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CERTIFICATE

THE FOLLOWING STUDENTS OF CLASS
S.Y.B.B.I. HAVE SUCCESSFULLY COMPLETED PROJECT ON
CUSTOMER RELATIONSHIP MANAGEMENT ON THE TOPIC
CRM IN MERCHANT BANKING.

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*But by doing this project we could break the cover of our books & get some knowledge about the very interesting topic “**CRM In Merchant Banking**”*

*Hence once again I would like to thank **Prof. Pratiksha** for giving us this break from our routine studies.*

CRM IN MERCHANT BANKING

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INTRODUCTION

CRM :

CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and customer.

MERCHANT BANKING :

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.

DEFINITION OF MERCHANT BANKING

The Notification of the Ministry of Finance 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 securities as manager-consultant, advisor or rendering corporate advisory services in relation to such issue management”

The Amendment Regulation specifies that issue management consist of Prospectus and other information relating to issue, determining financial structure, tie-up of financiers and final allotment and refund of the subscriptions, underwriting and portfolio management services.

In the words of Skully “A Merchant Bank could be best defined as a financial institution conducting money market activities and lending, underwriting and financial advice, and investment services whose organization is characterized by a high proportion of professional staff able to able to approach problems in an innovative manner and to make and implement decisions rapidly.”

DEFINITION OF CRM:-

“A combination of Business process and technology that seeks to understand company’s customers from the prespectives of who they are, what they are, and what they do is important”

HISTORY OF MERCHANT BANKING

The history of merchant bank can be dated back to 17th & 18th centuries when it first started in Italy & France. This was started by the Italian grain merchants. It comprised of merchant bankers who intermediated or assisted in financing the transactions of other traders and their own trade too. With the passage of time the practices in evolved and the merchant banking in the modern era started from London where the merchants started to finance the foreign trade through acceptance of bill. Later they extended their services to the governments of under developed countries to raise the long term funds through the floatation of bonds in the London money market. Over the period they extended their services to loan syndication, underwriting the issues, portfolio management etc. The post war period witnessed huge increase in the merchant banking activities.

The historical merchant bank

Merchant Banking, as the term has evolved in Europe from the 18th century to today, pertained to an individual or a banking house whose primary function was to facilitate the business process between a product and the financial requirements for its development. Merchant banking services span from the earliest negotiations from a transaction to its actual consummation between buyer and seller.

In particular, the merchant banker acted as a capital sources whose primary activity was directed towards a commodity trader/cargo owner who was involved in the buying, selling, and shipping of goods. The role of the merchant banker, who had the expertise to understand a particular transaction, was to arrange the necessary capital and ensure that the transaction would ultimately produce "collectable" profits. Often, the merchant banker also became involved in the actual negotiations between a buyer and seller in a transaction.

The Modern Merchant Bank

During the 20th century, however, European merchant banks expanded their services. They became increasingly involved in the actual running of the business for whom the transaction was conducted. Today, merchant banks actually own and run businesses for their own account, and that of others.

Since the 18th century, the term merchant banker has, therefore, been considerably broadened to include a composite of modern day skills. These skills include those inherent in an entrepreneur, a management advisor, a commercial and/or investment banker plus that of a transaction broker. Today a merchant banker is who has the ability to merchandise -- that is, create or expand a need -- and fulfill capital requirements. The modern European merchant bank, in many ways, reflects the early activities and breadth of services of the colonial trading companies.

CRM IN MERCHANT BANKING

❖ Merchant Banking in India

Merchant banking activity was officially commenced into the Indian capital Markets when Grind lays bank received the license from reserve bank in 1967. Grind lays started its operations with management of capital issues, recognized the requirements of upcoming class of Entrepreneurs for diverse financial services ranging from production planning and system design to market research. Apart from this it also provides management consulting services to meet the Requirements of small and medium sector rather than large sector.

- Citibank Setup its merchant banking division in Indian in 1970.
- Indian banks Started banking Services from 1972.
- State bank of India started the merchant banking division in 1972

After that there were many banks which set up the merchant bank division such as;

- ICICI
- Bank of India
- Bank of Baroda
- Canara Bank
- Punjab National Bank
- UCO Bank

The Merchant Bank got more importance in the year 1983 when there was a huge boom in the primary market where the companies were going for new issue. Merchant banking activities are organized and undertaken in several forms. Commercial banks and foreign development finance institutions have organized them through formation divisions, nationalized banks have formed subsidiary companies, share brokers and consultancies constituted themselves into public limited companies or registered themselves as private limited Companies. Some merchant banking companies have entered into collaboration with merchant bankers of foreign countries abroad with several branches.



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Merchant Bankers in India

As of now there are 135 Merchant bankers who are registered with SEBI in India. It includes Public Sector, Private Sector and foreign players some of them are

Public Sector Merchant Bankers

- SBI capital markets ltd
- Punjab national bank
- Bank of Maharashtra
- IFCI financial services ltd
- Karur Vysya bank ltd,
- State Bank of Bikaner and Jaipur

Private Sector Merchant Bankers

- ICICI Securities Ltd
- Axis Bank Ltd (Formerly UTI Bank Ltd.)
- Bajaj Capital Ltd
- Tata Capital Markets Ltd
- ICICI Bank Ltd
- Reliance Securities Limited
- Kotak Mahindra Capital Company Ltd
- Yes Bank Ltd.

Foreign Players in Merchant Banking

- Goldman Sachs (India) Securities Pvt. Ltd.
- Morgan Stanley India Company Pvt. Ltd
- Barclays Securities (India) Pvt. Ltd
- Bank Of America, N.A
- Deutsche Bank
- Deutsche Equities India Private Limited
- Barclays Bank Plc
- Citigroup Global Markets India Pvt. Ltd.
- DSP Merrill Lynch Ltd
- FEDEX Securities Ltd

MERCHANT BANKING FUNCTIONS

Services offered by a merchant banker are summarized as follows:

1) Management of debt and equity offerings:-

This forms the main function of the merchant banker. He assists the companies in raising funds from the market. The main areas of work in this regard includes : instrument designing, pricing the issue, registration of the offer document, underwriting support, and marketing of the issue, allotment and refund, listing on stock exchanges.

2) Placement and distribution:-

The merchant banker helps in distributing various securities like equity shares ,debt instrument, mutual fund product, fixed deposit, insurance products, commercial paper to name a few. The distribution network of the merchant banker can be classified as institutional and retail in nature. the institutional network consist of mutual fund, foreign institutional investor, private equity funds, pension fund, financial institution etc. the size of such a network represents the wholesale reach of the merchant banker. The retail network depends on networking with investors.

3) Corporate advisory services:-

Merchant bankers offer customized solutions to their client's financial problems. The following are the main areas in which their advice is sought.

4) Financial structuring:-

Includes determining the debt-equity ratio and gearing ratio for the client: the appropriate capital structure theory is also framed. Merchant banker also explores the refinancing alternatives of the client and evaluate cheaper source of fund. Another area of advice is habilitation and turnaround management. In case of sick units, merchant banker may design a revival package in coordination with banks and financial institution. Risk management is another area where advice from a merchant banker is sought. He advice the client on different hedging strategies and suggest the appropriate strategy.

5) Project advisory service:-

Merchant banker help their clients in various stage of project undertaken by the clients. They assist them in conceptualizing the project idea in the initial stage. Once the idea is formed, they conduct feasibility studies to examine the viability of the proposed project. They also assist the client in preparing different document like the detail project report.

6) Loan syndication:-

Merchant banker arranges to tie up loans for their clients. This take place in a series of step. Firstly they analyze the pattern of the clients cash flows, based on which the terms of borrowing can be defined. Then the merchant banker prepares a detailed loan memorandum, which is circulate to various banks and financial institution and they are invited to participate in the syndicate. The banks then negotiate the terms of lending on the basis of witch the final allocation is done.

CRM IN MERCHANT BANKING

SCOPE OF MERCHANT BANKING SERVICES IN INDIA

Merchant banking is a service oriented industry. The services rendered by merchant banks to the corporate client in India are more or less the same which are, being rendered traditionally in U.K and other European countries by the merchant banks in U.S.A by the investment bankers to cater to the needs of the business enterprises. India's economy is in the state of transition facing an entirely different environment than that faced by the developed nations of the world. In view of these circumstances, a mark of distinction is apt to be noted in the nature and the type of services being offered by the merchant banks in India.



Following services provide by the merchant bankers in India:-



1) Project Councelling

- (a) Projects reports are prepared to obtain certificate of commencement of business.
- (b) Assist to obtain of indent/industrial license.
- (c) Obtain permission if required, of joint controller of imports and exports for import of capital goods.
- (d) Merchant banking division assist in introducing and appointing out side technical consultancy organizations, if considered necessary, for preparation of a detailed project report, market survey report, feasibility study, etc.
- (e) Where the company has already prepared a project report.
- (f) Division would review the same and advice on the viability of the project.
- (g) For effective implementation of the project, the division would advice the company the steps to be taken with regard to procedural matters, viz. , obtaining consents of the Government agencies such as ministry of industry, SEBI, Reserve Bank of India, etc.

2) Management of capital issues

The capital issue are managed are category-1 merchant banker and constitutes the most important aspects of their services. The public issue of corporate securities involves marketing of capital issues of new and existing companies, additional issues of existing companies including rights issue and dilution of shares by letter of offer,. The public issues are managed by the involvement of various agencies i.e. underwriters, brokers, bankers, advertising agency, printers, auditors, legal advisers, registrar to the issue and merchant bankers providing specialized services to make the issue of the success. However merchant banker is the agency at the apex level than that plan, coordinate and control the entire issue activity and direct different agencies to contribute to the successful marketing of securities.

3) Issue Management

Management of issues involves marketing of corporate securities viz. equity shares, preference shares and debentures or bonds by offering them to public. Merchant banks act as intermediary whose

main job is to transfer capital from those who own it to those who need it.

The issue function may be broadly divided into pre-issue management and post issue management. In both the stages, legal requirements have to be complied with and several activities connected with the issue have to be coordinated.

4) Managers, consultant or Advisers To The Issue

The managers to the issue assist in the drafting of prospectus, applications forms and completion of formalities under the companies Act, appointment of registrar for dealing with share applications and transfer and listing of shares of the company on the stock exchange. SEBI guidelines insist that all issues should be managed by at least one authorized merchant banker

5) Underwriting of Public Issue

Another important intermediary in the new issue/primary market is the underwriters to the issues of capital who agree to take securities which are not fully, subscribed. They make a commitment to get the issue subscribed either by other or by them. Through underwriting is not mandatory after April 1995, its organization is an important element of the primary market. Are appointed by the issuing companies in consultation with the lead manager/ merchant banker to the issues. A statement to the effect that in the opinion of the lead manager, the underwriters asset are adequate to meet their obligation should be incorporated in the prospectus certificate.

6) Portfolio Management

Portfolio refers to investment in different kinds of securities such as share, debentures or bonds issue by different company and securities issue by the government. Portfolio management refers to maintaining proper combination of securities in a manner that they give maximum return with minimum risk.

Merchant bankers provide portfolio management services to their client

For e.g.

- 1) Monetary and fiscal policies of the government.
- 2) Secondary market position.
- 3) Changing pattern of the industry

- 4) The competition faced by the industry with similar type of industry.

7) Mutual Funds

A Mutual Fund is a special type of investment institution which collects or pools the savings of the community and invests large funds in variety of Blue-chip Companies which are selected from a wide range of industries with the objects of maximizing returns/incomes on investments. E.g. Unit Trust of India (UTI), Sri Ram Mutual Fund, Morgan Stanley Growth Fund (foreign mutual fund), etc. Mutual Funds are basically a trust which mobilize savings from the people and invest them in a mix of corporate and government securities. Money collected by the investors is invested in various issues of primary and secondary markets in order to gain profits on such investments

It is a Trust, which combines the investments of various investor shaving similar financial goals. The Trust issues units to the investors in the proportion of their investments. A fund manager then invests these funds in different types of assets, which provide returns in the form of dividends, interests, and capital appreciation. This is distributed to the various investors in the proportion of their contribution to the pool funds.

8) Off Share Finance

- 1) The merchant bankers help their clients in the following areas involving foreign currency.
- 2) Long term foreign currency loans
- 3) Joint venture abroad
- 4) Financing exports and imports and
- 5) Foreign collaboration arrangements
- 6) The bankers render other financial services such as appraisal, negotiations.

9) Non- Resident Investment

The services of merchant bankers include investment advisory services to NRI in terms of identification of investment opportunities, selection of securities, investment management etc. They also take care of the operational details like purchase and sale of securities, securing necessary clearance from RBI for interest and dividend.

10) Loan Syndication

Loan syndication refers to assistance rendered by merchant banks to get mainly term loans for projects. Merchant bankers help corporate clients to raise syndicated loans from commercial banks. Merchant banks help clients approach financial institutions for term loans.

ii) Corporate Counseling and advisory services

Corporate counseling covers the entire field of merchant banking activities viz. project counseling ,capital restructuring, project management, public issue management, loan syndication, working capital, fixed deposit, lease financing, acceptance credit etc. The scope of corporate counseling is limited to giving suggestions and opinions to the client and help taking actions to their problems.

A merger is a combination of two or more companies into a single company where one survives and others lose their corporate existence. A takeover is the purchases by one company acquiring controlling interest in the share capital of another existing company. Merchant bankers are the middlemen in setting negotiation between the offeree and offeror.

Qualities of a Good Merchant Banker

Merchant Bankers are individual's experts who organize and manage the merchant banks. The operation of a merchant bank is influenced by the personality, traits of its merchant bankers. Their qualities are:

1) Leadership:-

In order to interact with their clients and communicate effectively merchant bankers should possess all relevant skills and update knowledge.

2) Aggressive action:-

Merchant bankers always looking for new business opportunities. On locating a business opportunity and after obtaining the assignment from the clients, a merchant banker has to be prompt in grasping the client's problems and to provide a better choice amongst alternative solutions. A good merchant banker is one who does not allow his clients to think anything outside except what has been advised and thus holding the clients interest for the present as well as for the future.

3) Co-operation and Friendliness:-

Co-operation and friendliness coupled with persuasiveness must flow as natural traits in the merchant banker in order to win over the trust of their clients just like a doctor or a lawyer who retains their clients permanently. A good merchant banker has to share the thoughts of his clients with sympathetic gestures and offer suggestions without any greed or favors.

4) Contacts:-

A merchant banking business mainly depends upon the sociable nature and wider contacts. The scope of contact of a merchant banker covers:

- (a) His own organization
- (b) Central and State Government Offices (c) Banks,
- (c) Financial Institutions,
- (d) Promoters/Directors/Owners/Chief Executives of the public and private Enterprises.
- (e) Printers,
- (f) Advertising Agencies,
- (g) Brokers and Stock Exchange Dealers,
- (h) Advocates and Solicitors
- (i) Members of the press, etc.

Merchant bankers have to widen the contacts and continue to maintain them by meeting people in personal, in special gatherings and through writing to them.

5) Attitude towards problem solving:-

A good quality of a merchant banker is to be skilled in human relations particularly in the inter-personal behavior. A merchant banker should have a positive approach to understand the difficulties, adverse circumstances and the viewpoints of others. Effective communication and proper feedback are the pre-requisites for creating a positive attitude towards problem solving which could be gained partly through the learning process and partly as an inborn personality trait.

6) Inquisitiveness for acquiring new skills, information and knowledge:-

Merchant bankers survive by providing the information required by their needy clients. Therefore they must keep themselves updated with the latest information in the area of the service product which they market.

CATEGORIES OF MERCHANT BANKS

SEBI Issued guidelines classifying the Merchant Bankers into four categories based on nature and range of their activities and responsibilities to SEBI investors and securities. SEBI has classify the Merchant Banker on December 22, 1992 into four categories,

Categories	Activities	Net Worth
<i>I.</i>	<i>To carry on the activity of issue management, Advisor, Consultant, Managers, Underwriters, Portfolio Managers.</i>	<i>Rs. 1 Crore</i>
<i>II.</i>	<i>To act as a Advisor, Consultant, Co-manager, Underwriter, Portfolio Managers.</i>	<i>Rs. 50 Lakhs</i>
<i>III.</i>	<i>To act as an Underwriter, Advisor or Consultant to an issue.</i>	<i>Rs. 20 Lakhs</i>
<i>IV.</i>	<i>To act only as Advisor or Consultant to an issue</i>	<i>Nil</i>

It should be clearly noted that Merchant Banking has been statutorily brought within the framework of SEBI (Merchant Banker) Regulations, 1992,

- 1) In term of guidelines issued during April, 1990 all Merchant Bankers will require authorization by SEBI to carry out business.
- 2) As initial authorization fee, an Annual fee and renewal fee may be collected by SEBI.
- 3) SEBI Issued guidelines classifying the Merchant Bankers into four categories based on nature and range of their activities and responsibilities to SEBI investors and securities. SEBI has classify the Merchant Banker on December 22, 1992 into four categories,

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<i>III.</i>	<i>To act as an Underwriter, Advisor or Consultant to an issue.</i>	<i>Rs. 20 Lakhs</i>
<i>IV.</i>	<i>To act only as Advisor or Consultant to an issue</i>	<i>Nil</i>

- 4) The lead merchant bankers holding a certificate under category one shall accept minimum underwriting obligation of 5% of total underwriting commitement or Rs 25Lack whichever is less.
- 5) Each merchant bankers if required to furnished to the SEBI half yearly unaudited financial result when required by it.
- 6) SEBI will supervise the activities of Merchant Bankers.
- 7) SEBI has been vested with power to suspend or cancel the authorization in case of violation of the guidelines.
- 8) SEBI shall inspect the rules and regulations of company of Merchant Banking in order to ensure that provision of regulation are properly compiled with and to investigate complaints from customers

Factors responsible for the Changes:

GLOBALISATION

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. Now they have to bring something new which is efficient and best services to live in the competitive environment.

COMPETITION

Competition arising out of Private Company Participation is due to the liberalization of the economy. Now along with the public/government players, private players are also offering financial services and instruments, which are more innovative and different than the earlier offering. All around, there is a fresh thinking on the financial products, structure of banking and insurance instruments with value creation. Financial markets are being redefined, reinvented and reconfigured on a persistent basis.

CHANGING CUSTOMER DEMOGRAPHICS

If we look at the all-growing economies like China, Germany and Brazil, India has 35% of the population in the age group of 15years to 34 years. It is estimated that by 130mn plus people get added to working population by 2009 with 55 million families (320 million people) will be added in the middle-income group (0.1 to 0.3 Million Rs). The demographic change leads to the change in the need of the customer.

CHANGE CUSTOMERS NEEDS

Changing Customer Needs customers have larger segment in corporate decision-making they are the final judges of the every single activity offered by the marketer. Banks in India have traditionally offered mass banking products. Financial market has turned into a buyer's market. Market focus is shifting from mass banking products to class banking with introduction of value added products. Today, financial institutions are co-designing the products/services with their customers and striving to provide them with global solutions

Technology Improvements Technology is also helping market players redefine the way they have been operating in the market. In today's time it becomes very easy for a customer to transfer a fund from one location to another location with CLICK of Mouse. Availability of the concepts like phone banking, anytime banking etc. has become possible because of the technological developments only.

Government Reforms Government is major decision player in the financial market. It decides the proportion of the investment limits as well as the regulation and control. In last ten years government is designing its policy with more liberal and competitive content. Which it are welcome trends for the emerging financial services.

Heightened focus on customer relations the bank of the future has to be essentially a marketing organization that also sells banking products. New distribution channels are being used; more & more banks are outsourcing services like disbursement and servicing of consumer loans, Credit card business. Direct Selling Agents (DSAs) of various Banks go out and sell their products. They make house calls to get the application form filled in properly and also take your passport-sized photo.

CONCLUSION

The merchant banking business has increased over a short period of time and with continued economic reforms. However, a stiff competition exists in this line and survival will depend upon the financial skills and spectrum of financial services and instruments offered by the Merchant Banker. Hence, Merchant Banking Service is taking shape for turbulent times.

Merchant banking is an activity initially undertaken by a few large commercial banks in India, and it is now being adopted or undertaken by a few large commercial banks in India, and it is now being adopted or undertaken by practically every commercial bank through its Merchant Banking Department. The range of activities covered under merchant banking very wide indeed. The merchant banks offer a package of financial services. Unlike in the past, their activities are now primarily non-fund based. Therefore, they do not require much capital. One of the basic requirements of merchant banking is a highly professional staff and worldwide contacts. Merchant banking is usually international in character.

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