CHAPTER – III

ORGANISATIONAL PROFILE OF SAMPLE SUBSIDIARIES

Introduction:

The abolition of Managing Agency System (MAS) in India created a big void between the investors and the corporates. This gap was rightly identified by a foreign bank, viz., the Grindlays Bank by establishing its Merchant Banking Division (MBD) in January, 1969. The institution was the brain child of Mr. Aldinton, the then Chairman of Grindlays Bank, who recommended that a merchant banking institution should be separated from the bank and be established as a separate division.

Inspired by the success of the Grindlays Bank’s MBD, and the National City Bank started merchant banking operations in 1970.

The ‘Indian Stock Broking Firms’, who undertook a few of the merchant banking activities in their traditional fashion, experienced a severe set back and failed to compete with the well structured ‘Foreign Bank MBDs’. They were of the opinion that the licence given to the foreign banks would lead to the closure of Indian stock broking firms. The Stock Exchange Division in the ‘Ministry of Finance’, Government of India, reviewed the performance of Foreign Bank MBDs in 1971 and submitted a report wherein it said, “these foreign bank
SAMPLE MERCHANT BANK SUBSIDIARIES

SBI Capital Markets Limited
India's Premier Investment Bank
(A Subsidiary of State Bank of India)

Indbank Merchant Banking Services Ltd.
(A Subsidiary of Indian Bank)

BOI Finance Limited
(A Subsidiary of Bank of India)

BOB Capital Markets Limited
(A Subsidiary of Bank of Baroda)
divisions were not different from those what the investment broking firms have been extending to new issues for several decades in the past and in merchant banking operations these foreign banks had done a little”.1

Banking Commission Recommendations:

The ‘Banking Commission’ appointed by the Government of India in 1972 evaluated the situation and in its report, it emphasised the need for establishing the specialised financial institutions. In the opinion of the Commission, “there is a prima facie case for the creation of institutions to offer services like preparation of projects and giving advice on management and financial problems. Merchant banking institutions should also offer investment management and advisory services particularly to the medium and small savers. Once the need for setting up of merchant banking institutions is accepted, the question of their structure and administration arise.” The Commission held that “initially there could be four merchant banking institutions located in Bombay, Calcutta, Madras and New Delhi set up by the commercial banks and specialised financial institutions. Later on, branches may be set up by these institutions at other important centres also. To ensure the integrity of operations and depending on the investment expertise and management standards, other agencies may be allowed to set up merchant banking institutions”.2
On the recommendations of the 'Banking Commission', the State Bank of India (SBI) established its Merchant Banking Division in 1972, thus beginning the 'saga' of Indian merchant banking institutions. The MBD of SBI initially undertook corporate advisory services and it extended assistance to small and medium scale entrepreneurs. In 1973, it started placing the issues of corporate securities. Following the trend set up by the SBI, the Industrial Credit and Investment Corporation of India (ICICI) established its own MBD in 1973.

The primary capital markets in India took momentum with the FERA companies diluting their NRIs' holdings in 1974. The Indian investors were provided with a chance to invest in such companies. This set an upward trend, both in terms of public offers and of volume of money raised from capital markets. For instance in 1970-71, a total amount of Rs. 33 crore was raised by 58 companies which was increased to 76 crore by 106 companies in the subsequent year, recording an almost 100 per cent growth in the capital market funds mobilisation.

This surge in the capital market acted as a 'Green signal' to other institutions to join the mainstream. The important commercial banks, which followed SBI, were the Central Bank of India, Bank of India and Syndicate Bank in 1977, the Bank of Baroda, Standard Chartered Bank and Mercantile Bank in 1978 and the United Bank of India, United Commercial Bank, Punjab National Bank, Canara Bank, and Indian Overseas Bank in the early eighties.
The late eighties witnessed the entry of a host of private merchant banks which were either 'self-styled or they were backed by foreign banks, viz., DSP Financial Consultants being backed by Dresdner Bank of West Germany, Hill Samuel with Champaklal Investment and Financial Consultancy, JM Financial and Investment Consultancy Services Ltd., V.B.Desai Ltd.

The move which got kindled in 1970s marched ahead throughout the 1980s. The Government of India's policy of liberalisation, new issues policy of 1984-85, increase in the inflow of NRI's funds, relaxed foreign equity participation and foreign collaborations in 1988, stock exchange reforms, etc., helped to sustain impetus in the stock market. During the same period, the subsidised financing and reduction of interest rates on bank lending induced banking sector to go for merchant banking as an alternative income bearing activity.

In 1984, The Banking Regulation Act permitted 'subsidiaries' to undertake Leasing Business and 'Investment in shares'. Hence, the commercial banks moved forward to establish their own subsidiaries to grab the new opportunities. Here too, the beginning was made by the SBI by establishing its fully owned subsidiary, the SBI Capital Markets Ltd. (SBICAP) in 1986, which was followed by Ind Bank Merchant Banking Services, Bank of India Financial Services, Punjab National Bank Financial Services, Canara Bank Financial Services, Allahabad Bank Financial Services, etc.
The present chapter is an attempt to present a brief profile of the sample units, viz., SBICAP, BOIFIN, IBMBS and BOB Caps in terms of their establishment, management structure and branch expansion.

SBI Capital Markets Ltd. (SBICAP) :

The State Bank of India pioneered merchant banking activities by establishing merchant banking division in 1972 and converting this division into subsidiary in 1986.

The SBICAP was incorporated on 2nd July, 1986 and it commenced its operations on 1st August, 1986. The company was formed as a wholly owned subsidiary of the SBI to take over the merchant banking activities which were formally carried out by the SBIMBD. The subsidiary was created to meet adequately and effectively the emerging demand for broad based financial services from the corporate sector. It was the SBI's conviction that the subsidiary should reciprocate to the growth of newer financial services by amplifying appropriate packages and products in the areas such as corporate counselling, project advisory services, capital market operations, etc.

Ind Bank Merchant Banking Services Ltd. (IBMBS) :

The Indian Bank, the parent bank of Ind Bank Merchant Banking Services Ltd. (IBMBS) carried with it the fervor of the 'Swadeshi Movement' and has been in existence for over eight decades. The bank
started merchant banking division in 1982 and made a mark by its creditable performance in that area. The IBMBS Ltd., was incorporated as a public limited company on 11th August, 1989 as a wholly owned subsidiary of the Indian Bank, with an authorised capital of Rs.25 crore. The company was formed to achieve objectives of merchant banking and other allied activities.

Bank of Baroda Capital Markets Ltd. (BOB Caps):

The BOB Caps is a 100 per cent wholly owned subsidiary of the Bank of Baroda (BOB) which took over the entire merchant banking activities of BOB’s MBD. It commenced its operations on 1st October, 1996. It had an advantage of sharing BOB’s wide network of merchant banking activities which were in vogue for more than 7 years.

Bank of India Finance Ltd. (BOIFIN):

The Bank of India Finance Ltd. (BOIFIN) was established in 1989 as a wholly owned subsidiary of Bank of India (BOI) with its corporate office located at Mumbai. It has the favourable support of the countrywide network of BOI.

Personnel Policy:

The SEBI’s modified rules and regulations of 1997 require the MBs to undertake purely fee based activities rather than fund based ones. This division of activities into fee based and fund based has a dramatic effect on personnel policies of the MBs in India. The fee
based activities are non-fund based and require professional approach. The very success of MBs in future depends upon the efficiency with which these activities are managed and which in turn, depend upon the personnel policies that are adopted. These policies are expected to identify right talents both from within and outside and to goad them to higher efficiency and excellence. At present, the competitive advantage of the MB's is wholly dependent upon the professional skill and standards of the personnel they possess. Therefore, the human resource, that is at the disposal of the company, decides its future.

Initially, the SBI deputed its top ranking officials to SBICAP as its chief officers. Later on, the SBICAP itself selected its own personnel with good academic records and experience in various fields. Preference was given to fresh Chartered Accountants (CAs), Bachelor of Engineers (BEs) with Post-graduate Diploma in Marketing (PGDM), etc. The main recruitment method adopted was campus interview conducted at famous management training centres. The organisation has strove hard to build a sound professional team for its better performance in various fields. In order to keep abreast of the latest developments in the capital markets and financial service market, number of officials are deputed for various training programmes/workshops, conducted by reputed management institutions and international professional bodies.

In the beginning, the IBMBS Ltd., got personnel deputed from the Indian Bank. Recently, it has started selecting the graduates of top
ranking management institutions blended with rich practical experience and professional background. A perfect mix of young and enterprising MBAs, CAs, BEs and legal experts coming from reputed institutions form a significant part of the personnel policy of this organisation. The unit has now built a distinct research team to survey all the prominent industries and companies on continuous basis and to prepare detailed research reports.

**Management Hierarchy:**

Having been the subsidiaries of public sector banks, the four MBs selected for study have a uniform pattern of hierarchy of management structure. The Board of Directors (BODs) that includes both the nominees of the parent company and the Government of India representatives, constitute the highest decision making authority. The Managing Director is the chief executive officer of the subsidiary, who is assisted by several subordinates working under his overall supervision. The typical management hierarchy of these subsidiaries is given in Chart 3.1.

In SBICAP, the BODs are nominated by the parent institution, i.e., the SBI. The total strength of BODs is 8, which includes a chairman and managing director. The MD is assisted by Deputy MDs, who are called Executive Directors, drawn from the specialised departments, viz., planning and development, treasury and investment management group, international commercial branch group, etc. The
CHART – 3.1

Management Hierarchy of Sample Subsidiaries

Shareholders

Board of Directors

Chairman

Vice-Chairman

Managing Director

Secretary

Deputy MD or Executive Director

Deputy MD or Executive Director

Deputy MD or Executive Director

Deputy MD or Executive Director

General Manager

General Manager

General Manager
number of Deputy MDs, Executive Directors and GMs has undergone frequent changes from the beginning.

An agreement with 'Asian Development Bank' (ADB) in 1977 brought about some changes in the composition of the Board, which resulted in having a nominated member of ADB and the system of retirement by rotation, was adopted. Throughout the study period, it was observed that BODs was enriched by highly experienced human resource of the parent organisation, i.e., the SBI. The IBMBS Ltd., initially constituted its Board with four directors which included a chairman, president and two directors subject to retirement by rotation. The directors hailed from specialised fields and were nominated by Indian Bank.

The BOB Caps too has a similar structure with a chairman, managing director and four directors. All are subject to retirement by rotation. A very few changes have taken place in the composition as the same person continues to be the chairman since 1997.

The Board of BOIFIN is similar to SBICAP Ltd., with corporate management team and branch chiefs. The size has undergone a change along with the introduction of new services.

The subsidiaries are organised on the functional basis with expert orientation. An expert heads each special wing. The adoption of new service products into their network compelled the subsidiaries to enhance the board members. The frequent changes in the board
throughout the study period is evident due to call back by the parent banks, shift to the other competitive organisations, retirement from services, etc.

Organisational Adaptations:

An organisation by nature is dynamic. It is subject to adjustment and readjustments for the changes, in the form of expansion, contraction of services, etc.

The SBICAP has undergone many changes. It was initially looking after the assets of the SBI Mutual Fund until the decks were cleared for the creation of an Asset Management Company. A new subsidiary, viz., SBI Fund Management Ltd. took over the management of mutual fund assets.

In 1996-97, the SBI formed two more subsidiaries, viz., SBI Gilts Ltd. and SBI Securities Ltd. to offer integrated financial services. In the year 1997-98, the corporate restructuring was carried on in accordance with the recommendations of Arthur Anderson by identifying four business segments, viz., Capital Markets Group (CMG), Project Advisory Group (PAG) structured Finance Group and Corporate Advisory Group. The CMG was created to focus on development and delivery of non-standardised products like, international offerings coupled with financial engineering so as to test the viability and fine tuning of new capital market products till these are standardised. The second group would focus on project appraisal.
infrastructure projects, credit syndication and lease asset recovery. The last group was to develop better expertise in areas like merger and acquisitions, privatisation, joint ventures, advisory and counselling.

In 1998, the SBICAP launched two focus groups, firstly Strategic Planning Group to concentrate on identifying focus areas for new product development and to evaluate their business feasibility and secondly, Human Resource Group to evolve comprehensive action plan for skill retention and optimum personnel utilisation. 'Relationship Managers' concept was introduced in Mumbai corporate office to develop ongoing relationship with the top corporate clients of the SBICAP.

As a result of revised guidelines, the SBICAP in the same year decided to stop, fund based activities and pursued purely merchant banking activities. A comprehensive compendium on Corporate Governance was introduced with a view to adopt the best global practices that prevailed round the world.

The IBMBS Ltd. is often called 'flat footed' because of its flat organisational structure to enhance the decision making process and quality of services. In 1991, it opened investor counselling centres to render the direct guidance to the small and medium investors. It was the first institutional member of the Madras Stock Exchange. In compliance with SEBI regulations of 1997, it decided to continue only
the businesses specified by the SEBI, i.e., fee based activities and to continue the fund based activities till the expiry of existing contracts.

So far as BOB Caps and BOIFIN are concerned, no such changes were effected excepting their adherence to the SEBI’s 1997 modifications.

Branch Expansion:

The city of Mumbai considered to be the financial capital of India, occupies a prime position in the Indian Merchant Banking area. The first ever MBD was inaugurated in Mumbai only.

The sample merchant bank subsidiaries have their corporate offices located first at Mumbai and later on expanded their network towards other Metros and State capitals. The subsidiaries are least favoured by their parent banks for branch expansion. As a result of this, no big branch expansion has taken place in India.

Table 3.1 shows the branch expansion policy of the subsidiaries.

Table 3.1 displays that the subsidiaries commenced their activities keeping Mumbai as their centre. The expansion was rapid during the early growth stage. It was attributed to the growth of new issues market activities and it was also due to the emerging entrepreneurs from other parts of the country. The gradual shrinkage in the primary capital market has weakened the opportunities and a few
TABLE - 3.1
Branch Expansion by Sample Subsidiaries

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<td>IBMBS</td>
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<td>SBICAP</td>
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Source: Annual Report of Sample subsidiaries.
branches turned out to be uneconomical and were subsequently closed as in the case of BOIFIN.

The branches are expected to survive only when professionalisation is adopted and services are rendered to the requirements of the corporate clientele group. These branches should act as purveyors of merchant banking messages in the urban and semi-urban areas. The independent branches should build their own infrastructure with freedom of decision-making so that one can have a wide explosion in MBs activities and in branch expansion.

Conclusion:

The sample MBs were created by their parent organisations in the aftermath of the entry of foreign banks' managed MBs and recommendations of Banking Commission. Moreover, the SEBI's 1997 classification of activities has had a dramatic effect on the growth and running of sample units. The organisational structure seems to be quite adaptive and the parent organisations are eager to infuse young talents to create competitive advantage. But this should be conditioned by the fact that the organisations should make a better use of these talents to emerge as the leaders on the global market scenario. Here, they are expected to grow thinner in size and bigger in activity. For this, the organisations should make the optimum use of the available human resources, wherein the success lies and beauty of the organisational structure is quantified.
References:
