

Performance and Strategic Relevance of Merchant Banking in India's Evolving Financial Landscape: A Review

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Abstract: This study offers an in-depth review of the performance and strategic importance of merchant banking services in India, contextualized within the country's evolving financial ecosystem. The historical evolution of merchant banking is traced from its origins in medieval Europe to its formal emergence in India during the late 1960s. Initially focused on issue management, merchant banking in India has expanded to encompass a broad spectrum of financial services such as underwriting, portfolio management, corporate advisory, and mergers and acquisitions.

Adopting a descriptive and analytical methodology, the research synthesizes insights from over 25 peer-reviewed articles, regulatory documents, and financial reports published between 2009 and 2024. The findings highlight a significant performance disparity between public and private sector merchant banks. Private sector institutions have consistently demonstrated superior agility, innovation, and profitability. Factors such as evolving regulatory frameworks, rapid digital transformation, and the emergence of small and medium enterprises (SMEs) and startups have amplified the role of merchant banks in fostering capital market growth and supporting economic development. Despite notable advancements, the sector continues to face challenges, particularly in areas of regulatory compliance, investor protection, and comprehensive risk management. The study underscores the need for a more robust regulatory environment, capacity-building initiatives, and technology-driven innovation to improve the efficiency and transparency of merchant banking operations.

The paper concludes with strategic recommendations aimed at strengthening the contribution of merchant banks to inclusive and sustainable financial growth in India. These include promoting public-private collaboration, enhancing digital infrastructure, and aligning services with the needs of emerging sectors. By addressing these critical areas, merchant banking can better support India's broader economic objectives in an increasingly competitive and digitized global financial landscape.

Keywords: Merchant Banking Services, Financial Services, Economic Growth.

I. Introduction: Background and History of Merchant Banking Services

Merchant banking is a specialized branch of financial services that primarily focuses on advisory, fundraising, and management services to corporate clients, governments, and high-net-worth individuals. Unlike commercial banks that deal primarily with deposits and loans, merchant banks concentrate on capital market activities such as underwriting, mergers and acquisitions advisory, portfolio management, and issue management.

The concept of merchant banking traces its origins to medieval Europe, particularly in Italy and France during the 13th and 14th centuries. The early merchant bankers were wealthy merchants who began by trading commodities and gradually expanded their role to include financing the trade ventures of others. Over time, they diversified into providing financial services such as credit issuance, underwriting government bonds, and facilitating international trade finance. By the 17th and 18th centuries, merchant banking had established a firm presence in Britain, with institutions like Rothschilds and Barings becoming key players in global finance.

The evolution of merchant banking in India, however, began much later, in the late 1960s and early 1970s. The emergence was driven by the rapid industrialization of the country, the growing complexity of financial markets, and the increasing demand for professional financial advisory services. In 1967, Grindlays Bank (now part of Standard Chartered Bank) set up the first merchant banking division in India, focusing mainly on the management of capital issues. Following its success, other foreign banks such as Citibank and Indian banks like State Bank of India (SBI) soon entered the field.

The regulatory framework for merchant banking services was formally established in 1992, when the Securities and Exchange Board of India (SEBI) introduced the Merchant Bankers Regulations. This move sought to regulate the operations of merchant bankers, enforce compliance norms, and protect investor interests. Under these regulations, merchant bankers were classified, and capital adequacy norms were introduced, enhancing the professionalism and credibility of the sector.

Since then, merchant banking services in India have evolved significantly, expanding beyond issue management to a wide range of activities, including project financing, private equity placement, corporate restructuring, advisory on mergers and acquisitions, and risk management. Today, merchant banks play a crucial role in India's economic development by mobilizing savings, facilitating capital formation, and assisting in the efficient allocation of financial resources across sectors.

Despite the growth, the industry has faced challenges such as regulatory changes, competition from global investment banks, technological disruptions, and the increasing need for sustainable financing solutions. This backdrop sets the stage for a critical review of the performance of merchant banking services in India, identifying key gaps, and proposing strategies for sustainable development.

According to the **Securities and Exchange Board of India (SEBI)**,

"A merchant banker is any person who is engaged in the business of issue management, either by making arrangements regarding selling, buying, or subscribing to securities, or acting as manager, consultant, advisor, or underwriter to an issue."

In essence, merchant banks act as intermediaries between the issuers of securities and the investors. They play a critical role in mobilizing capital, advising on complex financial transactions, managing corporate financial risks, and facilitating strategic business decisions.

Role of Merchant Banks in Driving Economic Growth and Development."

Merchant banks act as intermediaries to mobilize the saving from the savers to channelize investment into business. Merchant banks stimulate the economic growth through their advisory for Mergers, Acquisitions and Corporate Expansion. This will facilitate Capital Market Development as well as promote industrial growth and Entrepreneur development. Another key role of merchant banks are to attract FDI and Institutional Investments.

Objective of Study

1. To examine the concept and evolution of merchant banking in India.
2. To assess the range of services provided by merchant banks, including issue management, underwriting, corporate advisory, and portfolio management.
3. To analyse the financial performance and growth trends of leading merchant banking institutions in India.
4. To evaluate the role of merchant banks in capital market development and corporate financing.

Key function

Issue Management

Merchant banks manage the process of raising capital through public issues (like IPOs) or private placements. They handle activities such as drafting the prospectus, obtaining regulatory approvals, marketing the issue, and allotting securities to investors. The goal is to ensure a successful and compliant fundraising exercise for the client company.

Underwriting

Underwriting means the merchant bank guarantees to subscribe to the issue if it is not fully subscribed by the public. It reduces the risk for the issuing company because they are assured of raising the targeted amount. Merchant banks charge a fee for providing underwriting support.

Corporate Advisory

They offer advisory services on mergers, acquisitions, restructuring, and joint ventures. Merchant banks provide strategic financial advice to help companies grow, restructure, or diversify. This includes valuation, negotiation support, deal structuring, and regulatory compliance advice.

Portfolio Management

Merchant banks help individual and institutional investors manage their investments. They create customized investment portfolios based on the client's risk profile and financial goals. This service covers buying, selling, and monitoring investments across stocks, bonds, mutual funds, etc.

II. Review of Literature On Financial Performance

(S et al., 2024) A Comparative Financial Performance Analysis of Selected Public and Private Sector Banks using Eagles Model. International Journal of Advanced Research in Science, Communication and Technology, 741–748 By analysing key financial ratios, the paper offers insights into the operational efficacy and resilience of banks. The study evaluates the financial performance of five public and private sector banks over a five-year period (2018-19 to 2022-23) using the EAGLES model. This evaluation highlights differences in stability, growth, and profitability between the two sectors, providing a clear picture of how each type of bank performs financially over time

(Singh & Sharma, 2022) The study analyses the financial performance of public sector banks and private sector banks by calculating and comparing various ratios of selected banks. The objectives of the study are firstly to study the financial performance of public sector banks and private sector banks in India and to compare the performances of selected public sector banks and private sector banks. Three public sector banks (Bank of Baroda, State bank of India and Punjab National Bank) and three private sector banks (HDFC bank, ICICI bank, and Axis bank) of India have been selected for the study. This study covers the period of four years from 2016-17 to 2019-20. The findings of the study depict that Private sector banks performed better in maintaining Capital Adequacy, managing non-Performing assets and making adequate provisions for bad loans, positive returns on equity, high returns on assets, high net interest margin by managing investments efficiently and maintaining adequate debt-equity ratio while public sector banks performed better in maintaining adequate credit- deposit ratio and current ratio. The overall

financial performance of private sector banks had been comparatively better than the public sector banks during the period of the study.

(Singh, 2022) This study aims to explore the existing financial health of merchant banking services of SBI Capital Markets Ltd. in merchant banking activities. The selected merchant bank emphasizes on categorization of merchant bankers and in this direction the merchant bank which comes under the purview of category-I registration with Securities Exchange Board of India has been chosen to appraise the performance. the paper highlights how these activities help in transferring capital from investors to those who can utilize it, thereby fostering economic develop

Jamil et al., 2014) The study employs various financial ratios, such as Return on Assets (ROA) and Return on Equity (ROE), to evaluate the banks' performance. These ratios are essential tools in finance that help assess how well a bank is using its assets and equity to generate profits The research identifies three main factors that influence the financial performance of investment banks: institution size, operating efficiency, and asset management. To compare the financial operation top ten investment banks of India This study found that as financial ratios change, the rankings of banks alter as well.

Review on Merchant Banking

(Jha, 2024) The literature on merchant banking in India highlights its multifaceted role in the financial ecosystem, emphasizing its historical roots, diverse functions, and significant impact on economic development. The evolution of the term and its functions illustrates the changing landscape of financial services in the country.

(Yu, X. 2024). Regulatory Compliance: Merchant banks ensure that all documentation and disclosures meet regulatory standards, which is crucial for maintaining investor trust

(Parab et al., 2024) The banking sector in India comprises both public and private banks, offering diverse investment opportunities. The primary aim of the study is to analyses and compare the financial performance of public and private sector banks in India from an investment perspective. The study employs several financial metrics to evaluate performance, including Net Interest Margin (NIM) ratio, Gross Non-Performing Asset (GNPA) ratio, Net Non-Performing Asset (NNPA) ratio, Current Account Savings Account (CASA) ratio, Total deposits. These metrics are analysed over a ten-year period from 2014 to 2023. The study concludes that private sector banks are more efficient than public sector banks in India, particularly regarding profitability, risk management, and asset quality.

(Bhatt & Arora, 2024) The paper titled "The financial performance appraisal of selected private sector banks in India: empirical evidence" makes several significant contributions to the understanding of the financial performance of private banks in India. The study specifically examines the financial performance of selected private sector banks in India, including HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, IndusInd Bank, and Federal Bank. The research covers a substantial period of 11 years, from 2011 to 2021. The study is based on secondary data, which enhances the reliability of the findings. The paper analyses financial performance through various metrics, including return ratios, profitability, efficiency, and market prospects. The paper analyses financial performance through various metrics, including return ratios, profitability, efficiency, and market prospects.

Wang, 2024) (Focus on China's IPO Market: The research specifically explores the role of investment banks within the context of China's Initial Public Offering (IPO) market. This focus is significant due to the unique historical events and economic reforms that have shaped China's financial evolution and, consequently, its IPO market

(Singh, 2022) Merchant banking services play a crucial role in IPOs by managing the issuance process, advising companies on regulatory compliance, pricing, and marketing, and facilitating the connection between investors and corporate clients, ultimately enhancing the success of the public offering.

(Narayanan, 2022) Research paper titled Financial Performance Of Merchant Banking In India– A Study on Kotak Mahindra Capital Company Ltd The International journal of analytical and experimental modal analysis Volume XI, Issue IX, September/2019 pp 147-154, in his study found that the range of services are offered by the Merchant banks includes underwriting, portfolio management, loan syndication consulting etc. it is based on system of intermediation between the organization in which one lend money to other. Financial advisory services are provided with a fee.

(Choudhary, 2022) Research paper titled A Study of Merchant Banking Development in India Journal of Management & Entrepreneurship Vol. 16, No.2 (IX), April - June 2022 pp-1-6 finds that Merchant banking services important for national development as large number of domestic as well as international business expanding and making it visible in foreign market.

(Jain & Sharma, 2021) Research paper titled Study on Recent Developments In Merchant Banking In India - Elementary Education Online, 2021; Vol 20 (Issue 3): pp. 3555-3564 discussed in his paper that Merchant banking is a vital part of Indian financial system as this resulted into enhanced environment for the investment as well as broaden the scope of the capital market which was the ultimate goal of any financial system to accelerate the pace of growth of an economy.

(Tyagi, 2021) Research paper titled Merchant Banking in India discussed the journey of Merchant Banking Industry in India started with large foreign banks and firms with the challenges faced over the years. Advent of New Economic Policy provide RBI. Consumer trends now a days changing continuously and now it is up to the government to bring in reforms which protect the interest of the consumer as well as provide a platform for these banking service to prosper.

(Rachana, 2021) Research paper titled Merchant Banking - A Comparative Analysis of Private and Government Sector International Journal of Scientific Development and Research (IJS DR) April 2021 Volume 6 Issue 4. This paper focus on the functioning of merchant banking by analyzing public sector and private sector companies in India. There should be sound risk management system and discipline cost management. SBI comes out at top as compare to other player in the market place. Merchant banking does not provide service to the public.

(Vargas-Machuca, 2021) private banking in Spain was characterized by two main types of agents. These included individual entities, such as bankers and merchant bankers, as well as banking houses, which were often organized as collective or limited partnerships. This highlights the diversity in banking structures that existed at the time

(Huda & Chowdhury, 2017) The paper underscores the importance of merchant banks in fostering a structured capital market, generating employment, and facilitating investment, which are crucial for the overall economic growth of the country

(Anand, 2016) Market Making: Merchant bankers are required to act as market makers for SME IPOs, which helps improve liquidity and investor confidence in the secondary market.

(Paul et al., 2015) It clarifies the definitions of merchant banking and investment banking, emphasizing that in India, investment bankers are often referred to as merchant bankers. The paper explains that merchant banking is a non-banking financial activity, which is crucial for distinguishing it from traditional banking services

(Kumar, 2015) Merchant Banking is a combination of Banking and consultancy services. It provides consultancy to its clients for financial, marketing, managerial and legal matters. Merchant banking provides various services to its customers like project management issue management, portfolio management services, counselling, loan syndication, capital assistance etc. In India Merchant Banking activities started from the year 1967. Currently a lot banks are providing merchant banking services. The merchant banking business has increased over a short period of time and with continued economic reforms.

(Shreyas, 2014) outlines the historical development, regulatory evolution, current status, and future potential of merchant banking in India, emphasizing its importance as a specialized financial intermediary in the primary market. Merchant banks are specialized financial institutions that provide advisory services on monetary, administrative, commercial, and legal issues. They primarily cater to large corporations, assisting them with refinancing, foreign finance, and business loans. This specialization distinguishes them from local commercial banks, which serve a broader clientele

(Gurusamy, 2009) The paper discusses the history, regulations, and government policies affecting merchant banking. It emphasizes the importance of distinguishing between merchant banking and investment banking. It highlights that while both serve financial needs, they operate differently, with merchant banks focusing more on advisory services and capital raising for businesses. The comparative analysis between investment banks and merchant banks reveals that merchant banks often provide a more personalized service, focusing on long-term relationships with clients. This finding underscores the unique role that merchant banks play in the financial ecosystem

(Singh, 2009) highlights that no country can remain isolated from global economic trends. It discusses the shift in India from a Nehruvian mixed economic policy to a more liberalized economic policy initiated in July 1991. This transition is characterized by significant banking reforms aimed at modernizing the financial sector the role of merchant banking should not be overlooked. It suggests that merchant banking is poised to undergo significant changes, similar to the broader banking system, as India adapts to the new economic realities of the second millennium This sets the stage for a discussion on the factors that will shape merchant banking

Research Gap

A review of existing literature reveals that previous studies have predominantly focused on merchant banking services in a general context, with limited attention to the specific and emerging role of merchant banks in supporting small and medium enterprises (SMEs) and startups. Furthermore, there is a noticeable paucity of research addressing the need for proactive regulatory innovation and the critical role of digital adoption within the merchant banking sector. This study seeks to address these gaps by highlighting the strategic importance of merchant banking in advancing national economic objectives, thereby contributing to a more inclusive and forward-looking financial ecosystem in India.

III. Research Methodology

This study adopts a **descriptive and analytical research design**. It is primarily based on a **literature review** of existing academic papers, government reports, industry publications, and other secondary sources to examine the performance of merchant banking services in India. The research is **qualitative in nature**, focusing on thematic and content analysis of the reviewed literature. Quantitative data, such as financial ratios or industry growth figures from secondary sources, are used to support qualitative insights. The study is based on **secondary data** obtained from Peer-reviewed journal articles (2009–2024), Relevant books and conference proceedings The literature included in the study was selected based on the following criteria: Relevance to merchant banking operations and performance, Coverage of Indian financial markets and regulatory environment, Time frame (primarily literature published between 2009 and 2024), Credibility of source (e.g., reputed journals, government publications) and Accessibility of full-text content. selected literature was reviewed and analysed using: **Thematic analysis**: Identifying recurring themes and trends such as regulatory changes, risk management, investment trends, etc. **Comparative analysis**: Comparing

performance metrics and strategies across different time periods or institutions. **Trend analysis:** Observing growth patterns and structural changes in the merchant banking sector over the years. **Limitations** are study is limited to **secondary data**, which may not fully reflect the most recent operational practices. Some literature may have limited availability or access, affecting comprehensiveness. The analysis does not include **primary data** such as surveys or interviews, which may provide more granular insight

Data Analysis and Interpretation of Data

Financial Performance of Banks in India

Comparative Analysis: Public vs Private Sector Banks

Study	Scope	Time Frame	Methodology	Key Findings
S et al. (2024)	5 public & 5 private sector banks	2018–2023	EAGLES Model & financial ratios	Private banks more resilient and profitable
Singh & Sharma (2022)	3 public & 3 private banks	2016–2020	Ratio Analysis	Private banks excel in profitability; public in credit-deposit
Parab et al. (2024)	Public vs private banks	2014–2023	Financial metrics (NIM, GNPA, CASA)	Private banks more efficient in profitability and risk management

Performance Metrics and Influencing Factors

Study	Focus	Key Metrics	Findings
Jamil et al. (2014)	Top 10 investment banks	ROA, ROE	Performance influenced by size, asset management, and efficiency
Bhatt & Arora (2024)	Private sector banks	Return ratios, profitability, efficiency	Private sector showed consistent strength over 11 years
Singh (2022)	SBI Capital Markets	Not specified	Focus on capital flow, stakeholder orientation

Merchant Banking in India

Functional Overview and Evolution

Study	Key Themes	Contribution
Jha (2024)	Role & history of merchant banking	Tracks evolution and strategic impact
Gurusamy (2009)	Regulations and role distinctions	Emphasizes advisory focus of merchant banks
Singh (2009)	Policy changes in India	Places merchant banking in context of liberalization

Roles, Services, and Sectoral Differences

Study	Focus	Key Contributions
Rachana (2021)	Comparison: public vs private sector	SBI leads in efficiency; risk & cost management emphasized
Narayanan (2022)	Case: Kotak Mahindra Capital	Lists services like underwriting, portfolio mgmt., advisory
Kumar (2015)	Service offerings	Highlights evolution & range of services since 1967
Paul et al. (2015)	Definition clarity	Distinction between merchant and investment banking

Regulatory and Development Aspects

Study	Focus	Findings
Yu (2024)	Regulatory compliance	Importance of disclosure & documentation
Anand (2016)	SME IPOs	Merchant bankers as market makers
Jain & Sharma (2021), Choudhary (2022)	Merchant banking & national growth	Shows link to capital market development

Tyagi (2021), Shreyas (2014)	Sectoral challenges	Highlights reforms needed and future outlook
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IV. Discussion

The merchant banking sector in India has evolved significantly, moving beyond traditional services to offer comprehensive financial advisory and strategic solutions. Private merchant banks like Kotak Mahindra Capital and ICICI Securities have shown greater adaptability, especially in digital adoption and service diversification, compared to public-sector entities. The sector is increasingly playing a vital role in IPOs, mergers and acquisitions, and funding support for startups and MSMEs. However, challenges persist in areas like regulatory compliance, risk management, and sustainable finance adoption.

V. Result

The future of merchant banking in India hinges on regulatory simplification, digital integration, tailored financial services, and stronger risk and sustainability frameworks. Embracing innovation and public-private collaboration will be key to enhancing efficiency, expanding reach, and supporting India's capital market growth.

VI. Conclusion

The reviewed literature provides a comprehensive foundation to address the core objectives of this study. First, it traces the **concept and evolution of merchant banking in India**, highlighting its transformation from a niche advisory service into a critical component of the modern financial ecosystem (Jha, 2024; Singh, 2009; Gurusamy, 2009). Second, the studies reveal a **broad spectrum of services offered by merchant banks**, including issue management, underwriting, portfolio management, and corporate advisory—services that distinguish merchant banks from traditional financial institutions (Kumar, 2015; Narayanan, 2022; Paul et al., 2015). Third, research analysing **financial performance trends** of both public and private sector banks, particularly through return ratios and efficiency metrics, underscores the sustained growth and operational differentiation among leading merchant banks like SBI Capital and Kotak Mahindra Capital (Singh, 2022; Rachana, 2021). Finally, the review affirms the **pivotal role of merchant banks in capital market development**, especially in strengthening investor confidence, ensuring regulatory compliance, and fostering efficient capital allocation for corporate financing (Yu, 2024; Jain & Sharma, 2021; Huda & Chowdhury, 2017). Together, these insights lay the groundwork for a focused analysis on the performance and strategic relevance of merchant banking in India's evolving financial landscape.

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