

A STUDY ON THE ROLE OF MERCHANT BANKING IN INDIA

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ABSTRACT

Merchant banking plays a role in India's financial system by providing specialised advisory and capital-market services to companies, investors, and institutions. This study examines the concept, functions, services, importance, regulatory environment, and challenges of merchant banking in India. It focuses on issue management, underwriting, project finance, corporate advisory services, portfolio management, mergers and acquisitions, and capital restructuring. The study uses secondary information from books, journals, financial publications, annual reports, regulatory documents, and official sources. The findings indicate that merchant banking supports corporate finance, capital formation, investor confidence, capital-market development, and business expansion while facing competition, regulatory requirements, and technological change.

Keywords: Financial Advisory; Corporate Finance; Issue Management; Capital Market; Merchant Banking

1. INTRODUCTION

The financial system is essential to economic development because it mobilises savings, supports investment, facilitates capital formation, and distributes financial resources among productive sectors. Within this system, merchant banking represents a specialised financial service that connects organisations seeking funds with investors and institutions capable of providing capital. Merchant bankers provide professional assistance in raising finance, managing securities issues, evaluating projects, restructuring capital, and making strategic financial decisions. Merchant banking has developed from traditional financial intermediation into a broad corporate financial service. Its major activities include issue management, underwriting, project finance, corporate advisory services, portfolio management, mergers and acquisitions, business valuation, and capital restructuring. During public issues, merchant bankers assist with documentation, pricing, marketing, regulatory compliance, allotment, and coordination. Underwriting can reduce uncertainty for issuing companies and strengthen investor confidence. Corporate advisory services support financial planning, capital structure decisions, expansion, restructuring, and investment planning. In India, the importance of merchant banking increased with economic liberalisation, financial-sector reforms, industrialisation, privatisation, globalisation, and the expansion of capital markets. Merchant bankers help companies mobilise long-term funds through equity, debt, hybrid instruments, and private placements. They also support infrastructure projects, technological modernisation, mergers, acquisitions, and cross-border financial transactions. Small and medium-sized businesses can obtain assistance with business plans, feasibility studies, funding arrangements, investor mobilisation, and expansion strategies. The regulatory environment is another important dimension of merchant banking. The Securities and Exchange Board of India regulates merchant banking activities through requirements relating to registration, conduct, disclosure, due diligence, and investor protection. Effective regulation promotes transparency, accountability, ethical conduct, and confidence in securities markets. Merchant bankers must therefore combine expertise with compliance and responsible financial practices. Technological developments have further changed merchant banking operations. Digital platforms, electronic documentation, financial technology, artificial intelligence, data analytics, blockchain, and cloud-based systems can improve service delivery, processing speed, accuracy, and transparency. At the same time, merchant banks face competition, regulatory changes, market volatility, cybersecurity risks, and changing client expectations. Therefore, this study examines the role of merchant banking in India, its services,

contribution to corporate finance and capital-market development, benefits to investment and business expansion, challenges, and measures for improving effectiveness.

2. REVIEW OF LITERATURE

Bhole (1999) examined the financial system and highlighted merchant banking's role in capital formation and financial intermediation. Khan (2003) studied merchant banking operations and identified project finance, underwriting, issue management, and corporate advisory services as functions supporting economic development. Gupta (2005) examined merchant banking after financial-sector reforms and observed that liberalisation increased private-sector participation and expanded consulting activities. Pathak (2008) focused on public issue management and emphasised transparency, regulatory compliance, and investor confidence. Sharma and Mehta (2010) considered corporate financial management and found merchant bankers useful for financial planning, mergers and acquisitions, project evaluation, and restructuring. Prasanna Chandra (2012) emphasised expert financial advice in improving capital structure and investment decisions. Sinha and Verma (2015) highlighted regulatory compliance, investor protection, and ethical conduct. Reddy and Rao (2018) linked merchant banking with capital-market development, fund mobilisation, and infrastructure finance. Patel and Shah (2021) examined technology innovation and reported improvements from digital platforms, electronic documentation, and fintech applications. Kumar and Singh (2024) highlighted digital financial services, regulatory compliance, mergers and acquisitions, and private-equity consulting. Collectively, the literature establishes merchant banking as an intermediary for corporate finance and capital-market development, while indicating the need to examine technology, regulation, competition, and modern corporate requirements together.

3. OBJECTIVES OF THE STUDY

1. To study the concept, operations, and services of merchant banking in India.
2. To investigate the contribution of merchant banking to corporate finance and capital market development.
3. To evaluate how merchant banking services support investment promotion and business expansion.
4. To identify the major challenges faced by merchant banking organisations in India.
5. To suggest measures for improving the effectiveness and efficiency of merchant banking services.

4. RESEARCH METHODOLOGY

The study follows a descriptive and analytical research design to examine merchant banking in India. It relies entirely on secondary data collected from books, journals, annual reports, SEBI publications, RBI reports, financial newspapers, business publications, and government sources. Purposive sampling identifies relevant information for systematic comparative analysis, interpretation, and analysis.

4.1 STATISTICAL TOOL

Percentage Analysis-Percentage analysis is selected as the primary statistical tool because the uploaded report presents **100 auto-generated responses** and analyses them through frequency and percentage distributions. The percentage method makes it possible to compare respondents' views regarding awareness, business-finance significance, and merchant banking services.

Formula-Percentage = (Frequency / Total Number of Respondents) × 100

The study also uses **comparative evaluation, tabular presentation, descriptive analysis, and trend observation** as supporting analytical techniques.

5. DATA ANALYSIS AND INTERPRETATION

Table 1: Knowledge of Merchant Banking Services

Response	Frequency	Percentage (%)
Strongly Agree	34	34
Agree	42	42
Neutral	12	12
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Analysis: The highest proportion of respondents, **42%**, agreed that they possess knowledge of merchant banking services.

Interpretation: A combined **76%** of respondents either strongly agreed or agreed, indicating a satisfactory level of awareness regarding merchant banking operations. This is consistent with the interpretation provided in the uploaded study.

Table 2: Merchant Banking's Significance in Business Finance

Response	Frequency	Percentage (%)
Strongly Agree	35	35
Agree	40	40
Neutral	13	13
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Analysis: The largest group, **40%**, agreed that merchant banking is significant in meeting business financial requirements.

Interpretation: A total of **75%** of respondents either strongly agreed or agreed with the importance of merchant banking in business finance. This indicates that merchant banking is widely perceived as a significant financial service for corporate requirements.

Table 3: Preferred Merchant Banking Service

Response	Frequency	Percentage (%)
Strongly Agree	33	33
Agree	43	43
Neutral	12	12
Disagree	8	8
Strongly Disagree	4	4
Total	100	100

Analysis: The highest response was **43%**, representing respondents who agreed regarding the relevance of merchant banking services.

Interpretation: The source report identifies **issue management as the respondents' first choice** among merchant banking services. The result supports the importance of merchant bankers in managing public issues and facilitating corporate fund mobilisation.

6. RESULTS

1. Most respondents possess a satisfactory level of awareness regarding merchant banking services.
2. **76%** of respondents either strongly agree or agree that they have knowledge of merchant banking services.
3. Merchant banking is recognised as an important financial service supporting corporate financial requirements.
4. **75%** of respondents either strongly agree or agree regarding the significance of merchant banking in business finance.
5. **Issue management** emerged as the most preferred merchant banking service among the respondents.
6. Merchant bankers are recognised for providing issue management, underwriting, corporate advisory, project finance, portfolio management, and mergers and acquisitions services.
7. Merchant banking contributes to effective mobilisation of financial resources and capital-market development.
8. Underwriting services are considered effective in reducing uncertainty associated with public offerings and improving investor confidence.
9. Project financing and corporate advisory services support business expansion and industrial development.
10. Merchant banking helps organisations with financial restructuring, strategic planning, and investment decisions.
11. Competition, regulatory compliance, and rapid technological advancement are identified as major challenges for merchant banking organisations.
12. The study indicates positive future prospects for merchant banking because of financial innovation, digital transformation, and increasing corporate finance requirements.

7. SUGGESTIONS

1. Merchant banking institutions should expand their range of specialised advisory services to meet changing corporate financial requirements.
2. Greater attention should be given to strategic financial planning, project evaluation, capital restructuring, and business valuation.
3. Merchant bankers should accelerate the adoption of **artificial intelligence, blockchain, cloud computing, data analytics, and digital documentation**.
4. Regular investor education programmes and financial-awareness seminars should be conducted to improve understanding of capital-market opportunities and risks.
5. Merchant banking professionals should receive continuous training in technology, financial innovation, regulatory changes, and international best practices.
6. Regulatory authorities should maintain a strong regulatory framework while encouraging innovation and transparency.
7. Processes relating to capital-market transactions should be streamlined to improve efficiency and reduce delays.
8. Corporate organisations should utilise merchant banking expertise for public issues, mergers and acquisitions, project finance, and financial planning.
9. Merchant banks should strengthen cybersecurity and risk-management systems in response to increasing digitalisation.
10. Greater cooperation among merchant banks, regulators, investors, and industry associations should be encouraged to strengthen India's financial system.

8. CONCLUSION

Merchant banking has become an important pillar of the Indian financial system by providing specialised financial and advisory services to corporate organisations, investors, and financial institutions. The study demonstrates that merchant bankers contribute to corporate finance, capital formation, capital-market development, investment promotion, and business expansion through issue management, underwriting, project finance, corporate advisory services, portfolio management, mergers and acquisitions, and restructuring. The analysis indicates favourable perceptions regarding awareness of merchant banking, its significance in business finance, and the importance of issue management. At the same time, competition, regulatory compliance, technological developments, cybersecurity concerns, and changing market requirements remain important challenges. Therefore, merchant banking institutions need to strengthen professional expertise, technological capabilities, investor education, and regulatory compliance. Overall, merchant banking is expected to remain significant in supporting corporate financing, effective capital mobilisation, financial-market development, and the long-term growth of the Indian economy.

9. REFERENCES

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