A review paper on Investment Banking in India

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ABSTRACT

Investment banks act as an intermediary between a securities issuer and the investing public as well as a broker and/or financial advisor for institutional clients, and facilitate mergers and other corporate reorganizations. The paper is going to give a thorough knowledge about investment banking by using secondary data and analyzing financial reports of Indian investment banks.

KEYWORDS- Investment banks, financial advisors, IPOs

1. INTRODUCTION

Investment banking is a combination of two terms; investment and banking which means an investment bank is a financial intermediary that performs a variety of services. Specializing in large and complex financial transactions such as underwriting, investment banks act as an intermediary between a securities issuer and the investing public as well as a broker and/or financial advisor for institutional clients, and facilitate mergers and other corporate reorganizations (1). The paper is going to give a thorough knowledge about investment banking by using secondary data. The Objective of the Study is to assess the role of investment banks in India.

2. INVESTMENT BANKS IN INDIA

According to a news article published in Business insider India, Investment banks earned a record fee of ₹2,600 crore through IPOs and FPOs in FY2022 and investment banks usually earn about 2-3% as fees for managing an IPO and 1.5-2% for QIPs. The largest IPO in the fiscal year 2022 was Paytm, which raised ₹18,300 crore from the public market (3).

According to a report by PRIME Database, investment banks earned a record fees of ₹2,600 crore ($330 million, at current conversion rate) through IPOs and follow-on public offerings (FPOs). This is higher than the combined fees earned in the last four years. Indian companies raised ₹1.12 lakh crore, or $14 billion (at current conversion rate), all through fiscal year 2022 that ended in March this year.

Year	Capital raised in IPOs
FY2018	₹1.75 lakh crore
FY2019	₹57,362 crore
FY2020	₹91,670 crore
FY2021	₹1.88 lakh crore
FY2022	₹1.12 lakh crore
FY2023E	₹1.40 lakh crore

Source:PRIMEDatabase
Note: 'E' stands for Estimate

The fees charged by investment bankers also vary from issue size with variable fees, and even discretionary fees paid by the fund raiser to its underwriters. ICICI Securities, Kotak Mahindra Bank, Axis Capital and JP Morgan were the top investment banks who facilitated capital market issuances in 2022, according to a database from Bloomberg. The largest IPO in the fiscal year 2022 was One97 Communications the parent company of digital payments giant Paytm — which raised ₹18,300 crore from the public market, It was followed by Zomato's ₹9,375 crore offering and Star Health with ₹6,019 crore – helping them collect an astronomical amount in fees. Some Investment Banks In India are Ernst & Young Private Ltd; Price Water House Coopers, Investment Banking Arm, Deloitte Touche Tohmatsu India, LLP, O3 Capital Global Advisory Private Ltd, KPMG India Private Ltd. and Axis capital ltd.

3. SERVICES OFFERED BY INVESTMENT BANKS IN INDIA

Investment banks works as a Mergers and acquisition advisory, management of capital issues, Debt Syndication and as a Corporate Advisor. Following are top services that stand out

- Mergers & Acquisition Advisory: Companies need to expand their market share and generate more revenue. Thus, they need to find a better opportunity to merge or acquire other companies that can help them reach their objectives. Investment banks in India help these companies make the right deals (mergers & acquisition deals) and make prudent decisions so that the ROI gets to a maximum and the risk becomes the least.

Company	Issue Size
One 97 Communications	₹18,300 crore
Zomato	₹9,375 crore
Star Health	₹6,019 crore
PB Fintech (Policybazaar)	₹5,710 crore
Sona BLW	₹5,550 crore
FSN E-Commerce (Nykaa)	₹5,350 crore

Source:PRIMEDatabase

- Management of Capital Issues: Usually, investment banks in India offer management of public issues under two methods – the fixed price method and the book building method. They also offer IPO (Initial Public Offering), FPO (Follow on Public Offer), Preferential Issues, Rights Issue, QIP (Qualified Institutional Placement), and Debt Placement. The idea is to help the big organizations expand in the long run and advise them on various strategies.

- Debt Syndication: When a company is looking to finance new opportunities, they mostly don't have enough cash to go for it. However, if they talk to the investment bankers, they can help them with project finance, term loan, working capital loan, mezzanine financing, external commercial borrowing, etc. These services facilitate the public and private companies to tap into the right opportunities at the right time and ensure solid growth.
- Buybacks/Takeovers: Investment bankers in India advise their clients to buyback their shares at the right time. Moreover, they also help them do their due diligence, find out the target company, and understand whether the takeovers are necessary. They also help the companies adhere to compliances and regulations as per SEBI.
- Corporate Advisory: Investment bankers in India offer corporate advisory to various companies, especially to giant companies and corporate bodies. As corporate advisory is a huge area, they first understand the companies' needs and then offer tailor-made services. They start with business appraisals, and then the investment banks in India help the companies develop a business plan. Once the business plan is developed, they go for strategic project advisory. Then they also help companies with business valuation, project identification, and corporate restructuring (2).

4. CONCLUSION

Given the above, one is tempted to argue that future competition will also tend to come from outside the banking system and from international companies. Therefore the acceleration of concentration inside the system and investment banks will be offset by continuing competitive forces from outside. In India investment banking has a very bright future. The reason is that corporate companies as customers are currently enjoying the benefits of the investment banks.

5. REFERENCES

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