

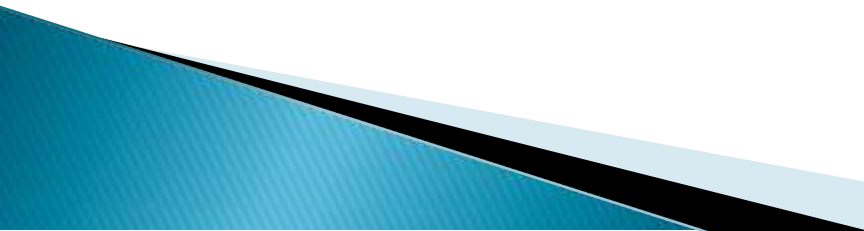
Indian Financial System

M.COM SEMESTER II

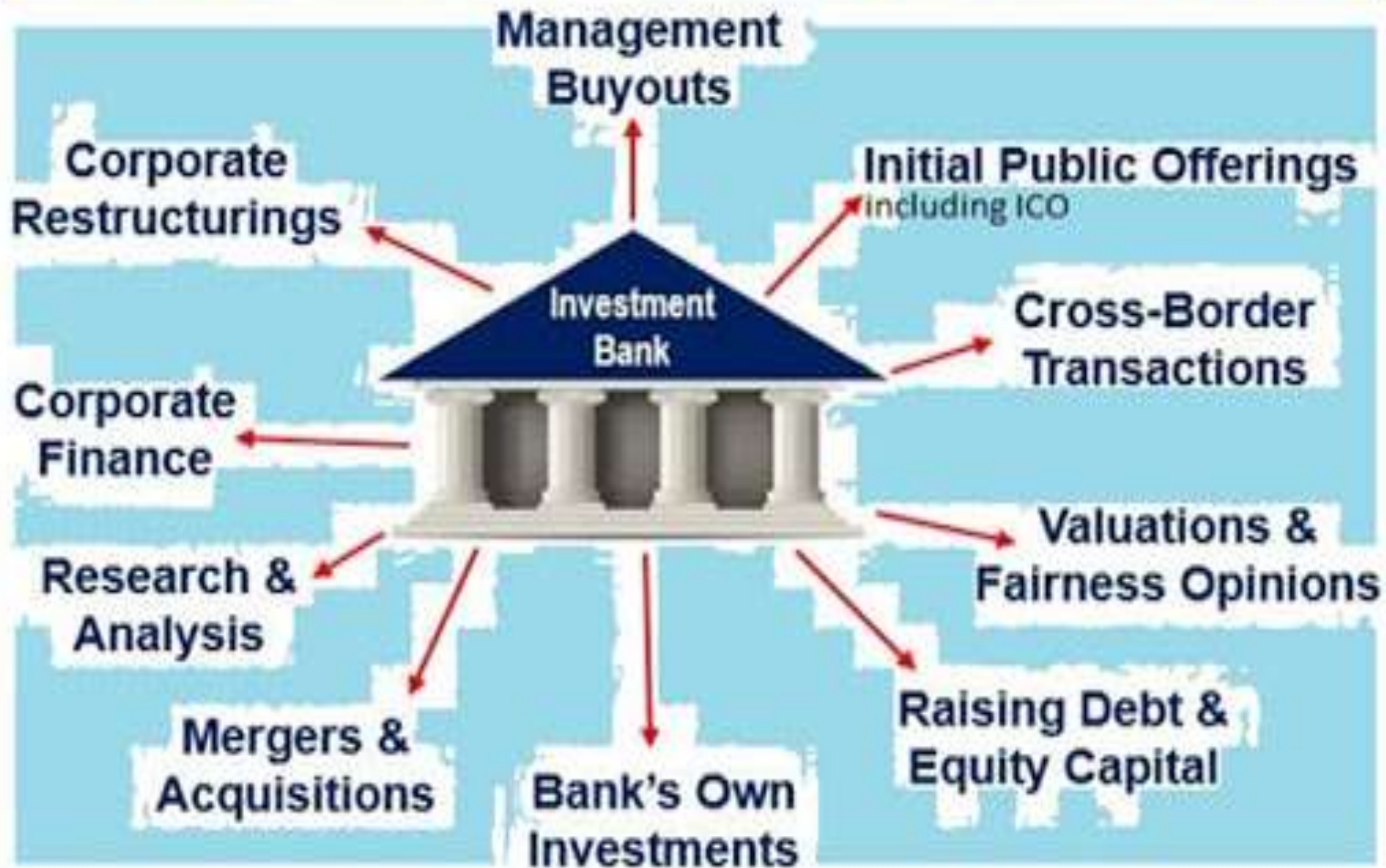
INVESTMENT BANKS

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INVESTMENT BANKS

- ▶ **An investment bank is a financial intermediary that mediates between companies that issue securities and the individuals or entities wishing to purchase them.**
 - ▶ In this respect, investment banks operate along two main lines: a "buy" side and a "sell" side. "Buy" side operations include services such as securities trading and portfolio management.
 - ▶ "Sell" side activities include underwriting new lines of stock, marketing financial products, and publishing financial research.
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Investment Bank Activities



Let us understand how an investment bank earns money...

Think of company ABC buying another company XYZ. ABC is not sure how much company XYZ is really worth and what will be the long-term benefits in terms of revenues, costs, etc.

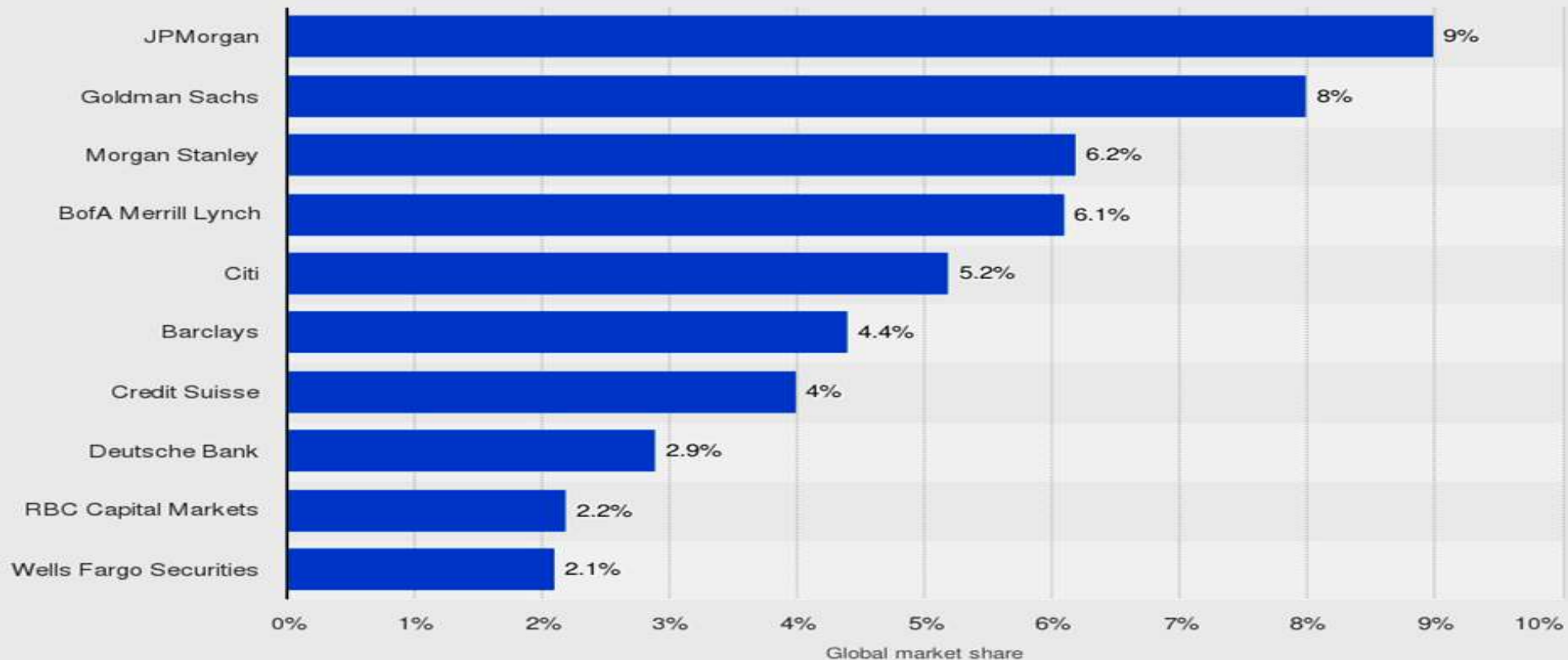
- ▶ In this scenario, the investment bank will go through the process of due diligence to determine the value of the company, settle the deal by helping ABC prepare necessary documents and advising it on the appropriate timing of the deal.
- ▶ Here, the investment bank works on the buy side and some other investment banks may be working on the sell side to help XYZ. The bigger the deal size, the more commission the bank will earn.



Examples of Investment Banks of the world..

Bank of America, Barclays Capital, Citigroup Investment Banking, Deutsche Bank, and JP Morgan are some of the largest investment banks in India. Below chart shows global market share of revenue of leading investment banks.

Global market share of revenue of leading investment banks as of July 2019



Bank of America
Merrill Lynch 

 BARCLAYS

citigroup 

CREDIT SUISSE 

 Deutsche Bank

Goldman
Sachs

JPMorganChase 

Morgan Stanley 

 UBS

Investment Banking Functions



Merger and
Acquisitions



Research



Merchant Banking



IPOs



Risk Management



Structuring of
Derivatives



Investment
management

Functions of an Investment Bank...

Investment banking is among the most complex financial mechanisms in the world. They serve many different purposes and business entities. They provide various types of financial services, such as proprietary trading or trading securities (bonds and equities) for their own accounts, mergers and acquisitions advisory, performing corporate research, management of various financial derivatives etc.

All these functions are discussed in detail



- ▶ Investment bank helps a company to set everything and list **IPO (Initial Public Offerings)** in a stock exchange. IPO is one of the major investment banking functions. This bank in return charges commission from a company.
- ▶ There are two types of roles in **M&A (Mergers and Acquisition)** of investment bank they are seller representation or buyer representation. A critical role in M&A is the valuation of a company. The bank calculates the actual value of a company. Investment bank also builds its strategy for M&A of two companies and does financial provisioning which helps a company in raising funds for M&A.
- ▶ Investment bank helps a company to **manage financial risk** in term of currency, loans, liquidity, etc. This bank helps a company to recognize the loss area and analyzes the market and credit risks.
- ▶ This equity **research** investment banking function is one of the most important investment banking function is research. This research helps provide a rating to the company to help investors to take a decision of investment.

- ▶ For this Investment banking function i.e. **structuring of derivatives**, investment bank needs a strong technical team working on such a complex structure of derivatives. Derivatives product offer a high rate of return and good margin hence a lot of risks is involved with it. Investment bank prepares these derivatives with a strategy based on a single as well as multiple securities.
- ▶ This investment banking function is one of the private activities of the investment bank where the bank also does **consultancy** for their clients. They provide consultancy in a matter of financial, marketing, legal and managerial. It acts as a financial engineer for business.
- ▶ This investment banking function is a core job of an investment bank to guide the investor to purchase, manage his portfolio and to trade various securities. Investment bank prepares reports based on company performance and through this it investment bank makes a decision on financial securities. An investment bank **manages a portfolio of customers** and also provides tips to investors whether to sell stocks or to buy stocks or to hold stocks.

What is meant by Merchant bank?

Merchant Banking is a combination of Banking and advisory services. It provides advisory services to its clients like:

Project Promotion

Syndication of Loan

Underwriting of securities

Corporate Counseling

Venture Capital

Placement of securities

Merchant Banking

Banking Services

It helps businessmen to start a business and helps to raise (collect) finance.

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Consultancy Services

It provides consultancy to its clients for financial, marketing, managerial and legal matters.

Merchant Banking act as Financial Engineer for a Business.

Difference Between MB & IB

The word merchant bank does not have a fixed definition as this term is used differently in different countries.

In United States these are called as “Investment Banks” and in UK they are called as “accepting and issuing houses”.

The notification of Ministry Of Finance in India defines Merchant Banker 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 in relation to such an issue management”.

In general the merchant banks are the financial institution which provides financial services, solutions, & advice to corporate houses. Some of the world famous merchant banks are Goldman Sachs, Credit Suisse & Morgan Stanley etc.

In India there are many banks which are into the field of merchant banking some of the banks are ICICI, State Bank Of India, Punjab National Bank etc.

Difference Between Investment Bank And Merchant Bank

Investment Bank	Merchant Bank
<ul style="list-style-type: none"><li data-bbox="106 386 948 665">Investment Bank is a financial institution that helps to government corporate, HIGH NET WORTH (HNI) INDIVIDUAL in raising capital.<li data-bbox="106 765 871 965">Investment Banks are engaged in the UNDERWRITING OF SHARES AND ISSUANCE OF SHARES.<li data-bbox="106 1072 890 1193">Investment Banks assist companies in the ACQUISITION AND MERGERS.	<ul style="list-style-type: none"><li data-bbox="991 386 1754 508">Merchant Bank is a combination of BANKING AND ADVISORY SERVICES.<li data-bbox="991 686 1831 808">Merchant Banks are well known in INTERNATIONAL FINANCIAL ACTIVITIES.<li data-bbox="991 915 1812 1036">Merchant Banks NOT assist companies in ACQUISITION AND MERGERS.

Regulatory Framework for Investment Banking in India...

An overview of the regulatory framework is furnished below:

- ▶ All investment banks incorporated under the Companies Act, 1956 are governed by the provisions of that Act.
- ▶ Those investment banks that are incorporated under a separate statute are regulated by their respective statute. Ex: SBI, IDBI.
- ▶ Universal banks that function as investment banks are regulated by RBI under the RBI Act, 1934.
- ▶ All Non-banking Finance Companies that function as investment banks are regulated by RBI under RBI Act, 1934.
- ▶ SEBI governs the functional aspects of Investment banking under the Securities and Exchange Board of India Act, 1992.
- ▶ Those investment banks that carry foreign direct investments either through joint ventures or as fully owned subsidiaries are governed by Foreign Exchange Management Act, 1999 with respect to foreign investment.

Major Players of Investment banks in the Indian Industry

Several big investment banks have set many group entities in which the core and non-core business segments are distributed. SBI, IDBI, ICICI, IL&FS, Kotak Mahindra, Citibank and others offer almost all of the investment banking activities permitted in the country. The long-term financial institutions like ICICI and IDBI have converted themselves into full service commercial banks (called as Universal banks.

