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INVESTMENT BANKING AS ASUBJECT OF STUDY

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ABSTRACT

Investment Banking is an American synonym of Merchant Banking . Merchant Banking originated in the 13th century in the European countries . As far as the origin of this term is concerned , it is told that earlier Merchants used to attend to extending of loans and arranging finance for trade but as the time passed the subject of banking assumed more importance and the Merchants switched over to banking activities ,hence the term Merchant Banking .Rapid industrialization in India has led to the setting up of new industrial units and Expansion ,Diversification , and Modernization of existing units ..The need for having expert advice and the guidance of Specialists in the field has therefore become Imperative .Only Merchant Banking can offer these services .In India ,Investment Bbankers are often called Merchant Bankers .Merchant Banking is a Non-Banking Financial activity similar to banking .Merchant Banks are neither Merchants nor are they necessarily Banks. These are Financial Institutions providing valuable services like acceptance of bills of exchange, corporate finance ,Portfolio Management and Banking services .According to J.A.P Herbert king ,"Merchant "Banking is what Merchant do ."M.J.Rosenberg has defined Merchant Bank ,as "an organization that underwrites securities for corporations ,advices such clients on Mergers ,and is involved in the ownership of commercial ventures" .E.Reid in his presidential address to Institute of Bankers in London stated that "these organizations are sometimes Banks which are not Merchants ,and sometimes Merchants who are not Banks and sometimes houses which are neither Merchants nor Banks .The notification of the Ministry of Finance ,India defines a Merchant as ,"any person who is engaged in the business of Issue Management either by making arrangements regarding selling ,buying or subscribing to the securities as Manager ,Consultant Adviser ;or one rendering Corporate Advisory services in relation to such activities in the management ".Investment Bankers may gradually replace Merchant Bankers in India. With Merchant Banks / Issuing Houses in the UK already converting to Investment Banks ,or at least performing some of their functions, India would not be far behind. Merchant Banking in India is non- fund -based except

Underwriting .Investment Banking is both fee and fund –based .Investment Bankers commit their own funds .

Key Words: Merchant Banking ,Investment Banking ,American Investment Bank, ,European Investment Bank ,Indian Investment Bank ,Universal Bank
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INTRODUCTION:

Indian Investment Banking

In India, though the existence of this branch of Financial Services can be traced to over three decades, Investment Banking was largely confined to Merchant Banking services .The forerunners of Merchant Banking in India were the foreign banks. Grindlays Bank (presently merged with Standard Chartered Bank in India) began Merchant Banking Operations in 1967 with a Licence from the R.B.I followed by the Citibank in 1970.These two banks were providing services for syndication of loans and raising of equity apart from other advisory services.

It was in 1972 that the Banking commission Report asserted the need for Merchant Banking services in India by the Public Sector banks . Based on the American experience ,which led to the passage of the Glass-Steagall Act ,the commission recommended a separate structure for Merchant Banks distinct from commercial banks and Financial Institutions . Merchant Banks were meant to manage investments .and provide advisory services .

Based on the above recommendation , the S.B.I set up its Merchant Banking Division in 1972.Other banks such as the Bank Of India , Central Bank Of India , Bank Of Baroda ,Syndicate Bank ,Punjab National Bank, Canara Bank followed suit to set up their Merchant Banking outfits . ICICI was the first Financial Institution to set up its Merchant Banking Division in 1973.The later entrants were IFCI and IDBI with the latter setting up its Merchant Banking Division in 1992.By mid eighties and early nineties ,most of the Merchants Banking Divisions of public sector banks were spun off as separate subsidiaries .

SBI set up SBI CAPITAL MARKETS LTD In 1986.. Other such as Canara Bank ,Bank Of Baroda ,Punjab National Bank ,Indian Bank and ICICI created separate Merchant Banking entities .IDBI created IDBI CAPITAL MARKETS much later since Merchant Banking was initially formed as a Division of IDBI in 1992.

American Investment Banking

Commercial banks in the U.S.A were preparing for an economic recovery at the end of World War 1 and consequently , to the significant demand for corporate. It was expected that American companies would shift their dependence from commercial banks to the stock and bond markets wherein funds were available at lower cost and for longer periods of time. In preparation for a boom in the capital markets in the 1920s ,commercial banks started to acquire stock broking businesses in a bid to have a presence in such markets .The first such acquisition happened when the National City Bank Of New York acquired Halsey Stuart and company in 1916. Investment Banking meant finance underwriting and distribution of securities, in the entire 1920s, as in the past .

The Stock and bond market boom of the 1920s was an opportunity that banks could not miss. But since they could not underwrite and sell securities directly ,they owned security affiliates through holding companies . However ,the compartments were not maintained in a water-tight fashion .The affiliates were thinly capitalized and were financed by the parent banks for their underwriting and other business obligations. While the boom lasted ,investment banking affiliates made huge profits as underwriting fees ,specially in the segment called 'Yankee Bonds 'issued by overseas issuers in U.S market .In the stock market ,,the banks mainly conducted broking operations through their subsidiaries and lent margin money to customers .But with the passage of the McFadden i 1n 927,bank subsidiaries began underwriting stock issues as well. National City Bank ,Chase Bank ,Morgan and Bank Of America were the most aggressive banks at that time .

The stock market got over –heated with Investment Banks borrowing money from the parent banks in order to speculate in the bank's stocks,, mostly for short selling .Once the general public joined the frenzy ,the price-earnings ratios reached absurd limits and the bubble eventually burst in October 1929 wiping out millions of dollars of bank depositors' funds and bringing down with it banks such as the Bank of United States .

European Investment Banking

In continental Europe (excluding UK), the concept of a 'Universal Bank 'had been the undercurrent since the late nineteenth century when most of these banks were established .The term 'Universal banking 'meant the co-existence of commercial banking (lending activity) with investment banking (investment and distribution activity). Their Universality was in the sence of harnessing the vast retail customer base that these banks enjoyed to market security issuances by their investment banking arms .These issues were mostly in the local markets designated in the local currencies . France's Banques d'affairs and Germany's Universalbanken are examples .

The United Kingdom ,which is Europe's largest Investment Banking market ,had its own structure evolved from history .The oldest Merchant Bank in London was Barings Brothers, which played a prominent role in the nineteenth century . Securities distribution was the function of stock brokers. Secondary market trading was taken up by jobbers and advisory services were provided by Merchant Banks. The term 'Merchant Bank 'was evolved to distinguish between commercial banks and those that provided capital market advice. However ,the breaking down f such barriers in 1986 by allowing banks to own broking outfits led to consolidation and most broking firms got absorbed by bigger and diversified entities . Around the same time, US too was witnessing the disappearance of distinction between pure broking entities restricted to secondary markets and Investment Banking entities involved with primary markets .The US Investment Banks with their integrated global business model entered UK and

Europe and later into Japan. The introduction of the Euro in 1999 helped the US invasion further by neutralizing the local currency advantages enjoyed by European universal banks . . By 2001,the US bulge group garnered 29.7% of the Investment Banking fee generated in Europe as compared to 16.3%by the European universal banks.
The following aspects, interalia, fall within the ambit of Investment Banking as a subject of study :

(1) Underwriting (2)Issue Management (3)Private Equity (4) Buybacks and De-listing (5)Corporate Restructuring (6)Mergers & Acquisition s (7) Allied Businesses (Asset Management ,Mutual Funds ,Hedge Funds ,Case Of Long Term Capital Management, Private Equity Funds , Securities Business) (8) Financial Markets (9)Capital Markets (10)Corporate Valuation (Bond Valuation ,Equity Valuation ,Business Valuation Models ,Financial forecasting Measuring Cost of equity ,Primary Markets ,Public offers, Private Placements (Venture Capital, International Private Placements), Regulation Of Securities Markets and Issuances .

OBJECTIVES OF STUDY :
The broad area of study is the general objective . The major objectives of the study would be to go deep into the study of Investment Banking as a subject of study.. The Specific Objectives of the study is carried on objectively keeping the relevant factors in view .
Hypothesis Of Study –Having regard to the objectives in mind, no hypothesis appropriate to to the subject of study / discipline /area can be formulated
METHODOLOGY USED :
As The nature of study is a financial one ,it needs to be thoroughly overhauled from various angles.
The subject area of study seeds to be highlighted from various financial indicators.
UNIVERSE AND SAMPLE :

Populatio – The Study involves quite a good number of organizations involved and relevant to the subject in and outside the country.

Sample – In order to conduct the study on all organizations it is in reality not possible to do so because of time and cost factors . Thus a number of chosen organizations have been taken into consideration.

Data Collection & Contemplated tools –Facts and figures have been obtained from primary and secondary sources as well.

Sources –Primary data have been obtained directly from prime sources secondary data have been obtained from printed literature ,magazines ,journals ,research reports ,internet & websites .

Data Analysis & Techniques applied –Questionnaires /schedules have been used to collect data and appropriately analyzed .
Questionnaires /Schedules have been devised based on the requirement of research. Two sets have been made ready for use – one for the organization .

DATA ANALYSIS:

Underwriting--

Security issues are underwritten to ensure that in case of undersubscription they are taken up by the underwriters . Underwriting is not only an important complementary function of Investment Banking but an important capital market service as well. Underwriting provides the key financial support required to bring security issuances to investors through the public offer route .Underwriting follows different patterns and contractual structures in the Indian market as compared to its U.S counterpart. .In the U.S, underwriting is a fund –based activity while it is predominantly a fee –based service model in India.
A sum of Rs. 5775 crores consisting of 95% of total public issue of Rs. 6061 crores was underwritten in 1992-93 , 88% 1991-92 %, 60% in 1990-91 and 19% in 1989-90 . The main underwriting amounted to Rs .5361 crores of which Financial Insiitutions (20) contributed 28%, Banks (56) 35%,Merchant Banks (50)11% and Brokers (1296) 26% %
34% of total underwriting done by Financial Institutions was for fully convertible debentures .Private Merchant Bankers and brokers ere mainly involved with equity issues .
In addition to main underwriting ,contingent underwriting amounted to Rs .416 crores in 1992-93.Of this 59% was underwritten by Banks.,6 % by Financial Institutions , 28%by Private Merchant Bankers and 7% by Brokers .
In 1993-94 ,98 % of the issues were underwritten .Since underwriting was made optional in ,1994 ,,the decline in underwriting in 1994-95 was not significant . It fell marginally to 81% . However the decline was significant in 1995-96 with only 31% of the issues being underwritten . The amount underwritten as a percent of total declined to 68% each in 1993-94 and 1994-95 .
A large number of good issues do not require underwriting facility . During 2000-01,105 issues (68.7%) were underwritten . The ue remaining 19 issues (31.3%) were not underwritten . While Financial Institutions and Banks accounted for major portion of underwriting earlier , Private Merchant Bankers accounted for two-thirds of total underwriting in 1995-96 .

Issue Management –

Issue Management in India encompasses a wider role for the Merchant Banker associated with the issue The task of preparation of Prospectus that has been included under issue management in India , is primarily done by the law firms in t.he U.S
Capital raised by way of public ,Rights ,listed ipos, at par ,at premium ,Bonds /Ncds etc Total Rs. Crore

No Amount
1999-00 93
7817

2000-01
151 6108
2001-02
35 7543
2002-03
26 4070

2003-04
57 23272
2004-05
60 28256
2005-06
139 27382
2006-07
124 33508
2007-08
124 87029
2oo8-09
47 16220
2009-10
76 57555

LIMITATIONS OF STUDY:
Since the data collected may not be sufficient ,it may have certain drawbacks and shortcomings .Maintenance of Secrecy & confidentiality of organizations may not permit the data to be used freely as per Official Secrets Act For obvious reasons ,many information may not be easily available /collected / obtained . The material /data collected from elsewhere /other sources may not be suitable .Nonetheless, the theme/base/foundation is framed today for use/ consumption in future .anking Investment B

FINDINGS :
Not too many materials on the subject of Investment Banking are easily available As such , exchange of views / dissemination of information is not that plain and simple . The findings of the study will have several implications / outcome . It will be of great /some use to those persons /organizations who are interested/ concerned in the lines .It will definitely be useful for future researchers , Knowledge seekers , the people at large / the present day society . It will further be useful to industries and the Business School students who aspire to get the highest Final placement package /salary since the scope is unlimited . These apart, it will facilitate to design and improve upon the methodology to conduct
focused and indepth study in line with the subject .

CONCLUSION :

In sum , taking a balanced view ,we can safely conclude that there are ample opportunities for Investment Banking in India . Since the investment Bank lends its name to the issue , it will imply that investors can trust the issue .Investment Bankers may gradually replace Merchant Bankers in India .

Investment Banks make the market for IPOs, thus assuring protection to the issuer about subscription.

, Thus, Investment Banking as a subject of study is both simulating & rewarding as we have been seeing /observing from the Final Placements made in some of the Top Business Schools in INDIA , namely , IIM , KOLKATA/ IIM , AHMEDABAD /IIM ,BANGALORE etc

RECOMMENDATIONS:

It is recommended that all serious minded persons / persons of actions should give serious thoughts to it to see that they go in for pursuing Investment Banking as a subject of study as it has very very bright potentialities/ prospects to move very fast & to pursue a rewarding career as compared to other disciplines .Besides, the subject is also very interesting & one will get real pleasure out of it .

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