Investment Banking – The Road Ahead

B.Madhuprasad
Chairman
Keynote Financial Services Ltd.

The capital market witnessed a transformational change with the setting up of the Securities & Exchange Board of India (SEBI) about 3 decades ago. Very important is the manner in which the capital market is being regulated by SEBI. In tune with rapid changes in the capital market, the Investment Banking over the past years have undergone phenomenal change. The deal size of the transactions especially in resource raising has very considerably increased. There has also been a segmentation of the Merchant Bankers though there is a single category as recognised and registered by SEBI. This has led to the capital market witnessing two types of transactions and accordingly classifying them as Initial Public Offer (IPO) on the 'Main Board' and on the 'SME platform'. The SME platform though put in place in 2012, had taken quiet a long time to establish itself into the capital market. The BSE Limited (BSE) and National Stock Exchange of India Ltd. (NSE) have provided dedicated platforms to the small and medium enterprises and the platform at the NSE named as NSE EMERGE while at BSE, named as BSE SME. About 500 small & medium enterprises have accessed the SME platforms of NSE & BSE. Mid-sized Merchant Bankers had opportunity to launch issues on SME platform to raise resources and get securities listed. The larger players in the Investment Banking continued to remain with issues on the Main Board staying away from the issues at the SME platform.

The transactions in the capital market which have been witnessed over a decade very clearly brings out large size transactions in the Main Board by a few large players in Investment Banking. Though a number of transactions were witnessed in this period, the transactions were of the nature of 'Offer for Sale' and mostly by the Public Sector Undertakings (PSUs). This was a new development with change in the administration at the centre and the political atmosphere. The necessity to fund huge capital expenditure for the country and to bridge the deficit gap, dilution of Government holdings in the PSU gave opportunities to the Investment Bankers. More importantly, transactions of the nature of Takeover assignments, Buy Back of securities have, from time to time, been providing transaction support to the Investment Bankers. The Rights Issues of the existing listed company have also been on the increase and therefore the Investment Bankers look to a bright and profitable road ahead.

Investment Bankers are required to be appointed by the Issuers/Corporate in terms of SEBI Regulations in respect of the following transactions :

- Initial Public Offering (IPO) [SEBI (ICDR) Regulations 2018 as amended on April 05, 2019]
- Buy Back of Securities [SEBI (Buy Back of Securities) Regulations 2018]
- Takeover and Substantial Acquisition of equity shares of listed company (Substantial Acquisition of Shares & Takeovers) Regulations 2011 as amended on December 31, 2018
- Delisting of Securities of an existing listed company (Delisting of Equity Shares) Regulations 2009 as amended on November 14, 2018

Apart from these 4 major activities, the Investment Bankers have to be appointed and services utilised where there are Merger & Acquisitions expressing fairness opinion.

The scope & opportunity for Investment Bankers is quite wide especially because the whole ambit of capital market transactions need the involvement of Investment Bankers.

A recent trend that has emerged which is also on account of compulsion for requirement of funds by the government to fund large infrastructure projects for which the government will have to look out for resources while in respect of the central government, it is noticed that profitable PSUs have become the target for getting funds for government expenditure. Buy Back of securities have been initiated and with the continuance of stability at the centre, this activity of Buy Back would definitely create opportunities for the Investment Bankers to support the government in the Buy Back activity. It is also noticed that there are several state government ventures with substantial state government ownership and a minimal central government participation who are looking for raising resources for their budgetary requirements of the state through dilution of the stake. This serves the twin objective of getting the equity shares listed and at the same time raise resources for the state's capital expenditure requirement. This activity would possibly be in place towards the end of this calendar year and would continue.

It is believed that atleast 60-70 listed PSUs, many of them cash rich and which can support the governmental expenditure, could be used as a vehicle for getting money to the government exchequer. The Investment Bankers will also have to take on greater responsibilities since SEBI has started monitoring, reviewing and taking action against all the participants in the capital market. Opportunities of work relating to valuations and preparation of fairness report would also be on the raise and it would be important for the Investment Bankers who are associated in this process to exercise greater caution. Typically, the valuation assignments for Investment Bankers was an offshoot of determining fair value (Exit price) for existing shareholders at the dissemination board. With the Regional stock exchanges closed due to various reasons the companies which were listed exclusively at the Regional stock exchange who could not satisfy the eligibility criteria at the Main Board (BSE/NSE) had to give an exit option to the public shareholders of these companies. To ensure that a fair value is given to these shareholders, the Investment Bankers were given the role of determining the exit price. This is because the valuation in most of the cases are based on the information provided and various other factors taken into account and therefore the valuation or the price arrived at, need not be accurate. Where valuations and fairness of value is questioned, the Investment Bankers have a very trying time defending the fairness report given by them.

With a stable Central Government administration, it is possible that capital market transactions would witness transactions from insurance Companies which have all been looking to capitalise itself for quite some time and are also under compulsion from the insurance regulators for listing its equity capital. Further, on the lines of Central PSUs which got themselves listed, many state PSUs have also been wanting to tap the capital market and get listed.

The Investment Bankers have a very critical and positive role to play in the capital market with the emerging technology and automation in the industry. In fact, the automation in the industry has posed a new challenge to the capital market players. Most of the processes from filing of document, bidding platform, basis of allocation and approval for listing is only through the electronic mode whether it's an IPO, Buy Back or a Rights Issue. Practically, the physical form is not only discouraged and in most occasions dispensed with. The fee payment to the Regulator for filing documents is also online. As we go forward, the use of technology will be on the increase. May be the transaction time may cut short but would put pressure on the Investment Bankers to develop technological skills. Most of the Investment Banking activities presently are being outsourced. The various chapters that are required to be statutorily put in the offer document are written by experts. The Investment Banker has to coordinate with the various agencies who have been associated for the preparation of the offer document and take a final review. The danger in outsourcing is that though may appear healthy for the business sustainability of Investment Bankers, if they continue to outsource every activity, they would be merely acting as a coordinating agency rather than Investment Bankers. It is necessary for the Investment Bankers to concentrate their energy, strength and efforts in the area in which they have the expertise. To be in tune with the competition in the industry, they should be in a position to offer specialised services under one roof.

In conclusion, it is important that the Investment Bankers who coordinate with the market regulators, the stock exchange, the corporate and the capital market intermediaries to look beyond their individual growth. They must improve the overall market efficiency and potential. They have to provide necessary comments, constructive feedback on the necessity for regulatory changes in tune with the dynamic changing capital market. They should also look beyond the general capital market platform and act in close liaison with the industry body, Association of Investment Bankers of India **(AIBI)** and take up with the regulator for reforms and policy changes in the capital market from time to time.

Thus, the role of Investment Bankers is going to be one of the capital market development, investor upgradation and technology absorption. The road ahead is definitely not bumpy but smooth subject to the Investment Bankers driving the transactions cautiously.