



PERFORMANCE EVALUATION OF MERCHANT BANKING IN INDIA- A STUDY OF SBI CAPITAL MARKET LIMITED



Dr. Waghamare Shivaji¹

¹Professor and Dean, Chairman
Department of Studies and
Research in Commerce,
Gulbarga University, Gulbarga.
Karnataka, India.

Mr. Sandeep Kumar M²

²Research Scholar
Department of Studies and
Research in Commerce,
Gulbarga University, Gulbarga.
Karnataka, India.

ABSTRACT

Globalization of Indian Economy has made the whole economy open, which has more multinational player in the era of the financial services. This has resulted in to the emergence of the global investment in financial sector. Government has now open up the doors of investments especially in the area of banks and insurance, which leads to competitive environment for the present players. Merchant banking is a much desired innovative step undertaken by the commercial banks in India. The need for merchant banking was stressed by the Banking Commission (1972).

According to the commission, merchant banking institutions are to offer fund based and non-fund based services like syndication of financing, promotion of projects, investment management and advisory services to medium and small savers and to provide funds and trusts to various types etc.

In India, at present, a substantial number of Merchant Bankers are operating under the direct supervision of Securities and Exchange Board of India (SEBI). The present study attempt has been made to evaluate the performance of SBI capital market ltd. In Merchant banking activities, The selected Merchant bank emphasis has given on categorization of Merchant Bankers and in this direction the Merchant Bank which comes under the purview of Category-I registration with Securities and Exchange Board of India has been chosen to appraise that performance .

KEYWORDS: Globalization, Merchant Bankers, exchange, Securities, loans syndication, institutional placements

INTRODUCTION

Origin of Merchant Banking:-

The origin of merchant banking is to be traced to Italy in late medieval times and France during the seventeenth and eighteenth centuries. The Italian merchant bankers introduced into England not only the bill of exchange but also all the institutions and techniques connected with an organised money market. Merchant banking consisted initially of merchants who assisted in financing the transactions of other merchants in addition to their own trade. In France, during seventeenth and

eighteenth centuries a merchant banker was not merely a trader but an entrepreneur par excellence. He invested his accumulated profits in all kinds of promising activities. He added banking business to his merchant activities and became a merchant banker.

'Merchant Bank' plays a very vital role in the world of modern economic activities. The modern civilized world has firmly stood on the strong monetary functions. To perform all these functions, growth of many monetary organizations took place, and among which 'Merchant Bank' is the most important one. As the days are



progressing, commercial activities like business, trade etc. are also simultaneously expanding and developing more and more, and to give support to those activities, the role of merchant bank has increased significant

Merchant bank- the concept and its history:-

'Merchant' is a person or businessman who buys and sells commodities and services to earn profit. The main activities of merchants are to collect goods and services and to send them to the customers i.e. a merchant is a buyer on one hand and on the other hand, he is the seller. But when the word 'Bank' is attached to the word 'Merchant', it becomes an organization.

REVIEW OF LITERATURE

Michael T. Skully (1995), has stated that merchant banking within the same country may cover a wide range of financial activities and in process include a number of different financial institutions.

A 'merchant banker' has been defined under the Securities and Exchange Board of India (Merchant Banker) Rules, 1992 as any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager, consultant, advisor or rendering corporate advisory services in relation to such issue management.

S.N. Tripathi in 'Handbook on A to Z of Banking' explained merchant bank is an agency, retained by a company to advise and assist in capital structuring/restructuring and its mobilization with the prescribed and regulatory framework. Thus the Merchant banker's role can be institutional in loans syndication, institutional placements, advisory services including mergers/acquisition/alliance and primary market.

D.N. Ghosh, former chairman, State bank of India, "commercial bankers are financiers but merchant bankers are financial engineers or architects if you please. A commercial banker most of the time strives on his financial muscle. A merchant banker has to strain his Grey cell. He has to think up new ideas. A commercial banker, especially in the administrative regime like ours, can choose to react but merchant bankers to anticipate and innovate".

PROFILE OF SBI CAPITAL MARKET LTD

SBI Capital Markets Ltd. (SBICAP), India's largest domestic Investment Bank, began its operations in August 1986 and is a wholly owned subsidiary and investment banking arm of State Bank of India (SBI), the largest commercial bank in India.

SBICAP offers the entire bouquet of Investment Banking and corporate advisory services. The service bouquet includes the full range of financial advisory services under one umbrella covering Project Advisory and Loan Syndication, Structured Debt Placement, Capital Markets, Mergers & Acquisitions, Private Equity and Stressed Assets Resolution.

As a complete solutions provider to clients in investment banking and corporate advisory, SBICAP offers them advice, innovative ideas, and unparalleled execution across all stages in their business cycle ranging from venture capital advisory, project advisory, buy and sell-side advisory, accessing financial markets to raise capital and even restructuring advisory in their turn-around phases. SBICAP is a global leader in the area of Project Loan Syndication and has lent crucial support to the Indian infrastructure sector.

SBICAP is known for its astute professionalism and business ethics. The team of execute The merchant banking services help the entrepreneurs to come up with industrial setups in these areas. Besides, the merchant banks help the entrepreneurs to explore the joint venture opportunities in the foreign markets.

Qualified and dedicated professionals with vast experience in the fields of Project Advisory, M&A Advisory, Corporate Strategy or Business Restructuring Advisory, arranging of Private Equity/Structured Finance, Equity, Debt and Hybrid Capital rising.

Headquartered in Mumbai, SBICAP has 6 regional offices across India (New Delhi, Kolkata, Hyderabad, Chennai, Bangalore and Ahmedabad), 2 branch offices (Pune and Guwahati) and 5 subsidiaries - SBICAP Securities Limited, SBICAP Trustee Company Limited, SBICAP Ventures Limited, SBICAP (UK) Limited and SBICAP (Singapore) Limited. The regional offices are located strategically at major business hubs in the country and closely liaise with clients at those and nearby centers.

SBICAP also offers services in the broad areas of mergers and acquisitions, project advisory, Structural finance, and capital markets. Equity Broking & Research, Security Agency & Debenture Trusteeship and Private Equity Investment & Asset Management through its wholly-owned subsidiaries SBICAP Securities Limited, SBICAP Trustee Co. Ltd and SBICAP Ventures Limited, respectively.

OBJECTIVE OF THE STUDY

- ★ To know an overview of Merchant banking in India
- ★ To evaluate income of Merchant banking in terms of Merchant banking advisory fees, Income from securities/ Hire purchase income and other income.

- ★ To know the financial performance of merchant banking in India.

METHODOLOGY OF THE STUDY

The present study is purely based on secondary data. The Secondary data are collected from annual reports of SBI capital market Limited, Thesis and various website.

The SBI Capital market Ltd. incomes following heads:-

1. Merchant Banking & Advisory Fees include:-

Issue management, Arranger's fees & loan Syndication, Advisory fees, Underwriting Commission, Stock Broking Membership operations etc.

2. Income from Securities includes:-

Interest on Securities, profit on sale of investment, Trading profits on Stock-in-trade, Dividend, etc

3. Lease and Hire Purchase income & other income include:-

Lease rental, Lease and Hire purchase Overdue interest, Bad debts recovered, Foreign Exchange Fluctuation, Miscellanies income, interest from Staff loan etc.

The SBI Capital market Ltd. Expenditures from following heads:-

1. Employee costs include :-

Salaries, wages and bonus, contribution to provident and pension funds, contribution to gratuity, contribution to superannuation, staff welfare etc.

2. Depreciation & amortization:-

3. Provisions & non-operating expenses include:-

Provisions for Diminution in value of investments, provision for Fall in value of stock-in-trade, provision for Doubtful Debts, Provisions for Doubtful Advances, Prior Period Expenses, Foreign Exchange Loss, permanent investment Written off, Preliminary Expenses Written off, Loss on sale of Assets etc.

4. Interest Expenses include:-

Interest on Bank and others, Debentures etc.

5. Other expenses include:-

Legal and professional Fees, Conveyance and Travelling, Rent & Rates and taxes, Brokerage Expenses, Bad debts written off, Postage, Telephone and Telex, Advertisement, Printing and Stationary, Electricity, repairs and Maintenance of Buildings, Insurance, Directors' sitting Fees, Taxes on Perquisites, Misc. Expenses etc.

Table-1 Statement Showing Income under Different Heads from 2010 to 2014

Rs. in crores

Heads of income	2010	2011	2012	2013	2014	5 years Total	Average	Percentage
Merchant Banking, advisory fees	243.09	598.04	437.66	491.24	532.00	2302.03	460.40	89.38%
Income from securities	24.46	44.09	45.40	45.97	43.92	203.84	40.76	7.91%
Lease / Hire purchase Income and Other income	16.10	14.42	7.75	12.56	18.70	69.53	13.90	2.71%
Total incomes	283.65	656.55	490.81	549.77	594.62	2575.40	515.08	100.00%

Source: - Compiled from annual report of SBI Capital market Ltd.

Interpretation:-

The sources of income of merchant bank has been projected in the above table which deals with income from different heads; it is observed that income from 'Merchant banking & advisory fees' is the main source of earning of this merchant bank. During the 5 years study period between 2009-2010 and 2013-2014, out of total income the share of this income was 89.39 per cent. In terms of absolute figure in the year 2010-11 it earned maximum income Rs.598.04 crores which decreased to

Rs.437.66 crores in 2011-12. Again, in the year 2012-13 it increased up to Rs. 491.24 crores. Finally in the year 2013-14 it shows income Rs.532.00 crores. The second source of this merchant bank's income from Securities cover 7.91% (203.84crores) and third sources of in this merchant bank's Lease/Hire purchase income and other income cover 2.71% (69.53crores).

Table-2.Statement showing expenditures under Different Heads from 2010 to 2014

Heads of income	Rs. in crores						5 years Total	Percentage
	2010	2011	2012	2013	2014			
Employees Cost	45.55	63.76	77.73	75.86	91.13	354.03	59.26	
Depreciation & Amortisation	1.99	1.76	2.40	2.80	2.82	11.77	1.97	
Provisions & non operating expenses	1.01	0.31	0.35	0.73	5.11	7.51	1.25	
Interest expenses	--	--	--	0.01	--	0.01	--	
Other expenses	30.81	44.88	42.25	45.40	60.80	224.14	37.52	
Total incomes	79.36	110.71	122.73	124.80	159.86	597.46	100%	

Source: - Compiled from annual report of SBI Capital market Ltd.

Interpretation:-

Expenses of merchant bank has been projected in the above table which deals with expenses from different heads; it is observed that expenses for 'employees cost' & other expenses' are the main expenses of this merchant bank. During the 5 years study period between 2009-2010 and 2013-2014, out of total expenditure the share of those expenses are 59.25 per cent & 37.51 per cent respectively.

CONCLUSION

Merchant banking services strengthen the economic development of a country as they acts as sources of funds and information for corporations. Considering the way the Indian economy is growing, the role of merchant banking services in India is indispensable. These financial institutes also act as corporate advisory bodies to help corporations rightly get involved in various financial activities.

The need of merchant banking services in India arises from the fact that high level industrialization is taking place in the country. The merchant banking services help the entrepreneurs to come up with industrial setups in these areas. Besides, the merchant banks help the entrepreneurs to explore the joint venture opportunities in the foreign markets.

In the above tables operating performance of the SBI capital market merchant bank, we have to considered incomes & expenses. The above merchant bank earns income of different types. It has been found that the merchant bank incomes under three broad heads and these are 1) Merchant Banking, advisory fees 2) Income from securities 3) Lease / Hire purchase Income and other incomes. So far as expenses are concerned the major heads of expenses are 1) employees cost 2) Depreciation & Amortisation 3) Provisions 4) Interest expenses 5) other expenses.

REFERENCES

1. Annual reports of SBI capital market ltd.
2. Dr.Biswajit Bhadra (2011), "Performance Evaluation of Merchant Banks in India" p-49.
3. D.N. Ghosh (1986), State Bank of India monthly review, July, p-121.
4. Michael T. Skully (1995), Merchant banking in Australia, Melbourne, Oxford University press, p-69.
5. Tripathi S.N. (2004), Handbook on A to Z of banking, MACMILLAN, p-121.
6. www.sbicap.co.in
7. www.rbi.co.in

☆☆☆☆☆☆☆☆☆☆