

An Evaluation of Financial Performance of Merchant Banking Activities of SBI Capital Markets Limited

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Abstract

Merchant Banking is a function that works as a financial intermediary between investor and corporate customer. Along with these it helps various corporate companies, financial institutions and others for issue management. Merchant banking are playing vital role in the growth of economies. Due to merchant banking the needs of the investors, entrepreneurs and corporate sector are identified and advised them what to do to be successful. Merchant banking is a service-oriented function, that transfers capital from who owns to those who can use it. Some companies have built their strong image and some are trying in this field to be successful. Now it is also important to study the financial performance of merchant banking in India. 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.

Keywords: Merchant bankers, SBI Capital Markets Ltd., Securities, Financial Performance.

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Introduction

The concept of merchant banks in India was introduced by National Grindlays Bank in 1967. In 1972, State Bank of India became the first Indian commercial bank to setup a separate Merchant Banking Division. Merchant banks are financial institutions engaged in business loans as well as underwriting. Merchant banks perform a combination of consultancy and banking services. Merchant banking provides various services which help in the growth of the corporate sector which ultimately reflects into the overall economic development of the country. Merchant banks perform several functions like issue management, underwriting, portfolio management, loan syndication, advisor, consultant and various other activities. Merchant banking in India has made a rapid progress and plays a major role in the development of modern economic activities.

In order to meet the growing demand for broad based financial services from corporate sector more effectively. The nationalized banks have started forming independent subsidiaries of merchant banks to offer more specialized services with professional expertise

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and skills. The Banking Regulation Act permitted to offer various range of financial services. The SBI Capital Markets Ltd was incorporated as the first such subsidiary of SBI. SBI capital market ltd. offers the entire bouquet of investment banking and corporate advisory services. In addition to this, the scope of merchant banking services has extended to providing advisory services to companies to increase or divest their stakes, international issues, public sector undertaking disinvestments etc.

A Brief Profile of SBI Capital Markets Limited

The SBI Capital Market (SBICAPS) is a wholly owned financial advisory and investment banking subsidiary of State Bank of India (SBI), the largest commercial bank in India. SBICAPS was established in August 1986, headquartered in Mumbai, SBICAP has 5 regional

offices across India (Ahmedabad, Chennai, Hyderabad, Kolkata, and New Delhi) and 4 subsidiaries- SBICAP Securities Limited, SBICAP Trustee Company Limited, SBICAP Ventures Limited and SBICAP (Singapore) Limited. SBICAP offers the entire bouquet of investment banking and corporate advisory services. The service bouquet includes the full range of Financial Advisory Services under one umbrella covering Project Advisory and Structured Financing, Capital Markets, Merger & Acquisitions, Private Equity and Stressed Assets Resolution. Various services offered by SBICAP in the broad areas of merger and acquisition, project advisory, structural finance and capital markets. Private Equity Investment & Asset Management and Agency & Debenture Trusteeship through its wholly owned subsidiaries SBICAP Securities Limited, SBICAP Ventures Limited and SBICAP Trustee Co., respectively. SBICAP is known for its acute professionalism and business ethics. The various services offered by merchant banking helps entrepreneur to come up with industrial setups and to explore the joint venture opportunities in the Indian as well as foreign markets. Merchant banking has experienced and qualified professionals in the field of M&A Advisory, Project Advisory, Business Restructuring Advisory, Corporate Advisory, arranging of Private Equity/ Structured Finance, Equity, Debt and Hybrid Capital rising. SBICAP is a global leader in the area of Project Loan Syndication and has lent crucial support to the Indian infrastructure sector. SBICAP provides complete solution in field of investment banking and corporate advisory to their clients by offering innovative ideas, advice and unparalleled execution across all stages in their business cycle ranging from venture capital advisory, buy and sell side advisory, project advisory, accessing financial markets to raise capital and even restructuring advisory in their turn-around phases.

The following heads are income of SBI Capital Markets Ltd.-

- Merchant Banking and Advisory Fees.
- Income from Securities.
- Lease and Hire Purchase Income and other income.

The following heads are expenditure of SBI Capital Markets Ltd.-

- Employee costs.
- Depreciation and amortization.
- Provisions and non-operating expenses.
- Interest expenses.
- Other expenses.

Review of Literature

Dutta (2011) did a comparative study on the relative performance between Indian commercial and development banks engaged in merchant banking activities. The objective of the study was to compare the financial position of banks from 2005 to 2009. The variables taken to evaluate the performance of selected merchant banks on three standard ratio categories i.e., turnover ratio, return ratio and liquidity ratio to examine the profitability, solvency and liquidity positions. The time series analysis and cross-sectional analysis was employed to meet their objective. The study revealed that the performance of SBI Capital Market Ltd. has been continuously increasing from 2005 to 2009 in comparison to IDBI Capital, CANBANK Finance, ICICI Securities banks.

Shivaji and Kumar (2015) conducted a study which focused on evaluating the performance of SBI Capital Market Ltd. in merchant banking which comes under the purview of Category-I registration with Securities Exchange Board of India. The data required for the evaluation was extracted from the annual reports of SBI Capital Market Ltd. and financial statement of bank published from time to time. The objective of the study was to evaluate in terms of Merchant banking advisory fees, Income from Securities/ HP income and other income from 2010-2014. The study opined that the main source of earning of merchant bank is 'Merchant banking advisory fees' which is stable throughout the year and the main expense 'Employee cost & other expenses' is increasing throughout the year.

Kumar, Hajivali and Madhusudhana (2016) threw light on the recent developments in merchant banking functions. Merchant banking is a combination of banking and consultancy services. The objective of the study was to examine the various services provided or recent developments of merchant banking. The variables are the several functions performed by the merchant banks like issue management, underwriting,

portfolio management, consultant, loan syndication, advisor and host of other activities. The merchant bankers are regulated by SEBI (Merchant Bankers) Regulations, 1992. The merchant bankers registered under SEBI into Category-I segregated as advisor, issue manager, consultant, portfolio manager and underwriter. The various roles of merchant bankers are raising finance, promotional activities, brokers in stock exchange, handling government consent for industrial projects, special assistance to entrepreneurs and small companies, services to PSU's, revival of sick units, portfolio managements of sick units, corporate restructuring and money market operations. Merchant banks also assist in leasing and financing services and helps the clients in the management of interest on the debentures or loans, as well as dividends on the shares and offers some other specialised services. The study opined that the India has a vast scope to develop merchant banking services because of lot of domestic as well as foreign business growing day by day and also recent developments in the area of merchant banking activities to boom the Indian economy. To setup flourish and expanding these firms there is an amicable environment provided by the Indian economy.

Sumathi and Meera (2019) conducted a study which focused on the recent trends and development of merchant banking in India. The objective of the study was to explore the various services provided by merchant banking like issue management, loan syndication, capital issue management, portfolio management, underwriting of capital issues, consultant, advisory services for capital restructuring through mergers, amalgamations & takeovers, venture capital financing and other activities. The study is based on secondary data through various sources. The study opined that for the development of economy merchant banking plays an important role, it gives various opportunities to domestic as well as foreign markets by providing various services to enhance their business. Merchant banking easily avail finance and support the newly setups. By providing funding and non-funding activities it encourages entrepreneurs and companies.

Rachana and Nazneen (2021) performed a study to understand the functioning of public sector and private sector merchant banking companies. They try to identify the needs of the investors and corporate sector

and advice entrepreneurs what to do to be successful. The objective of the study was to do analysis of collected information and do a comparison between the two categories to find out which category has more growth potential in present scenario as well as in future. The determinants taken to compare the financial position of public and private sector were- operating profits. Profit after tax, gross profit of 5 years. To meet this objective MSE tools is used. The study revealed that the operating profit of SBI increases and decreases in HDFC and profit after tax increase in BOI and decreases in AXIS and gross profit increases in BOB and decreases in ICICI.

Objective of the Study

The main objective of the study is to evaluate the financial performance of merchant banking activities in SBI Capital Market Ltd.

Following are the sub objectives of the study:

- To assess the financial performance of merchant banking of SBI Capital Market Ltd. in India.
- To evaluate income and expenditure of SBI Capital Market Ltd. engaged in merchant banking activities.

Research Methodology

The study was based on the main source of income and expenditure to evaluate the financial performance of merchant banking. The income includes those variables which were the part of merchant banking in SBI Capital Market Ltd. viz. merchant banking advisory fees, income from securities, lease/hire purchase income and other income. The expenditure includes those variables which are the part of merchant banking in SBI Capital Market Ltd. viz. employee cost, depreciation and amortisation, provisions & non-operating expenses, interest expenses, other expenses. Data was collected from the annual reports of the bank, RBI's publication, previous research studies and other websites. The period of the study was from 2015-16 to 2019-20, dealing with financial year data. Selection of State Bank of India was an interesting task as it possesses a long history once it was established in 1955 and SBI Capital Market Ltd established in 1986, to evaluate the financial performance of merchant banking in India.

Table-1: Statement Showing of Income Under Different Heads from FY 2016 to FY 2020

Heads of income	2016	2017	2018	2019	2020	5Years Total	Average	Total Percentage	CAGR %
Merchant Banking, advisory fees	599.24	433.73	396.47	248.48	316.33	1,994.25	398.85	77.48 %	-11.99
Income from Securities	35.99	36.31	63.59	49.66	69.96	255.51	51.102	9.92 %	14.21
Lease/ Hire Purchase income and other Income	48.67	45.85	80.06	92.65	56.79	324.02	64.804	12.58 %	3.13
Total Incomes	683.9	515.89	540.12	390.79	443.08	2,573.78	514.756	100.00 %	-8.31

Sources: Compiled from annual reports of SBI Capital Markets Ltd.

Compound Annual Growth Rate (CAGR)

$$\text{CAGR} = (\text{Ending Value}/ \text{Starting Value})^{1/N} - 1$$

As depicted in Table -1 and Figure 1, it can be observed that the Income from securities of SBICAP Market Ltd. bank shares the least percentage of the total income of the company, however, it has shown a consistent increasing trend during the study period with a slight dip in the year 2019. Although it shares the least percentage of the total income it shows a remarkable 14.21 percent cumulative growth during the period.

The lease/hire purchase income and other income

(Table-1 and Figure 2) has shown an inconsistent trend throughout the study period. However, the CAGR of 3.13 depicts that the company has shown a positive growth in lease/hire purchase income and other income.

The merchant banking and advisory fees (Table-1 and Figure 3) has shown a consistent declining trend from FY 2016 to FY 2019 and thereafter has shown a slight increase in FY 2020. Although it has the maximum share in the total income of the company, a negative CAGR reflects a concerning position and due diligence is required to elevate the highest source of income for the company.

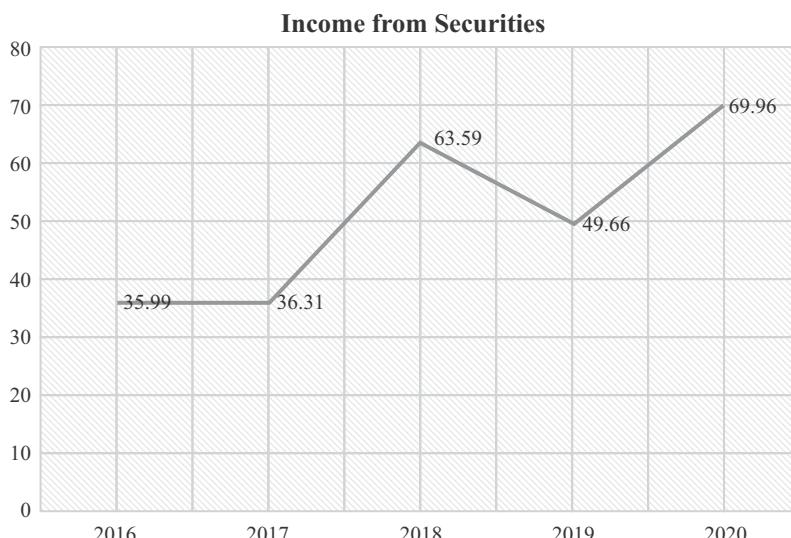


Figure 1: Income from Securities of SBICAP Market Ltd. from FY 2016 to FY 2020



Figure 2: Lease/ Hire Purchase Income and Other Income from FY 2016 to FY 2020

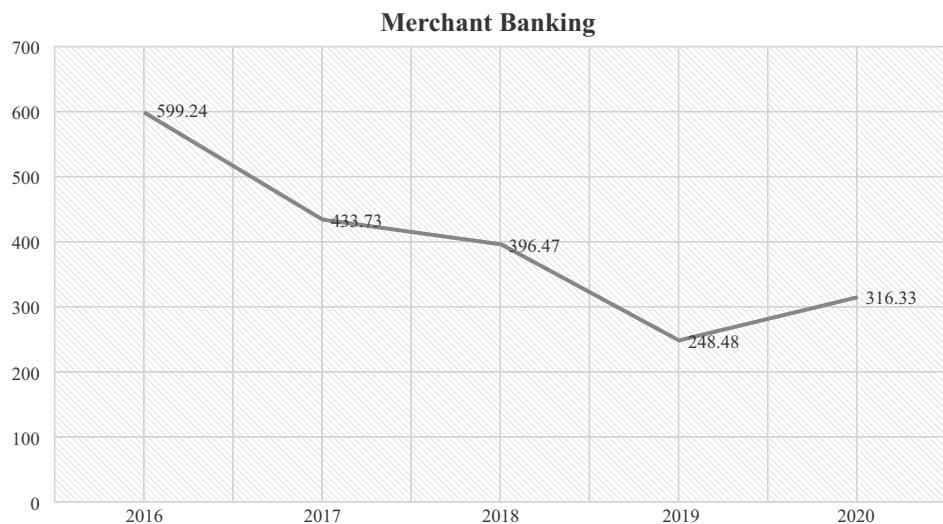


Figure 3: Merchant Banking Advisory Fees of SBICAP Market Ltd. from FY 2016 to FY 2020



Figure 4: Five Years Total Income of SBICAP Markets Ltd. from FY 2016 to FY 2020

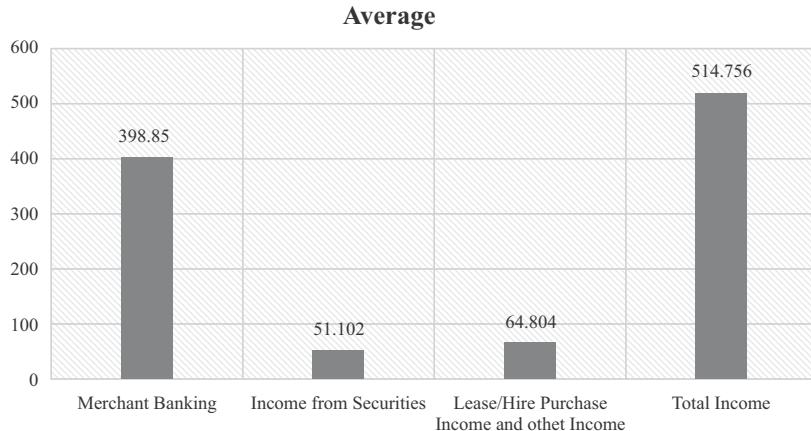


Figure 5: Average Income of SBICAP Markets Ltd. from FY 2016 to FY 2020



Figure 6: Total Percentage of Various Heads of Income of SBICAP Markets Ltd. from FY 2016 to FY 2020

Table-2: Statement Showing Expenditure under Different Heads from FY 2016 to FY 2020

Heads of Expenditure	2016	2017	2018	2019	2020	5 Years Total	Average	Total Percentage	CAGR %
Employee Cost	108.16	96.56	110.15	64.42	90.88	470.17	94.03	49.07%	-83.20
Depreciation and Amortisation	9.59	.99	8.51	5.6	4.92	38.61	7.72	4.02%	-89.74
Provisions & Non-Operating Expenses	49.72	32.64	17.14	-	1.59	101.09	20.20	10.55%	-99.36
Interest Expenses	-	-	0.32	5.80	0.20	6.32	1.26	0.65%	-100.00
Other Expense	91.14	64.13	54.65	69.65	62.39	341.96	68.39	35.68%	-86.31
Total Expenditure	258.61	203.32	190.77	145.47	159.98	958.15	191.63	100.00%	-87.63

Sources: Compiled from annual reports of SBI Capital Market Ltd.

Compound Annual Growth Rate (CAGR)

$$\text{CAGR} = (\text{Ending Value} / \text{Starting Value})^{1/N} - 1$$

As depicted in Table-2 and Figure-7, it can be observed that the expense of Employee Cost has shown an

inconsistent trend throughout the study period. However, the CAGR is -83.20.

The Depreciation and Amortisation Expense (Table-2 and Figure-8) has shown a slight increase in the FY 2017 and thereafter has shown a consistent declining trend

from FY 2018 to FY 2020. However, the CAGR is - 89.74.

The Provision and Non- Operating Expense (Table-2 and Figure-9) has shown a consistent declining trend throughout the study period. However, the CAGR is - 99.36.

The Interest Expense (Table-2 and Figure-4) has shown an inconsistent trend from FY 2018 to FY 2020. However, CAGR is -100.

The Other Expense (Table-2 and Figure-10) has shown a consistent declining trend from FY 2016 to FY 2020 with a slight upsurge in FY 2019. However, CAGR is - 86.31.

Although the analysis reflects a favourable position of the company through its overall declining expenditures, the inconsistency in the trend puts a question on the efficiency of the company in managing its expenditure.

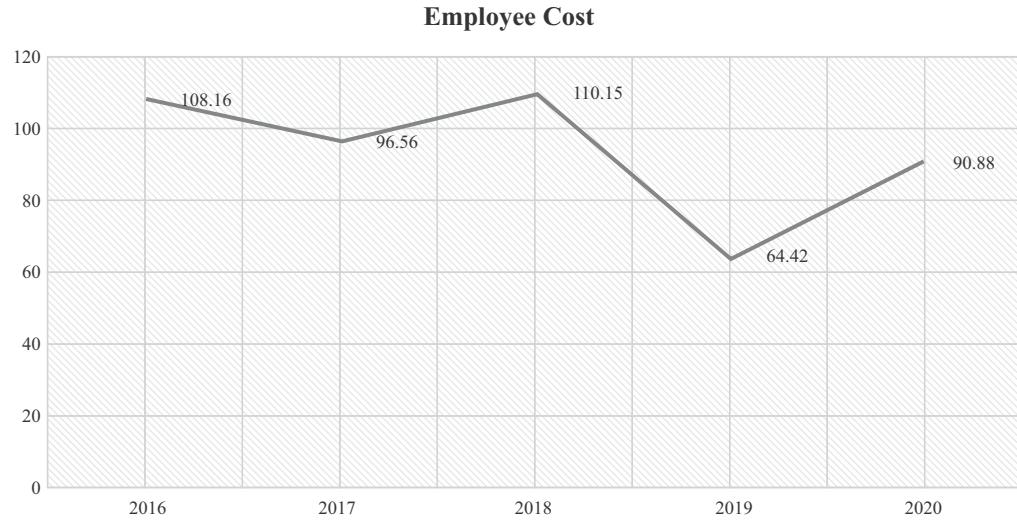


Figure 7: Employee Cost from FY 2016 to FY 2020

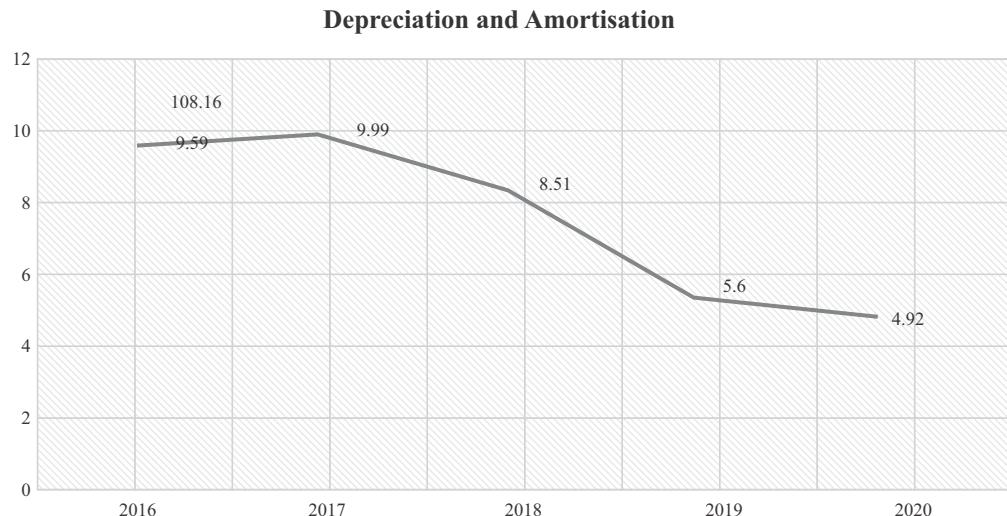


Figure 8: Depreciation and Amortisation from FY 2016 to FY 2020

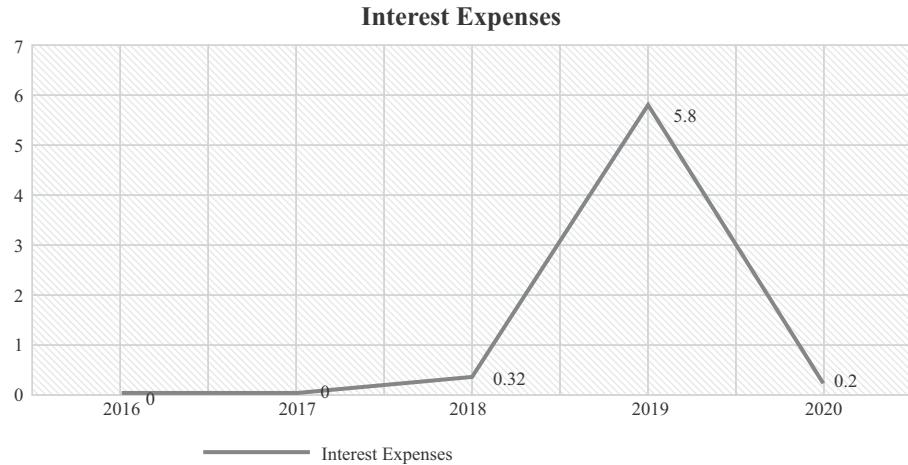


Figure 9: Interest Expenses from FY 2016 to FY 2020

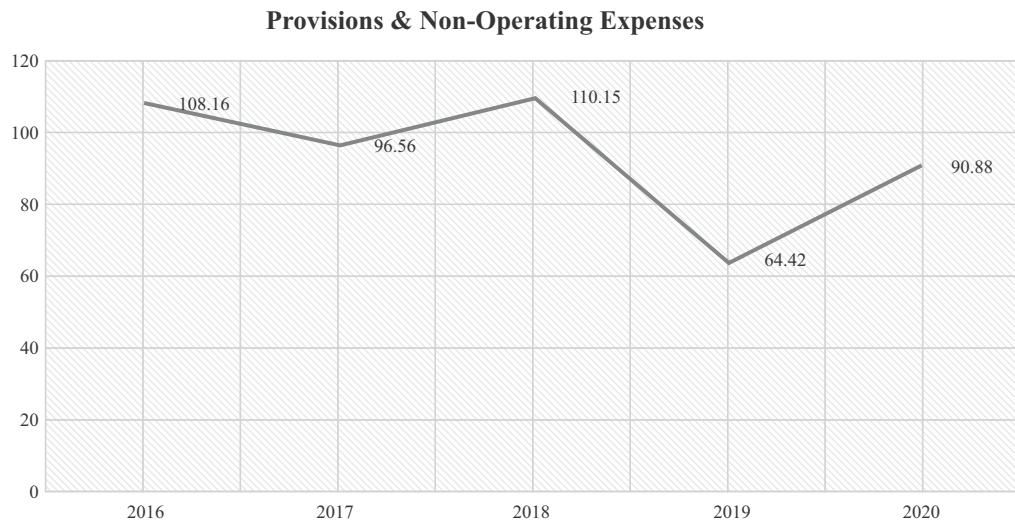


Figure 10: Provision & Non- Operating Expenses from FY 2016 to FY 2020

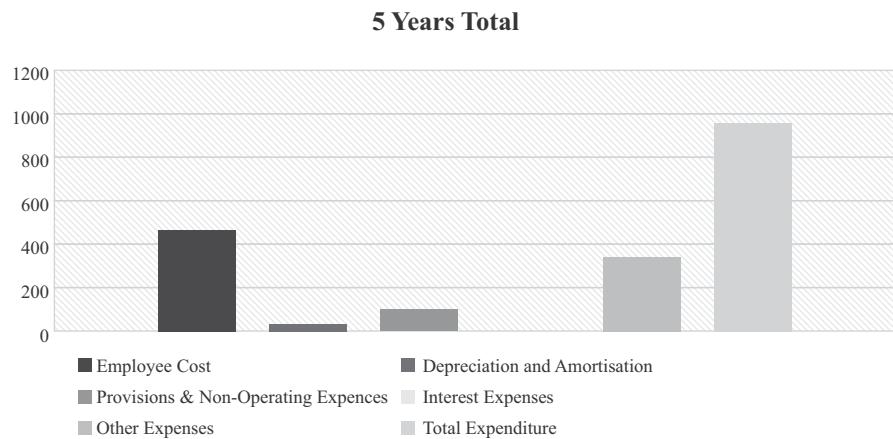


Figure 11: Five Years Total Expenditure from FY 2016 to FY 2020

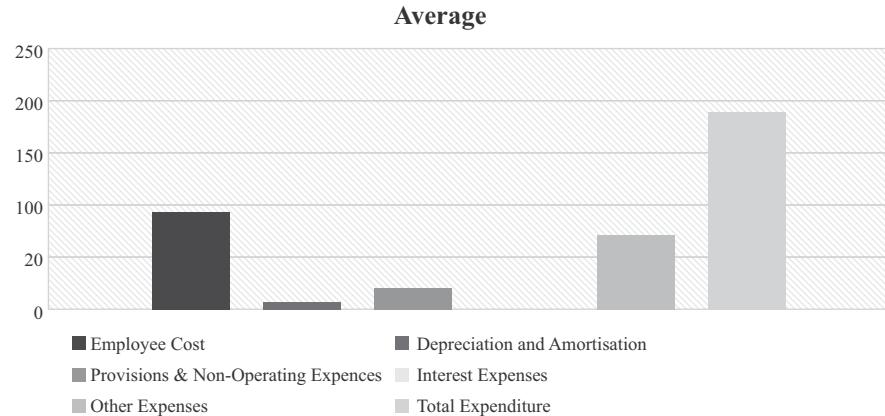


Figure 12: Average Expenditure from FY 2016 to FY 2020

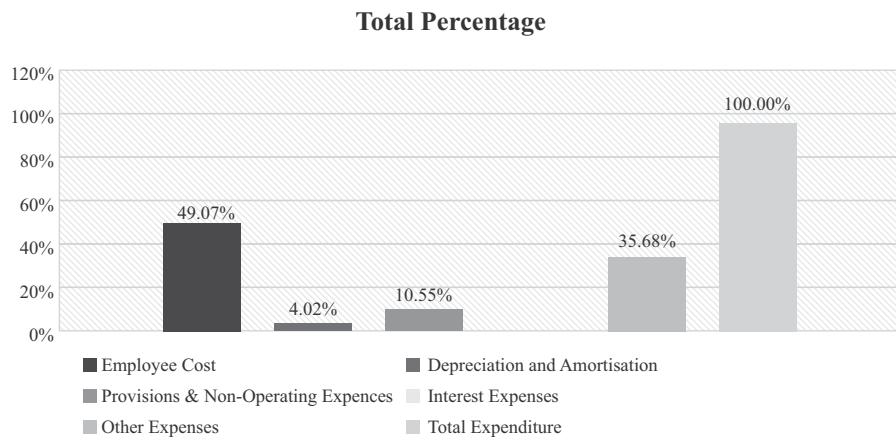


Figure 13: Total Percentage of Expenditure from FY 2016 to FY 2020

Conclusion

Merchant banking in India has made a rapid progress and plays a major role in the development of modern economic activities. One of the major marketing institutions SBI Capital Markets Ltd. has made constant innovation and provide unique fund-raising propositions. The company has bagged the award of being the best loan advisor and the best project advisory company of India.

In the view of the same, the current study has analysed the recent performance of SBI Capital Markets Ltd. in terms of the income and expenditure of the company. The analysis of the study suggests that the income and expenditure of the company shows an overall declining trend due to company's internal inefficiency. Declining expenditure is a good sign for the company but on the other hand income is also declining which could be due to external factors at play. Moreover, the major sources of income are declining which is not a positive sign for

the company.

The present study suffers from various limitations. Firstly, more merchant banking companies can be included in the study so as to bring more robustness and generalizability to the results. Secondly, the period of the study can be increased for a clearer view of the performance scenario. Further, the study is limited to the trend patterns of the performance variables, however, relational analysis could provide practical solutions to the performance drawbacks of the company.

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