

Investment Banking-The Road Ahead



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The global financial scene is witnessing a number of apparently unrelated developments that, when taken together, form a fascinating picture.

1. Change in India's position in the Global market

While Investment Banking globally is witnessing changes, the way the Western world has started to look at India is

changing at a much more rapid pace. Deal or No Deal – India Inc. is always in the news and so is the Investment Banking fraternity.

- The Wall Street Journal is the latest in the Western financial media to put in perspective the role of emerging markets in Global economic order. In its daily a few days ago it pointed out that countries such as India and Brazil are taking a larger piece of the mergers-and-acquisitions (M&A) pie. Emerging-market M&A activity in 2008 so far is up 17 percent over last year at this time, to \$218 billion, while for the rest of the world it is down 43 percent, to \$991 billion. Companies in developing economies, flush with cash, are striking deals, in many cases snapping up established Western companies that have fallen on hard times.
- India and Indians are also waking up and getting prepared for this increased 'attention'. Human capital has never in the past been so much in demand and also 'valued' and 'fought for'. The world recognizes this 'treasure' and is being aggressive to not miss out on the talent pool.

2. Change in Customer Requirement

Investment Banking has always been close to monitor the requirements of their clients – be it Corporate or institutional. In fact many a times they may be ones who sow the seeds of necessitating the change. Clients have also evolved in to a much aware species today with many of them now 'articulating' rather than 'reacting'. This is keeping Investment Bankers on their toes and in a way geared to continuous innovation.

- As companies go global and information exchange is across boundaries, companies and their owners and stakeholders interact with other counterparts in numerous 'conferences' they also become aware of

options and rights. This is also a stimulus for proactive managements to have access to different options of capital sourcing and myriad ways of 'structuring investments' aimed at capital efficiency.

- The purposes of seeking access to efficient means and new sources of capital have been changing. From the traditional capital expansion and working capital needs, now its financing acquisitions, using the hedging and also the corresponding arbitrage opportunities in an increasingly globally integrated financial exchanges. Avenue of raising funds from IPOs to private capital to High Networth Individuals, to Corporate treasuries, to fixed income funds have been increasingly used and also a combination in different global markets from time to time.
- While Indian Banks today can finance acquisition of overseas acquisitions by Indian companies, the regulation has not yet evolved on providing a similar avenue for domestic acquisition by an Indian company. Corporates are using innovative structures to meet this apparent gap in availability.
- Investment Banking is continuously working to see if it can create options for all types of corporates and not just the larger ones. And the corporates would like to see Investment Banks also invest in some of recommendations that it makes. With sophisticated investors backing deals, the role of structured finance in transactions is becoming increasingly important and leveraging has becoming an attractive option for funding acquisitions.
- No longer is the owner/promoter the traditional family or the entrepreneur. As corporates evolve, institutions and private equity funds increasingly drive up these requirements as well facilitate the growth aspirations by using skills – technical and financial to bridge the gap. Investment Banks are the ones who use access and knowledge of these stakeholders who can be introduced in a 'situation' to help a company and then can again play a role in their 'planned exit'.

3. Change in Regulations

While the pace may be argued by some as one which needs to keep up, the reality is that we are witnessing such changes.

- Be it the capital markets, the companies act, the banking act or norms relating to inward and outward investments, changes are being debated, proposed and implemented driven by the changing market dynamics and the differing requirements of corporates doing business in India.

- Regulators are also investing in getting to know of what is happening around the world which may impact the economy and are also building teams and organizations to meet the growing demand of guidance in the exploding business in Indian trade and commerce.
- Investment Banks have more often been the vital links in establishing this dialogue and discussions with regulators and other governing agencies. This increases the level of responsibility that the Investment Banking fraternity has to shoulder. And we see this as only growing in future to make the markets broader, transparent and robust.

4. Change in the Competition

Globalisation has also meant that Goliaths have myriad types of Davids which they need to be aware of and strategise to retain competitive advantage. A supplier of the past can soon become a competition by forward integration when he has ability and access to raise capital and when opportunities to consolidate are driven across the world to keep efficiencies.

- As the world moves to a different level competition will only keep the economy efficient. Inorganic growth and increasing access to new avenues of capital have been areas used by the aggressive ones to go a step up in competition. The Indian companies aren't shy any longer to go out and see if it can do a deal.

That's why you have today the Small and Medium Enterprises and the mid market listed companies contribute substantially in volumes to such M&A and fundraising plans.

- Corporates are raising funds simultaneously in different geographies and also structuring such investment with capital efficiency as the cornerstone. Investment Banks tend to drive such cross movement of capital to make it count and not let capital be idle at any point of time.
- The intermediaries and investment banking fraternity is also evolving. No longer is this the bastion of the large bulge bracket International outfits. Local investment banks, regional or sector focused boutique banks, chartered accounting firms and the Big4 apart from the individual 'munshi' have donned the role of an Advisor. The competition is extremely fierce and faces with a plethora of such multitude of advisors. Corporates are increasing trying to find the 'Google' of Investment Bank – a one stop shop which can meet all their dynamic requirements.

All of this leads us to believe that to see how Investment Banking will be in the future the most visible form will be to look upon what Investment Bankers are doing within the changing macro-economic environment. As it's said Investment Banking is what Investment Bankers do.
