

MERCHANT BANKING

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INTRODUCTION

- ✓ Merchant banking is a combination of banking and consultancy services.
- ✓ Provides consultancy for financial, managerial and legal matters.
- ✓ It helps the businessman to start business and helps to raise finance (Banking Services).
- ✓ It advises the clients regarding different matters (Consultancy Services).

INTRODUCTION Contd....

“Merchant Banks are the financial institutions providing specialist services which generally include the acceptance of bills of exchange, corporate finance, portfolio management and other banking services”

Cox, D.

ORIGIN OF MERCHANT BANKING

- ✓ Originally started in Italy since the medieval times.
- ✓ Started in France during the 17th century.
- ✓ Banks in England started providing merchant banking services in 18th century.
- ✓ The concept was adopted by South Africa in 1972.
- ✓ The concept came in India in the year 1967 when Merchant Banking services were provided by Grindlays Bank.

FUNCTIONS OF MERCHANT BANKER

- ✓ Raising finance for clients.
- ✓ Portfolio management.
- ✓ Broker in stock exchange.
- ✓ Advice on expansion and modernisation.
- ✓ Managing public issue of companies.
- ✓ Revival of sick units.
- ✓ Leasing services.
- ✓ Management of interest and dividend.
- ✓ Credit syndication.

FUNCTIONS Contd.....

- ✓ Promotional activities.
- ✓ Money market operations.
- ✓ Servicing of issues.
- ✓ Corporate counselling.
- ✓ Project management.
- ✓ Handling Government consent for industrial projects.
- ✓ Offshore finance.
- ✓ Non resident investments.

MERCHANT BANKING VS COMMERCIAL BANKING

Basis	Merchant Banks	Commercial Banks
Functions	Assists in raising capital in the form of equity, preference shares or syndicated loan.	Provides funds in the form of term loans and working capital.
Main Area of Work	Act as advisor and not financier.	Financing is the main business.
Cheques	They do not accept chequeable instruments.	Demand deposits are the key features.
Services	They mainly carry fee based services	They mainly carry fund based services.
Orientation	Management oriented	Asset oriented

STRUCTURE OF MERCHANT BANKING

(I) Public Sector

- ✓ Commercial Banks
- ✓ Financial Institutions
- ✓ State Level Institutions

(II) Private Sector

- ✓ Banks
- ✓ Finance and Investment Companies

(III) International Banks

Regulation of Merchant Banking

(I) Formation of Business Organization

- ✓ Sole proprietorship
- ✓ Partnership firm
- ✓ Corporate enterprise
- ✓ Co-operative society

(II) Registration of Merchant Banker

Category I- Issue manager, adviser, consultant manager.

Category II- Adviser, consultant, portfolio manager and underwriter

Category III- Underwriter, adviser, consultant to issue.

Category IV- Adviser.

Regulation Contd...

(III) Capital Adequacy

Category	Minimum Amount
Category I	5,00,00,000
Category II	50,00,000
Category III	20,00,000
Category IV	Nil

Bibliography

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