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"A STUDY OF NEW INVESTMENT OPPORTUNITIES IN INDIAN BANKING SECTOR"

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Abstract

Investment banking is a financial institution that oversees corporate mergers and acquisitions, in addition to raising capital and trading securities. Investment banking is sometimes referred to as corporate finance.Unlike commercial and retail banks, investment banks do not accept deposits.

Global investment banking revenue increased for the fifth year in a row in 2007, reaching $84.3 billion. This represents a 22 percent increase from the previous year and a level that is more than double that of 2003. In 2007, the United States was the largest source of revenue for investment banking, accounting for 53% of the total, a percentage that has decreased marginally over the past decade. Europe (along with the Middle East and Africa) produced 32 percent of the total, a slight increase from 30 percent a decade earlier. Asia was responsible for the remaining 15%. Investment banking is one of the most global industries and is therefore constantly required to adapt to new trends and innovations on the global financial markets. In the United States, the Glass–Steagall Act, initially enacted in response to the 1929 Stock Market Crash, prohibited banks from accepting deposits and underwriting securities, resulting in the separation of investment banks and commercial banks. During the 2008 financial crisis, the last of the largest bulge-bracket US investment banks that had not declared bankruptcy or been acquired in a bankrupt-like condition converted to 'bank holding companies' that are eligible for emergency government assistance. Investment institutions play a larger role on India's current financial markets on behalf of their clients. As capital formation, securities trading, and consulting services. Investment institutions face increased competition from foreign banks.If they concentrate more on marketing and customer service, they will achieve greater success.

INTRODUCTION OF TOPIC

INVESTMENT BANKING?

A financial institution that helps corporations and governments raise capital by underwriting securities and acting as issuer's emissary is an investment bank. Additionally, an investment bank facilitates mergers and acquisitions, divestitures, etc. for businesses. In addition, the company will provide ancillary services, such as market making and the trading of derivatives, fixed income instruments, foreign exchange, commodity, and equity securities.

Unlike commercial and retail banks, investment banks do not accept deposits.

The Indian financial system encompasses all facets of the economy. The majority of investment banks in India are institutions that generate capital through two distinct means. The first way it operates is by selling company stock on the capital market to attract public funds. As an alternative to selling a stake in the business, the company could pursue venture capital or private equity.

Historically, banks were classified as either commercial or investment banks. Commercial banking entails collecting client deposits and extending direct loans to businesses and individuals. A financial institution generates funds through investment banking in two distinct ways. They can access public funds via the capital market by selling company stock, and they can also pursue venture capital or private equity in exchange for an ownership interest in their business.

Consulting is a significant aspect of investment bank operations. For example, they advise corporations on mergers and acquisitions. A second area in which they provide advice is market monitoring and determining when a company should release a public offering and how to best manage a company's public assets. There are instances when the functions of investment banks and private brokerage firms overlap. Additionally, investment institutions provide the standard advice on buying and trading.

There is no distinction between investment banking and other banking categories in India. Recently, this has been extensively observed. Investment banks are no exception to the rule that modern banks endeavour to provide their customers with the best services possible and to carve out a niche for themselves.

Investment banking's primary function at the macro level is to facilitate the capital market's function of capital intermediation, i.e. the transfer of financial resources from those who have them (the investors) to those who need to use them to produce GDP (the issuers).

Throughout the years, investment banks have always catered to the requirements of the financial community, becoming one of the most dynamic and thrilling segments of the financial services industry.

Globally, investment banks manage a substantial amount of their own fund-based business on the capital market in addition to their clients' non-fund service portfolio. All of these activities are segmented generally into three platforms: equity market activity, debt market activity, and mergers and acquisitions (M&A) activity. Given the market structure, there is also a segmentation based on whether an investment bank pertains to a banking parent or is a pure investment bank operating independently.

REVIEW OF LITERATURE

What is Investment?

Investment is the concept of deferred consumption, which may include the purchase of an asset, the granting of a loan, or the storage of saved funds in a bank account in order to generate future returns. There are a multitude of investment options, each with its own risk-reward profile. Therefore, it is essential to comprehend the fundamental concepts of investments and analyse them accordingly. When an investor has a comprehensive comprehension of the investment industry, he is able to construct and administer his own investment portfolio in a way that maximises returns while minimising risk.

INDUSTRY PROFILE

Goldman Sachs, Merrill Lynch, Morgan Stanley, Credit Suisse First Boston, Citigroup's Global Corporate Investment Bank, JPMorgan Chase, and Lehman Brothers are among the largest investment banks. Obviously, the complete list of I-banks is much longer, but the firms listed above compete for the largest transactions in the United States and internationally.

Nonetheless, the origins of investment banking in India can be traced back to the nineteenth century, when European merchant banks established agency houses in the country to aid in the establishment of new projects. Early in the 20th century, large business organisations established managing agencies that acted as issuers of securities, promoters of new projects, and financiers of Greenfield enterprises. The peculiar characteristic of these agencies was that their services were limited to the corporations in their own group. A few minor brokers also began providing Merchant banking services, but their offerings were limited due to their limited financial resources.

A distinct merchant banking division was established by ANZ Grindlays in 1967 to manage new capital issues. It was quickly followed by Citibank, which began providing these services. Foreign institutions dominated the country's merchant banking services. In its 1972 report, the banking committee expressed concern and recommended the establishment of merchant banking institutions by commercial banks and financial institutions. The State Bank of India entered this industry in 1972 by establishing a merchant banking bureau. ICICI was the first financial institution to provide merchant banking services in 1972. In 1973, Mr. Nimesh Kampani founded JM finance as an exclusive merchant bank. During this time period, the development of the industry was very sluggish. By 1980, 33 merchant banks had been established by commercial banks, financial institutions, and the private sector. In the late 1980s, there was some buoyancy on the capital market. The introduction of economic reforms in 1991 caused an abrupt increase in the primary and secondary markets. Several new competitors joined the competition. May 1992's securities fraud was a significant setback for the industry. Several prominent merchant financiers from both the public and private sectors were implicated in a variety of irregularities. Can bank financial services, SBI capital markets, Andhra bank financial services, etc., were among the prominent public sector institutions implicated in the fraud. Fairgrowth financial services and Champaklal investments and finance (CIFCO) were two prominent private sector participants in the fraud.

After the tainted-shares problem was substantially resolved at the end of 1993, the market turned bullish again. There was a phenomenal increase in primary market activity. The SEBI's registration requirements were quite lax. Numerous new entrants were drawn to this industry by the low entry barriers and lucrative opportunities. The majority of new entrants were undercapitalized and lacked merchant banking experience. These participants could hardly afford to be selective, so they began offering their services to anyone and everyone. The market was quickly inundated with low-quality paper produced by questionable companies. Investors in these securities suffered enormous losses, resulting in a complete loss of faith in the market. Most of the subsequent issues started failing and companies started deferring their plans to access primary markets. Lack of commerce led to a significant industry-wide reorganisation. The majority of tiny businesses withdrew from the market. Many international investment banks entered the Indian market. These corporations possessed a substantial capital basis, global distribution capacity, and specialised knowledge. They were however unfamiliar with the Indian market and lacked local penetration. Many of the top rung Indian merchant banks, who had string domestic base, started entering into joint ventures with the foreign banks. This energy produced synergies because their individual strengths complemented one another.

Investment financiers

The function of investment bankers in issue management cannot be overstated. It is the responsibility of the lead managers (tier I merchant bankers) to verify the accuracy of all statements made in the offer document. It is their responsibility to follow all disclosure and investor protection laws established by SEBI. Because of this, they must provide SEBI with a due diligence certificate confirming that the information included in the draught prospectus or letter of offer is accurate, complete, and sufficient for potential investors to make an educated investment choice. Increased disclosure requirements and the SEBI's decision to no longer review prospectuses have increased the importance of merchant bankers' due diligence roles. The need to improve the quality of disclosures was the primary focus of the several operational recommendations that SEBI gave to merchant bankers during the year.

In order to ensure that merchant bankers' capital is sufficient for the scope of their operations, it was decided to tighten the conditions for registration of merchant bankers, principally by increasing the net worth requirements. Because of this, in 1995–96, the minimum net worth for category I merchant bankers was increased to Rs.5 crore. Fees must be paid to SEBI for each draught prospectus or letter of offer that is filed, under amendments made to the SEBI (commercial bankers) regulations, 1992 in 1996-96.

Underwriters

Underwriters are required to register with SEBI in terms of the EBI (Underwriters) Rules and Regulations, 1993. In addition to underwriters registered with SEBI in terms of these regulations, all registered merchant bankers in categories I, II and III and stock brokers and mutual funds registered with SEBI can function as underwriters.

RESEARCH

THE PLAYER AND PRODUCT THE PLAYERS

RESEARCH ASSISTANTS

Research assistants, the entry-level number crunchers, typically begin their careers without industry or market expertise. Research assistants also take over the spreadsheet modeling functions required by the analyst. As it is typically not cost-effective to dispatch anyone other than the research analyst to meetings with company officials or money managers, the travel opportunities for the young research assistant are limited.

RESEARCH ASSOCIATES

The research associate frequently feels like a cross between a statistician and a corporate finance analyst due to his or her workload. Research associates, like corporate finance analysts and associates, can be intelligent, motivated college graduates from top undergraduate institutions, or, at firms committed to employing MBAs in research, the research associate role is the entry-level position for MBA-holders.

RESEARCH ANALYSTS

In particular, the equity research analyst is a genuine genius. Analysts monitor particular industries, recommend the purchase and sale of securities, and persuade marketers and buy-siders as to why they or their clients should or should not invest in Company XYZ. Analyst careers can be attained through either substantial industry experience or the research assistant/associate route.

THE PRODUCTS

INDUSTRY RESEARCH REPORT

To establish themselves as knowledgeable analysts, many researchers publish an industry article as their initial step. In a report on the oil and gas industry, for instance, commodity prices, the industry's general outlook, and company valuations may be discussed. The time required to produce an industry report is contingent upon the report's length, the industry's complexity, and the significance of demonstrating industry expertise to investors and management teams. For completely new industries and new analysts, at least six months are allotted for the analyst to gain a comprehensive understanding of the industry and produce a thorough report. Once it has been published, marketers will use an industry research report to become familiar with a particular market segment and to gain knowledge about it. Industry research reports, which are marketed as industry scripture, require a substantial amount of time to produce and earn the firm nothing other than recognition that it follows an industry and possesses expertise in that industry. However, the brand equity established by an industry article can be substantial and make cold-calling much simpler for corporate finance executives.

COMPANY-SPECIFIC RESEARCH REPORT

Once an analyst's industry article has been written and digested by the investment community, the analyst prioritises the dissemination of company-specific research reports. In order to create a well-rounded research universe, analysts typically write about both the main industry actors and a number of minor industry actors. Forecasting the future earnings of the companies he or she monitors is one of the most essential responsibilities of an equity research analyst. (The average earnings forecast of all analysts covering a company is known as the "consensus" estimate.) There are three types of company-specific reports: coverage initiation, updates, and rating modifications.

Initiating coverage is exactly what it sounds like. These reports indicate that the analyst in issue has never conducted research on or covered the subject company. An initiation of coverage report typically includes substantial business information, a detailed forecast model, and business-specific risk factors.

An update report is issued whenever a stock price fluctuates, news or earnings are disclosed, or an analyst meets with management. Updates, which are typically one-page documents, provide timely information germane to current stock price fluctuations or that will increase or decrease earnings estimates.

A report is generated whenever an I-bank modifies its assessment of a stock (we will investigate these ratings later). These reports range in length from one to five pages. Reasons for a downgrade include lower-than-expected earnings, forecasts of decreased industry or company growth, management departures, difficulties integrating a merger, and even expensive equities. Earnings that exceed expectations, new management, stock repurchases, and favourable industry trends are all reasons to upgrade.

OBJECTIVE OF THE STUDY

- ✓ A thorough examination of the development of the concept of investment banking in India.
- ✓ To examine the importance of Investment Banking.
- ✓ To investigate the numerous Investment Banking products and functions. To investigate the factors behind the shift from Banking to Investment Banking.
- ✓ To identify ways to improve Investment Banking.
- ✓ To investigate the consumer viewpoint regarding investment banking.
- ✓ Determine how well the general public understands the concept of investment banking by conducting a study.

SCOPE OF STUDY

This study will allow us to gain a thorough understanding of the investment bank and all of its services. The undertaking describes the significance of Investment Banking and how the banking industry expanded into the investment industry. The study compared the prices of the services offered by various Investment Banks, allowing us to make an informed decision prior to engaging the services of any of these institutions. This research will aid those small and medium-sized businesses that are not fully aware of this business resource. This study will also aid those who wish to pursue a career in investment banking by allowing them to match their specific interests with the services offered by investment banks. Consequently, their job search will also benefit from this research.

ROLE IN MERGERS & ACQUISTIONS

Investment Banks also advise customers on Mergers & Acquisitions and help clients raise capital on the capital markets. Investment banking can involve subscribing investors to an offering of securities, coordinating with candidates, or negotiating with a merger target. Its advisory committee is commonly known as mergers and acquisitions (M&A). To market the bank to a potential M&A client, a proposal book containing financial data is compiled; if the presentation is successful, the bank arranges the transaction on behalf of the client. The investment banking division (IBD) is typically subdivided into industry coverage and product coverage sections. Industry coverage organisations cultivate relationships with corporations within a specific industry, such as healthcare, industrials, or technology, in order to generate business for a bank. Product coverage groups focus on financial products such as mergers and acquisitions, leveraged finance, project finance, asset finance and leasing, structured finance, restructuring, equity, and high-grade debt, and frequently work and collaborate with industry groups to meet the complex and specialised needs of clients.

In the 1980s, hostile takeovers and leveraged buyouts were prevalent. Companies sought to acquire others through aggressive stock purchases, with little regard for the target company's interests. The 1990s were a favourable decade for consolidation, with a handful of economic sectors dominating. The news was dominated by mergers in the telecommunications, financial services, and technology industries as these sectors underwent dramatic regulatory and financial change. However, the merger between Exxon and Mobil was one of the largest and occurred in virtually every industry. Except for brief periods of market volatility, M&A (mergers and acquisitions) activity was robust in the 1990s, as CEOs were under intense pressure to go global, keep up with the competition, and increase profits by any means possible.

At the beginning of the twenty-first century, mergers and acquisitions slowed. The volume achieved its lowest point in 2002, declining by 40 percent. In 2003, however, the global volume of mergers and acquisitions increased by 14 percent compared to 2002. Typically, when a public company acquires another public company, the target company's stock price rises while the acquiring company's stock price falls. Why? One must acknowledge that current shareholders must be convinced to sell their interests. Few shareholders are willing to sell their stock to an acquirer unless they receive a premium above the current price of the stock. Additionally, shareholders must obtain a premium for an acquisition in order to transfer their shares. Typically, this extraction is required by the target company's main shareholders. (Typically, once an acquisition is announced, "arbs" or arbitragers purchase shares on the open market, causing the share price to approach the proposed acquisition price.) Generally speaking, M&A transactions can be classified as mergers or acquisitions. The press frequently uses these terms interchangeably, and the actual legal distinction between them involves abstruse accounting procedures, but we can still distinguish them roughly.

Acquisition – When a larger company acquires a smaller company and becomes the apparent new owner, Wall Street refers to the transaction as an acquisition. Typically, after a transaction, the target company ceases to exist (from a legal corporation standpoint) and the acquiring corporation incorporates the business. The stock of the acquiring company continues to be traded.

Merger – A merger occurs when two comparable-sized companies combine to establish a single entity. Commonly, this is referred to as a "merger of equals." The shares of both corporations are tendered (or returned) and new shares are issued in their place. When Chrysler and Daimler-Benz merged to form DaimlerChrysler, both companies ceased to exist.

RESEARCH METHODOLOGY

RESEARCH DESIGN:

This study is primarily descriptive in nature. The primary objective of descriptive research is to describe the current state of affairs. The researcher has no influence over the variables in this form of study. Although the data description is factual, accurate, and systematic, the research is incapable of elucidating a situation's causes. In brief, descriptive research examines everything that can be measured and analysed. However, there are always limitations to that. Descriptive research may concentrate on specific subjects and describe them in great detail.

METHOD OF DATA COLLECTION

The methodology of this investigation comprises primarily of research. As data can be collected in various methods, there are fundamentally two types of data: primary and secondary. For the analysis, both primary (first hand, or collected by the researcher, i.e. myself, in this study) and secondary (second hand, or previously collected by others, and publicly available) data will be utilised. The preponderance of the information, however, will originate from secondary sources.

The primary data source shall consist of surveys. A questionnaire has been developed to collect the required information. The design of the questionnaire is crucial, and any faults in the questions will be reflected in the final conclusions. The questionnaires will be completed by respondents via personal interview. [A sample questionnaire is included in Annex I]

All of the data collected is secondary data, and the only sources for the data are websites and publications.

There will be a substantial amount of information in the collected data that may be irrelevant to this investigation. Therefore, it must be appropriately edited to fit the study.

Research Design is comprised of the following subsections:

RESEARCH DESIGN:

This research is basically a **descriptive research.** The major purpose of descriptive research is description of the state of affairs as it exists at present. Researcher has no control over the variables of this type of research. Although the data description is factual, accurate and systematic, the research cannot describe what caused a situation. In short descriptive research deals with everything that can be counted and studied. But there are always restrictions to that. Descriptive research may focus on individual subjects and go into great depth and detail in describing them.

METHOD OF DATA COLLECTION

The methodology of this study is basically research. Data can be collected in different ways, and hence there are basically two types of data; Primary and Secondary. Both *primary* (first hand, or collected by the researcher, i.e., myself, in the present study) and *secondary* (second hand, or previously collected by others, and available openly) data will be used for the analysis. However, most of the information will be obtained through secondary sources.

The primary source of data shall be surveys. A questionnaire has been designed to collect the required information. Designing of the questionnaire is of utmost importance and any flaw in the questions will reflect in the final conclusions. The questionnaires will be filled in by respondents through personal interview. [A sample of the questionnaire is showcased in Annexure-I]

The data collected is all secondary data and the sources from where the data is collected are various websites and books.

The data collected will have much information which may not be of much use for this study. Hence it will have to be trimmed appropriately to suit the study.

Research Design has been classified into the following subsections:

Areas of Research- Most of the respondents are from Noida, few from Delhi. The fact that the geographical distribution of the respondents is not uniform is well known to the researcher.

Sample size- A sample size of 100 was considered for this study. The questionnaires were got filled through personal interviews by myself and also from the help of some of my friends. However only 69 questionnaires were used for this study because the remaining questionnaires were either unfilled or filled improperly.

Sampling procedure- The respondents were selected by the ***convenience sampling method*.** The selection of units by the researcher from the population which are easily available and accessible is known as convenience sampling. Thus the best use of convenience sampling is that it is used as a part of preliminary research which ultimately forms the basis for the conducting of detailed research.

SAMPLE DESIGN:

Convenience Sampling Sample has been taken as various Investment Banks in India like:

✓ Goldman Sach(Blr)
✓ Standard chartered
HSBC
Deutsche Bank (delhi, Bangalore , bom)
HSBC (Blr)
Merrill Lynch
Enam
Kotak Mahindra Capital Money
SBI Capital Markets
Ambit Corp Finance
ICICI Securities
✓ Yes Bank

✓ UTI securities
✓ Tata Investment Corporation Ltd.
✓ SIDBI(Small Industries Development Bank of India)
✓ Kotak Investing Money
✓ IFCI(Industrial Finance Corporation Of India)
✓ IDBI(Industrial Devepoment Bank Of India)
✓ IDFC Private Equity

LIMITATIONS OF THE RESEARCH PROJECT

The majority of this study is descriptive in nature. In this type of investigation, the researcher has no influence over the variables.

The research entails a survey of the general population. The responses of individuals to a questionnaire would be analysed, making this the optimal method for conducting this survey. It is conceivable that some individuals will not respond appropriately due to a lack of time or the ambiguity of the questions. Additionally, some respondents are affected by the presence of others and become distracted. Additionally, it is possible that their responses will be influenced by those of other individuals.

The vast preponderance of data will be collected online. However, the authenticity of some websites may be questionable; every effort will be made to acquire data from sites that are well-known for their business news and information, or which are authentic.

The preponderance of respondents are from the Delhi-National Capital Region region. The researcher is well aware of the fact that the distribution of respondents is not uniform.

The collected data may be legitimate for analysis only for a limited period of time. To reach comparable conclusions in the future, it may be necessary to acquire new data, as the data upon which the study is based continues to evolve as the business evolves.

Those respondents whose questionnaires were filled out by individuals other than myself were less susceptible to my influence. As a consequence, many questionnaires were not returned, and others were only partially filled out.

KEY FINDINGS

✓ The project's primary finding is that investment banking services generate the same quantity of revenue as commercial banking.
✓ The Indian investment banking industry now faces increased competition from foreign banks.
✓ More international institutions participate in merger and acquisition deals.
✓ These institutions play a crucial role in the short- and long-term financing of corporations, as well as the provision of liquidity to the Indian financial system.
✓ These banks' other services, in addition to corporate financing, have ignited a fierce competition in the banking industry.
✓ Motives for the transition from banking to investment banking.a) Competitors, b) More Revenues, c) Avoiding Losses, d) Foreign Entrants

RECOMMENDATION

Since it is evident from the questionnaire that many investors are still unfamiliar with investment banks, emphasis must be placed on advertising.In addition, they must offer comparable returns to their competitors.They must provide clients with efficient, fast, and competitive services.Based on the responses to the questionnaire, it is evident that many investors confront a lack of Investment Banks; therefore, the banks must expand their operations in remote locations as well.

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