A

AUDIT COURSE REPORT

ON

"Banking and Insurance"

SUBMITTED TO THE SAVITRIBAI PHULE PUNE UNIVERSITY, PUNE FOR THE PARTIAL FULFILLMENT FOR THE AWARD OF THE DEGREE

OF

BACHELOR OF ENGINEERING IN

INFORMATION TECHNOLOGY

BY

Sahil Katkamwar 33331

Under the guidance of

Dr. Ganesh S. Pise

DEPARTMENT OF INFORMATION TECHNOLOGY

PUNE INSTITUTE OF COMPUTER TECHNOLOGY, PUNE

Sr. No. 27, Trimurti Chowk, Dhankawadi, Pune-43

AY - 2024-25

Contents

Chapter 1

Acknowledgements

I would like to express my heartfelt gratitude to all those who have supported me throughout the completion of this report on Investment Banking.

First and foremost, I would like to thank my supervisor, Dr. A. M. Bagade, for their invaluable guidance, encouragement, and insightful feedback during the course of this project. Their expertise in the field has greatly enhanced my understanding of investment banking and its intricacies.

I would also like to extend my thanks to my professors and classmates in the Department of Information Technology at PUNE INSTITUTE OF COMPUTER TECHNOLOGY, PUNE, who provided a stimulating environment for learning and growth. The discussions and collaborative efforts have been instrumental in shaping this report.

Additionally, I am grateful to my family and friends for their unwavering support and encouragement. Their belief in my abilities has motivated me to strive for excellence.

Finally, I would like to acknowledge the resources and materials available at PICT's library and online databases, which were crucial for my research and analysis.

Thank you all for your support.

Chapter 2

Introduction to Investment Banking

Investment banking is a critical element of the global financial system, playing an essential role in capital markets by helping corporations, governments, and other entities raise funds. It involves a variety of financial services, including the underwriting of new securities issues, facilitating mergers and acquisitions, and offering strategic advisory services. By acting as intermediaries between those looking to raise capital and investors, investment banks enable businesses to secure the resources they need for growth and expansion, while also providing opportunities for investors to access a wide range of financial products.

Moreover, investment banks are instrumental in supporting efficient capital allocation in the economy. They provide research, analysis, and advisory services that help clients navigate complex financial environments, thereby contributing to more informed investment decisions. The significance of these institutions cannot be overstated, particularly in times of economic uncertainty, where their expertise and guidance are invaluable for both corporate clients and governments.

2.1 Functions of Investment Banks

Investment banks provide a wide array of services that are pivotal to the functioning of financial markets. These services can be broadly categorized into four main functions:

1. **Underwriting**: Investment banks underwrite securities, which involves guaranteeing the sale of a company's shares or bonds by purchasing them from the issuer and selling them to the public. This process is crucial for raising capital, as it assures

the company that the funds they need will be available. The risk is transferred from the issuing company to the investment bank.

2. **Advisory on Mergers and Acquisitions (MA)**: MA advisory is another key function, where investment banks assist clients in identifying potential acquisition targets or buyers, conducting valuations, negotiating terms, and ensuring a smooth transaction. Their expertise ensures that companies make strategic decisions that align with their growth objectives.

3. **Sales and Trading**: Investment banks also engage in the buying and selling of various financial products on behalf of their clients and themselves. This includes stocks, bonds, derivatives, and commodities. They facilitate market liquidity, allowing assets to be traded efficiently.

4. **Asset Management**: Some investment banks provide asset management services, helping individuals and institutions manage their investments. By constructing and managing portfolios based on clients' risk preferences and financial goals, investment banks play a critical role in wealth management.

2.2 Importance of Investment Banking

Investment banking plays an indispensable role in economic growth and stability. By facilitating capital flows from investors to businesses, they ensure that companies have the necessary funds to grow, innovate, and create jobs. Additionally, investment banks help governments finance public projects through bond issuance, which is essential for infrastructure development and economic progress.

Furthermore, in times of economic downturn or financial crisis, investment banks provide crucial advisory services that help companies navigate through complex financial challenges. They enable businesses to restructure, raise emergency capital, or merge with other companies to stay afloat. In this sense, investment banking is not just about facilitating financial transactions but also about offering strategic guidance to ensure the sustainability and growth of their clients.

Chapter 3

Activities of an Investment Bank

3.1 Underwriting

Underwriting is one of the most critical services offered by investment banks. This involves guaranteeing the sale of new securities by purchasing them from the issuer and selling them to investors. The underwriting process ensures that companies can raise the capital they need, whether through equity or debt instruments, while transferring the risk of selling the securities from the issuing company to the investment bank.

Investment banks use their expertise to price the securities appropriately, balancing the need to make the offering attractive to investors while ensuring the issuing company receives the necessary capital. Successful underwriting depends on the bank's ability to accurately assess market conditions, demand for the securities, and the financial health of the issuing company.

3.2 Mergers & Acquisitions (MA)

In MA advisory, investment banks offer expert guidance on complex transactions that can fundamentally alter the structure and value of companies. They assist in both friendly mergers and hostile takeovers, providing services that range from conducting thorough due diligence, valuing the companies involved, negotiating the terms of the deal, to ensuring regulatory compliance.

Investment banks also play a vital role in post-transaction integration, helping companies align their operations, management, and cultures following a merger or acquisition.

Their knowledge and experience make them indispensable for companies looking to grow through acquisition or to divest non-core assets to streamline operations.

3.3 Sales & Trading

Sales and trading divisions within investment banks provide liquidity to markets by facilitating the buying and selling of securities. This includes trading on behalf of clients, such as institutional investors, hedge funds, and mutual funds, as well as proprietary trading, where the bank trades for its own profit. These activities ensure the efficient functioning of financial markets by enabling investors to buy and sell securities quickly and at competitive prices.

Sales teams work directly with clients to understand their investment goals and recommend appropriate financial products, while traders execute the necessary transactions. This dual role of market maker and broker helps ensure that markets are liquid and efficient, while also providing valuable revenue streams for the bank.

Chapter 4

Equity Capital Markets

Equity capital markets (ECM) are focused on helping companies raise capital by issuing shares to the public. Investment banks serve as intermediaries between the issuing company and investors, ensuring that the transaction is successful and that the issuing company receives the necessary funds.

4.1 IPO Process

An Initial Public Offering (IPO) is a critical milestone for companies looking to raise capital from the public for the first time. Investment banks play a crucial role in this process by underwriting the stock issuance, determining the appropriate price for the shares, and preparing the necessary regulatory filings with authorities like the Securities and Exchange Commission (SEC).

The bank's underwriting team helps ensure that the company's shares are priced appropriately to balance the needs of the company raising capital and the interests of potential investors. They also manage the logistics of the IPO, coordinating with various stakeholders and providing post-IPO support to ensure the company's shares perform well in the market.

4.2 Follow-on Offerings

Once a company has gone public, it may require additional capital to fund new projects, expand its operations, or pay off debt. In such cases, investment banks help with follow-on offerings, where the company issues additional shares to the public. These seasoned equity offerings (SEO) are often more complex than IPOs because they require careful coordination to avoid diluting the existing shareholders' value.

Investment banks work closely with the issuing company to determine the optimal timing and pricing for follow-on offerings, ensuring that they meet the company's capital needs while minimizing any negative impact on its stock price.

Chapter 5

Debt Capital Markets

Debt capital markets (DCM) are another essential service provided by investment banks, helping companies raise funds through the issuance of debt instruments like bonds. Unlike equity, debt financing involves borrowing money that must be repaid over time, typically with interest.

5.1 Types of Debt Instruments

Debt instruments come in various forms, each with its own characteristics and risk profiles. Common types include:

1. **Corporate Bonds**: These are debt securities issued by companies to raise capital for business operations, expansion, or acquisitions. Investors who purchase these bonds receive regular interest payments until the bond matures, at which point they are repaid the principal amount.

2. **Government Bonds**: Governments issue bonds to finance public spending. These are generally considered low-risk investments because they are backed by the government's ability to tax and print money.

3. **Convertible Bonds**: These are hybrid instruments that give investors the option to convert the bonds into a predetermined number of shares in the issuing company. This offers the potential for equity upside while providing the fixed-income benefits of a bond.

5.2 Credit Ratings

Credit ratings are a crucial component of the debt capital markets. Investment banks work with rating agencies like Standard Poor's, Moody's, and Fitch to secure ratings for their clients' debt offerings. These ratings provide investors with a measure of the risk associated with the debt security, helping them make informed investment decisions.

A higher credit rating typically translates to lower borrowing costs for the issuer, as investors perceive the debt to be less risky. Conversely, lower-rated debt will command higher yields to compensate investors for taking on additional risk.

Chapter 6

Mergers & Acquisitions

Mergers and Acquisitions (MA) represent one of the most strategic decisions a company can make, offering a means to achieve growth, enter new markets, acquire new technology, or achieve operational synergies. Investment banks provide advisory services that are critical to ensuring the success of such transactions.

6.1 Reasons for MA

Companies pursue mergers or acquisitions for a variety of reasons:

1. **Market Expansion**: A company may seek to acquire another business to enter new geographical markets or diversify its product offerings. By acquiring a company with an established market presence, the acquiring firm can bypass the time and effort needed to build its own presence from scratch.

2. **Synergies**: Synergies are the potential cost savings or revenue enhancements that can result from merging two companies. These synergies may come from eliminating duplicate functions, achieving economies of scale, or cross-selling products to each other's customer base.

3. **Acquisition of Technology**: Many technology-driven companies pursue MA to gain access to innovative technologies or intellectual property. Rather than developing these capabilities internally, acquiring a company with a proven technology can be a faster and more cost-effective way to stay competitive.

6.2 Types of Mergers

Mergers can take several forms, including:

1. **Horizontal Mergers**: This involves the merger of two companies that operate in the same industry and are typically competitors. The primary goal is to increase market share, reduce competition, and achieve economies of scale.

2. **Vertical Mergers**: Vertical mergers occur when companies at different stages of the supply chain come together. This can help the acquiring company secure supply sources or distribution channels, leading to greater control over the production process.

3. **Conglomerate Mergers**: In a conglomerate merger, companies from unrelated industries combine. These mergers are usually driven by the desire to diversify and reduce risk by spreading operations across multiple industries.

4. **Reverse Mergers**: A reverse merger occurs when a private company acquires a publicly traded company. This allows the private company to go public without undergoing the traditional IPO process.

Chapter 7

Case Studies in Investment Banking

7.1 Goldman Sachs and the 2008 Financial Crisis

The 2008 financial crisis was a pivotal moment for the investment banking industry, with Goldman Sachs playing a significant role in the events leading up to and following the crisis. The crisis, triggered by the collapse of the U.S. housing market, exposed systemic risks in the financial system and led to the downfall of major financial institutions.

Goldman Sachs was involved in the trading of mortgage-backed securities (MBS) and other complex financial products that were at the heart of the crisis. However, the bank managed to navigate the crisis better than many of its competitors, thanks to its risk management strategies and its decision to hedge against the collapse of the MBS market.

In the aftermath of the crisis, Goldman Sachs received government assistance in the form of a $10 billion bailout under the Troubled Asset Relief Program (TARP). Despite the controversy surr$

7.2 JP Morgan Chase and the Bear Stearns Acquisition

In 2008, as the financial crisis unfolded, JP Morgan Chase played a key role in stabilizing the banking system by acquiring Bear Stearns, an investment bank on the brink of collapse. The acquisition, which was brokered by the U.S. government, helped prevent a wider financial meltdown.

JP Morgan Chase purchased Bear Stearns for a fraction of its pre-crisis value, gaining access to its valuable client relationships and business lines. However, the deal also exposed JP Morgan to significant risks, including legal liabilities related to Bear Stearns' role in the crisis. Despite these challenges, the acquisition has been viewed as a successful move that helped JP Morgan Chase solidify its position as a dominant player in the investment banking industry.