**CHAPTER -1**

**INTRODUCTION**

1.1 MEANING OF MERCHANT BANKING:

A merchant bank is a financial institution that conducts underwriting loan services, financial advising, and fundraising services for large corporations and high-net-worth individuals. Merchant banks specialize in international trade, providing services for multinational corporation. Unlike retail or commercial banks, merchant banks do not provide financial services to the general public. Some of the world largest merchant banks are JPMorgan Chase, and Citigroup.As most of their services are not targeted at the general public while they may offer some banking services to wealthy individuals, merchant banks are more oriented toward corporate clients. The term merchant bank is used to describe investment banks in the United kingdom but has a more narrow focus in United states.

1.2 EVOLUTION OF MERCHANT BANKING:

‘Hundi’ was the main instrument of credit used by indigenous bankers before the coming of western merchants in India. It was in 1813,when merchants came from European countries to trade with India. Agency houses were set up by merchant bankers based at London.

During 19th century,foreign merchant bankers operated in India through ‘East India House’.East India House members moved into real estate business viz.tea and rubber plantation,cotton mills etc.They faced tough competition from persian finance houses who were willing to grant credit to the trade with India.It was in 1860 when merchant’s interest in joint stock banking started growing and with their own investments they floated joint stock banks.

1.3 ADVANTAGES OF MERCHANT BANKING:

\*Merchant banks perform functions that cannot be carried out by businesses on their own

\*Merchant banks have access to traders,financial institutions,and markets that companies or individuals could not possibly reach

\*By using their skills and contacts,merchant banks can get the best possible deals for their clients.

1.4 DISADVANTAGES OF MERCHANT BANKING:

\*Merchant banks are really only for large corporate customers, or extremely wealthy smaller businesses owned by individual clients

\*Not all deals carried out by merchant banks meet with unqualified success

\*There is always risk attached to the kinds of deal that merchant banks undertake

1.5 TYPES OF MERCHANT BANKING:

\*Public Sector Merchant Banks :- Public Sector Banks (PSBs) are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finan

ce of various State Governments of India.

1.Commercial Banks(public)

2.National Financial Institutions

3.State Financial Institutions

\*Private Sector Merchant banks :- private banking is banking, investment and other financial services provided by banks and financial institutions primarily serving high-net-worth individuals (HNWIs)—defined as those with very high levels of income or sizable assets. A bank that specializes in private banking is called a private bank

1.Foreign Banks

2.Indain Private Banks

3.Leasing Banks

4.Finance and investment companies

**CHAPTER-2**

**REVIEW OF LITERATURE**

2.1 REVIEW OF LITERATURE:

* Sanjeev Kumar (2016): In this he said that ‘Merchant Banking is financial institutions which provide capital to the company in the form of share ownership & it also provides advice to the corporate sector in which they invest money’.This merchant banking has a long-term approach than investment.merchant banking describes the private equity and it is a traditional term.It helps in the economic development of the country. It is the combination of banking and consultancy services.
* Waghmare Shivaji (2015): Globalization has made whole Indian economy open which has a multiple role in the financial services.These days government open its door of investment in the area of insurance and bank.Waghmare Shivaji has stated that ‘Merchant banking is an innovative term introduced by commercial bank’. He also said that the need of Merchant banking is pronounced by banking commission in the year 1972.It offers two services namely ;1. Fee-based service 2. Non-fee-based services . Shivaji told that in India merchant banking work under SEBI
* Dr.Singh and Dr.Saxena (2017): According to Dr.Singh and Dr.Saxena Merchant banking consists of wide range of financial activities and financial institution.They also said that Merchant bank is also called as “Accept and issue house” because it will act as broker and principle.Merchant Banking has a long term approach and it provides right advice to each and every client of the company.Many financial institutions provide Merchant banking as a service to increase the growth of corporate sector which reflect the Indian economy.It is the combination of consultancy services and banking
* Dr.Jyoti Lahoti (2016): Merchant banking is a service provided by financial institution which helps in the economic development of the country.She says it provides various services like portfolio management,loan syndication, and issue management.Merchant banking helps in business unit,this also helps to increase the fund and expand the business
* CS Gowtham(2017): Merchant banking finance is used for the new business or to expand the business and to modify the business.It not only provides finance but also provide correct path with respect to SEBI.He says that merchant banking issue share,debentures,and bank loans to their clients
* Shreyas B.S: Merchant banking is also called as “Accepting and issuing house”.It is rapidly growing in Indian economy.Merchant banking is oldest in the primary market and it will have bright future in coming years.SEBI gives detailed view of present and past and consists of wide range of financial activities.
* Farzana Huda(2017): Farzana Huda stated that this study analyse the performance of prime finance,capital management.This one plays a vital role in the economic development.It is noticed that merchant banking is able to achieve growths in investment sector like brokerage, capital loss/gain, portfolio management, issue management and advisory fees.

**CHAPTER-3**

**RESEARCH METHODOLOGY**

**3.1 OBJECTIVES OF THE STUDY:**

\*In detail about merchant banking and the services offered by merchant banker

\*Role played by merchant banker in Indian economy

**3.2 SCOPE OF THE STUDY:**

\*Growth of New Issues Market:The growth of new issue market is unprecedented since 1990-1991.Merchant banking can help with the further sophistication and penetration of the new issues market

\*Changing Policy of Financial Institutions: The policy of decentralization,increase in demand for technical and financial services and encouragement of small and medium industries, requires the services of merchant bankers.

**3.3 NEED OF THE STUDY:**

Need for merchant banking is felt in the wake of huge public saving lying untapped. Merchant banker can play highly significant role in mobilizing funds of savers to invisible channels assuring promising returns on investment and thus can assist in meeting the widening demand for invisible funds for economic activity. With growth of merchant banking profession corporate enterprises in both private sectors would be able to raise required amount of funds annually from the capital market to meet the growing requirement for funds for establishing new enterprises, undertaking expansion, modernization and diversification of the existing enterprises. This reinforces the need for a vigorous role to be played by merchant banking.

**3.4 METHOD OF DATA COLLECTION:**

This project is done through the secondary data.The data has been collected from different internet sources. It is the study on Merchant banking

**3.5 LIMITATIONS:**

* Customers will have the risk of mixed chance for success
* There is no control over intrest rates or returns.
* The minimum net worth of merchant banker should be Rs. 1 crore.
* Merchant banker has to pay authorization fee, annual fee and renewal fee.

**CHAPTER-4**

**IN DETAIL ABOUT MERCHANT BANKING AND SERVICES OFFERED BY MERCHANT BANKER**

**4.1 IN DETAIL ABOUT MERCHANT BANKING AND THE SERVICES OFFERED BY MERCHANT BANKER**

A merchant bank is historically a bank dealing in commercial loans and investment. In modern British usage it is the same as an investment bank. Merchant banks were the first modern banks and evolved from medieval merchants who traded in commodities, particularly cloth merchants. Historically, merchant banks' purpose was to facilitate and/or finance production and trade of commodities, hence the name "merchant". Few banks today restrict their activities to such a narrow scope.In modern usage in the United States, the term additionally has taken on a more narrow meaning, and refers to a financial institution providing capital to companies in the form of share ownership instead of loans. A merchant bank also provides advice on corporate matters to the firms in which they invest.

**4.2 HISTORY :-**

Merchant banks were the first modern banks. They emerged in the Middle Ages from the Italian grain and cloth merchants community and started to develop in the 11th century during the large European fair of St. Giles (England), then at the Champagne fairs (France). As the Lombardy merchants and bankers grew in stature based on the strength of the Lombard plains cereal crops, many displaced Jews fleeing Spanish persecution were attracted to the trade. The Florentine merchant banking community was exceptionally active and propagated new finance practices all over Europe. Both Jews and Florentine merchants perfected ancient practices used in the Middle East trade routes and the Far East silk routes. Originally intended for the finance of long trading journeys, these methods were applied to finance the medieval Commercial Revolution.Jews entered the great trading piazzas and halls of Lombardy, alongside the local traders, and set up their benches to trade in crops. They had one great advantage over the locals. Christians were strictly forbidden from any kind of lending at interest, since such activities were equated with the sin of usury. Jewish law disallowed usury among Jews, but not when the borrower was Gentile. The Jewish newcomers, on the other hand, could lend to farmers against crops in the field, a high-risk loan at what would have been considered usurious rates by the Church; but the Jews were not subject to the Church's dictates. In this way they could secure the grain-sale rights against the eventual harvest. They then began to advance payment against the future delivery of grain shipped to distant ports. In both cases, they made their profit from the present discount against the future price. This two-handed trade was time-consuming and soon there arose a class of merchants who were trading grain debt instead of grain. The buying of future crop and the trading of grain debt is analogous to the future contract market in modern finance.The court Jew performed both financing (credit) and underwriting (insurance) functions. Financing took the form of a farmer obtaining a crop loan at the beginning of the growing season, which allowed a farmer to develop and manufacture (through seeding, growing, weeding, and harvesting) his annual crop. Underwriting in the form of a crop, or commodity, insurance guaranteed the delivery of the crop to its buyer, typically a merchant wholesaler. In addition, traders performed the merchant function by making arrangements to supply the buyer of the crop through alternative sources—grain stores or alternate markets, for instance—in the event of crop failure. He could also keep the farmer (or other commodity producer) in business during a drought or other crop failure, through the issuance of a crop (or commodity) insurance against the hazard of failure of his crop.Merchant banking progressed from financing trade on one's own behalf to settling trades for others and then to holding deposits for settlement of "billette" or notes written by the people who were still brokering the actual grain. And so the merchant's "benches" (bank is derived from the Italian for bench, banco, as in a counter) in the great grain markets became centers for holding money against a bill (billette, a note, a letter of formal exchange, later a bill of exchange and later still a cheque).

These deposited funds were intended to be held for the settlement of grain trades, but often were used for the bench's own trades in the meantime. The term bankrupt is a corruption of the Italian banca rotta, or broken bench, which is what happened when someone lost his traders' deposits. Being "broke" has the same connotation.A sensible manner of discounting interest to the depositors against what could be earned by employing their money in the trade of the bench soon developed; in short, selling an "interest" to them in a specific trade, thus overcoming the usury objection. Once again this merely developed what was an ancient method of financing long-distance transport of goods.The medieval Italian markets were disrupted by wars and in any case were limited by the fractured nature of the Italian states. And so the next generation of bankers arose from migrant Jewish merchants in the great wheat-growing areas of Germany and Poland. Many of these merchants were from the same families who had been part of the development of the banking process in Italy. They also had links with family members who had, centuries before, fled Spain for both Italy and England. As non-agricultural wealth expanded, many families of goldsmiths (another business not prohibited to Jews) also gradually moved into banking. This course of events set the stage for the rise of Jewish family banking firms whose names still resonate today, such as Warburgs and Rothschilds.Johann Hinrich Gossler, a prominent Hamburg merchant banker of the 18th century.The rise of Protestantism, however, freed many European Christians from Rome's dictates against usury. In the late 18th century, Protestant merchant families began to move into banking to an increasing degree, especially in trading countries such as the United Kingdom (Barings), Germany (Schroders, Berenbergs) and the Netherlands (Hope & Co., Gülcher & Mulder) At the same time, new types of financial activities broadened the scope of banking far beyond its origins. The merchant-banking families dealt in everything from underwriting bonds to originating foreign loans. For instance, bullion trading and bond issuance were two of the specialties of the Rothschilds. In 1803, Barings teamed with Hope & Co. to facilitate the Louisiana Purchase.In the 19th century, the rise of trade and industry in the US led to powerful new private merchant banks, culminating in J.P. Morgan & Co. During the 20th century, however, the financial world began to outgrow the resources of family-owned and other forms of private-equity banking. Corporations came to dominate the banking business. For the same reasons, merchant banking activities became just one area of interest for modern banks.

Merchant banking financial services: Merchant banking financial services include providing support to corporate clients in their business dealings. These banks often work with firms that may not have the size or resources to raise funds through a public offering (IPO).

Financing and Loan Services: Merchant banks have a history of providing international financing and underwriting services for various sectors such as real estate, trade finance, and foreign investment. They also facilitate the transfer of funds.

Handling International Transactions For multinational corporations operating in various countries: Merchant banking financial services can offer to arrange finance for their business operations globally and handle currency exchange management. When a company is looking to make a significant purchase in another country, it will approach a merchant bank to arrange the transfer of funds using a letter of credit.

Other than the above-mentioned functions, merchant banks can offer the following services as well:

Merchant banks offer a range of services to their clients, including project counseling, leasing services, issue management, arranging underwriting, fundraising, portfolio management, loan syndication, and promotional activities. They assist clients in idea generation, report creation, budgeting, financing, and leasing assets and equipment to generate rental income. They also help clients issue equity shares, preference shares, and debentures to the public and facilitate equity underwriting. They assist private companies in generating capital from both domestic and international markets through underwriting and securities issuance. In addition, they invest on behalf of clients in various financial instruments for various projects. Lastly, they act as financial intermediaries and promote new enterprises.

**CHAPTER-5**

**ROLE PLAYED BY MERCHANT BANKER IN INDIAN ECONOMY**

ROLE PLAYED BY MERCHANT BANKER IN INDIAN ECONOMY

Merchant bankers play an important role in public issue process. While acting as a banker to an issue, a merchant banker has to disclose full details to the Securities Exchange Board of India (SEBI). The economy of country gets affected by unpredictable condition such as inflation, unemployment etc there should be steady growth in economy of the country, for this long-term financial planning is required and merchant banking provides services, solution for it. These banks work as intermediators between two organisations, the one who lends the money and one who borrows it. They also provide advisory on financial issues and they charge fees for it. They also invest their capital in client’s business. They help their client with different financial options as merchant bank’s branches all over the world. In this way client gets more opportunity for steady growth

undamentally, [**merchant** **banker**](https://enterslice.com/merchant-bankers-license-in-india) are financial institutions. The main activities of merchant banker are like business loans as well as underwriting. They largely offer their services to large enterprises and individuals of high net worth.

The major functions that a merchant bank carries out are like

* Stock Underwriting: This is one of the most usual activities of a merchant bank.
* Issue Management: In this, a merchant Bank will assist the capital market to increase the supply of securities in the market.
* Portfolio Services is also essential function.

**Underwriting**is the process by which they raise and arrange to collect the fund from investors on behalf of corporations and governments issuing either equity or debt securities.

While acting as a banker to an issue, a merchant banker has to disclose full details to the Securities Exchange Board of India (SEBI) as it is the regulator for this entity. Basically, **merchant bankers** are financial institutions. They do not undertake the activities of depositories or retail lender institutions. They are, instead, intermediaries.

They undertake the activities of business loans as well as underwriting. They are an unique combination of consultancy and banking services. They provide consultancy on matters pertaining to the finances, marketing, management, and law. Such consultancy services assist starting of businesses, raise finance, modernize, expand or restructure an existing business, revival of sick units as well as provide assistance to companies in registering, buying and selling shares. They do not undertake the activities of depositories or retail lender institutions. They are, instead, intermediaries.

National Grindlays Bank introduced the concept of merchant banks in India somewhere in 1967. Similarly, the State Bank of India became the first Indian Commercial Bank to set up a separate Merchant Banking Division in the year 1972.

Citibank setup its **merchant banking division**[**[1]**](https://en.wikipedia.org/wiki/Merchant_bank) in 1970.

**Role and activities of Merchant Bankers**

* **Raising finance**

Merchant Bankers(MB) assist their clients in fund raising by way of issue of a debenture, shares, bank loans, etc.

* **Promotional activities**

In India, Activities of Merchant Banker play a very vital role of promoter of industrial enterprises. They assist entrepreneurs in the matter of conceiving ideas, identifying projects, preparation of feasibility reports, getting Government approvals as well as incentives, etc.

* **Brokers in stock exchanges**

Merchant bankers also buy and sell shares in the stock exchange on behalf of their clients. They also additionally conduct researches on equity shares.

* **Project management**

Merchant bankers offer their service to clients in several ways in the process of project management also.

* **Advise on Modernisation and Expansion**

Further, Merchant bankers also advise on amalgamations, mergers, acquisitions, takeovers, foreign collaborations, diversification of business, technology up-gradation, joint-ventures, etc. to their clients.

Managing the ensuing public issue of the client is also very important service offered by the Merchant Bankers. In fact, it is prime function of Merchant Bankers.

They offer their following services for the above-mentioned purpose:

* the timing of the public issue to be fixed
* determining the size of the public issue
* the price of the share to be issued
* acting in the capacity of manager to the issue
* helping in receiving applications as well as allotment of securities
* appointment of brokers as well as underwriters for the issue
* lastly listing of the shares on the relevant stock exchange for the trading purpose
  + **Credit Syndication**

A merchant banker offers some specialized assistance in the phases of preparation of a project, the loan applications required for the raising of short-term and long- term credit from various banks and financial institutions, etc.

* **Handling Government Consent for Industrial Projects**

A merchant banker fulfills all formalities for his client, to obtain government permission to expand and modernize business and starting new businesses.

* **Special Assistance to Entrepreneurs and Small Companies**

Merchant banker councils and explains the businessmen and small companies on availability and avenues of business opportunities, concessions, incentives and government policies and helps them to take advantage of this.

* **Services to PSU’s**

Merchant banker also offers several services to public sector undertakings and units and their public utilities.

* **The Revival of Sick Units**

A merchant bank assists in reviving sick industrial units also. They negotiate with several agencies such as banks, long-term lending institutions, and the Board for Industrial and Financial Reconstruction (BIFR).

* + **Portfolio Management of Sick Units**

Merchant bankers help in offering revival services to companies issuing the securities.

Thus, the Merchant Bankers offer a wide variety of services to the capital market in India.

* **Helps In The Management Of The Project**

Merchant bankers through their specialized services help their client in full management of their project. They perform functions like finding the best location and suggesting it to their clients, doing and arranging for detailed study for the project, thinking and coming up with best financing plans for project financing and keeping in touch with the latest beneficial schemes of the government to its clients.

* **Helps In Up-Gradation And Expansion Of The Business**

Taking a decision regarding the expansion of business operations at the right time is beneficial for a profitable venture. On the other hand, it, if not taken at a proper time, may lead to losses. Therefore merchant bankers conduct a complete survey of the market and provide expert advice like the expansion of business, takeovers, and acquisitions, upgradation, involving in joint ventures, etc

**CHAPTER- 6**

**FINDINGS ,SUGGESTIONS AND CONCLUSION**

**6.1 FINDINGS**

* Merchant banks are non-depository financial institution that specializes in international trade.
* Merchant banks provide loan services, financial advising, and fundraising services for large corporations and high-net-worth individuals.
* Merchant banks do not generally provide services for the general public, although they may have retail and commercial arms.

**6.2 SUGGESTIONS:**

* Merchant account should not be more expensive than a traditional bank account
* Customers should not have the risk of mixed chance for success
* We must have control over interest rates or returns
* People should receive complete funding
* We should make sure that the customers have access to every potential product

**6.3 CONCLUSION:**

This study helped me to understand details of merchant banking. The services provided by merchant bankers to their customer such as loan syndication, portfolio management, underwriting, conseling etc. They also work as a intermediary to share issue. All merchant banks are registered under security exchange board of India (SEBI). Merchant banking helps to grow Indian economy. Hence merchant banking is essential body in Indian financial system

**CHAPTER-7**

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