

Association Of Merchant Bankers Of India (AMBI): Prospects and Challenges



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A new set of economic and financial sector reforms, which began in the early 1990s, gave a major impetus to the growth of the stock markets in India. As a part of the reform process, it became crucial to strengthen the role of the capital markets since it could play a pivotal role in efficiently allocating scarce financial resources to the real economy. AMBI was set up in the year 1993 with the objective of laying down the professional standards for providing

efficient services and establish standard practices in Merchant Banking and financial services. AMBI has worked towards promoting healthy business practices and a culture of compliance with regulations pertaining to financial intermediation, especially merchant banking. In its existence of more than 15 years, AMBI has made contribution to the regulatory framework by making suggestions for improvement. It has taken other initiative for the benefits of its membership like dissemination of information, organizing interaction with specialists in various merchant banking related field.

AMBI has a long way to go – to quote a famous poem – ‘I have miles to go before I sleep...’ The country is on the threshold of an exciting growth story – the financial meltdown notwithstanding. Capital raising is the key ingredient of any such growth story and Merchant bankers are actively involved in the process. This places a special responsibility on this industry and the industry body AMBI. Tomes can be written on the prospects and challenges for AMBI with highly technical sounding contents. This article is an attempt to present the broad contours of magnitude and scale of task before AMBI and some of the key areas, it should be addressing.

There is a fundamental difference between AMBI and most of the other industry associations like AMFI or IBA which are associations of fund based organizations. Membership of bodies like CII, FICCI or ASSOCHAM is spread across all sectors of the industry. AMBI is an association of merchant bankers which are fee based organizations acting as an intermediary between seekers and providers of capital. Given the current size of the

industry, the total membership tends to be restrictive. Though Merchant Bankers are not custodian of capital, they play a crucial role in ensuring the efficient utilization of scarce capital. The industry is highly competitive & relationship driven & heavily reliant on intellectual & knowledge capital. Given such sharply defining characteristics, the intra industry interactions of forums like AMBI have to be carefully calibrated. Currently the capital market business, the key revenue generator of the merchant bankers, is in grip of a severe downturn and a large number of merchant bankers are dependent on other activities to generate revenues. This has really impacted the smaller Merchant Banking companies. With the industry in midst of such a critical juncture, a major challenge before AMBI is to widen its membership base. The recent positive sentiments in the stock markets have opened a window of opportunity for the merchant banking business and this should help AMBI in its membership drive. The body is also working on few proposals to widen the membership base; which will make it a more representative body of the industry.

A frequent question asked amongst Merchant Banking fraternity is that “Do we need an association?” Any industry association has to be primarily useful to its members but also has to work a delicate balance in addressing concerns and interests of the industry and the operating universe of the regulatory bodies, other intermediaries and public at large. When an industry is new and is in nascent stage it needs support and protection. Merchant bankers in their early days got this support and protection from AMBI. It is a well known and proven fact that a healthy and fair competition is a key growth driver for any industry. AMBI, over the years has been encouraging its members to foster the values of fair business practices and integrity in their business dealings and relationships. Like all other businesses, there are some concerns that are faced by the merchant banking industry as a whole. In order to resolve these issues, it is useful for the players in the industry to work under a common platform. AMBI as a forum is used by the merchant banking fraternity to voice concern regarding issues that are being faced by the entire industry. AMBI, as an industry body will also go beyond being a forum for addressing the concerns of its members and is looking to work in other field of interest to Merchant Bankers. One key area is to work on such initiatives, as will help the Merchant bankers in widening and increasing their income streams. Another area is to keep abreast of the latest trends in the industry and help the members in updating themselves and being prepared for the any changes in the operating environment. While this sounds simple, but it calls for a high degree of logistical support in terms of trained manpower, access to information and research facilities. Presently AMBI looks to draw on its

membership to supplement its effort in this direction but in the long term AMBI should have its own well equipped research facility.

AMBI, as an industry body, has a large unfinished agenda before it. The canvass is very wide and there are a number of areas, which require proactive action by AMBI and its entire membership. The previous year had been a tumultuous in the history of financial markets which especially affected the capital markets. There is need to not only streamline policies and processes but also revisit the existing policies and bring them in tune with current scenario. AMBI has a key role in this process of rationalization and reforms. In the recent times, AMBI has been holding consultations amongst its members and has been actively associated in various capital market related forums. AMBI has been able to contribute by way of specialized inputs on certain policy level changes and procedural changes. The capital market regulator, SEBI, has been proactively pursuing measures to strengthen and carry out structural changes in the capital markets, results of which have been visible in the slew of forward looking changes it has made in the capital market – be it changes in guidelines or changes in policy framework. However, this is not a onetime exercise but is a continuous process and the key challenge before AMBI is to be proactive and forward looking industry body in reviewing policies and processes and it is drawing on the vast pool of intellectual capital of its members to be a meaningful contributor.

Retail investors hold the key to revival of capital market. Support to retail investors, specifically in the domain of investor education and investor protection is one of the major concerns in the capital markets today. Retail customer should be able to make informed investment decision in the capital markets. He should be aware of the functioning of other market intermediaries and should have speedy resolution of his grievances. This should not be looked into in isolation as a reactive step to address the complaints or concerns of retail investor. A well planned Investor Education cum contact programme will go a long way in deepening the capital markets and help in penetration to even tier 3 & 4 towns as well as rural areas. An impetus has been given by some of the mega capital market offerings in the recent past, which collected a record number of applications. To sustain this momentum, investor education will go a long way. This calls for a multi pronged approach to ensure that capital market functioning is demystified for a totally lay investor. With a number of public sector enterprises lined up for listing, this is the right time to have active measures for retail investor education for primary capital market IPO's. Retail investors also have interface with other market intermediaries. A body like AMBI can work together with other intermediaries to reduce the pain points for the retail investors and carry forward the Investor Education cum contact programme. This can take form of Investor Education through various mediums like print and electronic media, use of cyber space. Investor contact programmes can be organized

at various centers in association with local bodies and other organizations.

There is a related issue to Investor Contact and Education. The general public wants greater transparency in how merchant banking organizations operate. This aspect has gained importance after the collapse merchant banking giants like Lehman Brothers. Merchant Bankers have come under intense scrutiny around the world. AMBI looks to take pioneering steps towards informing and educating the concerned public about the merchant banking industry. It is very important for any association to have a public interface and AMBI is looking to aim at wider dissemination of the information through various public forums and media platforms. This would help in enhancing the image of the industry and its members. This step will also be useful to the members as it will help them in wider public exposure. Recent events have also brought Corporate Governance issues to the forefront. AMBI is considering at addressing this complex issue in association with other bodies. AMBI is also working with National Institute of Securities Market (NISM) for the merchant banking business in the compliance and other related areas.

Merchant Bankers do not operate in isolation but are a part of a larger financial ecosystem, where all the players are closely interdependent on each other. There are areas of activities, which are covered by Merchant Bankers, but which are either not covered or partially covered by SEBI. These activities include Mergers & Acquisitions, Corporate Advisory Services, Bond Placement and Debt Syndication. AMBI can facilitate and try to evolve greater interface and dialogue with other market intermediaries in the industry including Registrar to Issues, Share Transfer Agents, Law firms, Consulting firms and Commercial Banks. Each of these entities play a significant role in the various transactions carried out by Merchant Bankers. M&A activities, especially those of cross border kind, have complicated legal and tax issues. A number of these issues involve policy matters, which need simplification. Similarly, in the area of Corporate Advisory businesses, the merchant bankers often work along with Consultancy Firms and technical experts. Interaction with such intermediaries will deepen the market for Merchant Bankers. Debt market is another area, where there is a need for concerted action for reforms and policy level changes. Deepening and development of Debt Market is something, which has been engaging the attention of all the key stake holders in the process. A well established debt market will go a long way towards increasing business from this segment and give new avenue for business and revenue generation to the Merchant Bankers. AMBI has made a small beginning in this direction. The body has held interactive sessions with professional in other fields for its members. These have been well received and AMBI is now looking to scale up such activities. Such interactions are very useful as the cross functional discussions lead to greater clarity on complicated issues and lead to suggestions for making changes in policies

and processes. It is in this area that AMBI is looking to work closely with such other organizations and bodies so that a holistic view is taken on various issues facing the all the intermediaries involved in the business.

The unfinished agenda before AMBI is a stupendous task and cannot be done overnight. It requires extensive coordination not only amongst the Merchant Banking Community but also with other players in the market and high level of commitment for each and every participant. Concerted action on each of the points outlined in the article will help not only the businesses, but will a long

way in the scripting the growth story of the country. We have to act with a sense of urgency so that as an industry, we keep pace with growth plans of the country. The intensive business Merchant Banking is, time commitment from the various member of AMBI is a challenge. It is a tribute to each and every member of AMBI that they have been contributing enthusiastically and whole heartedly to the various initiatives being taken by the body. In the days to comes, AMBI seeks to be a vibrant body, which will be making positive and meaningful contribution to task of nation building.

The article reflects the personal views of the author
