability of low cost power and power adequacy |
| KOTAK MAHINDRA.                                 | • Market leadership.  
• Product line.  
• The company is growth industry.  
• Sound technical expertise. |
| BOI FINANCE.                                    | • Playing the role of largest exporter.  
• Market channels overseas.  
• Backward and forward integration programmes.  
• Closely held business in the past etc. |
| Canara Bank                                     | • Geographical presence in the metros (Anshul credit capital ltd).  
• Promoters providing office premises with nominal rent with out fixed cost to the company.  
• Good Research and Development base  
• Export potential.  
• The Companies group image, projects at hand which ensures continuous business (Ansal build well).  
• Foreign technical collaboration and financial participation. |
| INDBANK                                         | • Backward integration  
• National awards of merit for export performance  
• Joint ventures in overseas. |
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