

The Rise of Merchant Banking in India: A Journey Through Capital Market History



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The pre and post-independence Indian business groups worked like conglomerates. They were run by the managing agency houses. This ended in April 1970. The managing agencies had an in house expertise in raising monies though initial public. They had a resources to take care all the necessary formalities require for a public issue. There existed a concept of house brokers who were stock brokers. Their role was limited to marketing

and popularizing the initial public offer.

For example. The stock brokerage firm of Bativala & Karani to Tatas and Mahadevia Brothers to Mafatlal. As far as the Birla's, they had quite a few house brokers and traditionally met the Birla Patriarch for high tea every day. The senior Birlas also dabbled in the stock market.

In UK there were a clutch of Merchant Banking houses, who had been in existence for centuries, They had access to large capital they discounted trade bills and even raised foreign sovereign debts, while some even financed wars. The same profession in US was more aptly described as "Investment Bankers."

The concept of merchant banking arrived in India only in mid 1970's. The pioneer was the Grindlays Bank. This was followed by the entry of young and educated stock brokers who joined the long standing family firms. Most of them except one were commerce graduates from Sydenham College of Commerce and came on the scene in 1974. Like the large C A firms. they were called as the "BIG 4"

The coming of age of four brokers who turned into merchant bankers. They were. HL Financial Consultants. (Hurkison Dass Lukhmidas) Champaklal Investment & Financial Consultancy Ltd (Later CIFCO Ltd) (Champaklal Devidas.) JM. Financial Consultants.(Jamnadas Morarjee) and DSP Consultant (D S Purbhoodas & Co). A new beginning was made in the professionalization in the Merchant Banking Space.

During World War II saw the establishment of the office of the Controller of Capital issues(CCI). They oversaw the working of recognized stock exchanges and was the precursor to what is now Securities Exchange Board of India., The concept of CCI was limited to the Indian sub continent. CCI gave sanctions to Public issues over Rs 25 lacs and they also were responsible for valuing the issue price if it was issued at a premium. The CCI was extremely conservative in their method of valuation. The merchant bankers were required to travel to Delhi for obtaining sanction for and for valuation. The nascent firms also started recruiting professionals like Chartered

Accountants, Lawyers. Company secretaries. In course of time they became indispensable cog in the wheel. The present day Merchant Bankers were mostly Bank sponsored came much later. SBI caps. Citibank Canara Bank started quite late. In the initial years. These organizations took to help of the established stockbroker converted into merchant bankers to kickstart their operations.

In the period 1970-1980, there was a sea change in the capital market of this country. The main reasons were due to 3 events.

1 Foreign Exchange Regulation Act, which required existing multinational companies to dilute their shareholdings. They had to seek the permission of CCI for the valuation, which was far too low compared to his actual worth. The beneficiaries were the new breed of punters/ investors who put in multiple applications to get some allocation.

The investor base thus increased several fold.

2. Non resident investment scheme. Till 1975. Indians overseas were not permitted to invest. In the stock market without a specific RBI approval and that too on a non-repatriable basis. One of the IPO was Apollo Tyres Limited which was to be managed by the author as a managing broker. Apollo required a bank guarantee from State Bank of India (SBI) in favour of Exim Bank of America for purchase of machinery. SBI insisted that the merchant banking assignment was condition precedent if they wanted a guarantee.

The promoter Ronak Singh was in a fix, the new issue market was very weak. The SBI had the financial muscle but lacked expertise in reaching investors. This author surrendered his managing broker ship for the issue. He agreed to come out with an innovative scheme to attract investment from the untapped Gulf market. At that time he received an inland letter from a Keralite from Abu Dhabi. asking if he could invest Rs 2,00,000 in the issue. At that period of time, for such an investment, he would have gone to the airport to receive him. It took 6 months of research and single handed lobbying with Govt and RBI to open up the capital market for non-residents. In a momentous meeting in the room of then Governor of RBI- consisted for 4 people, The Governor, Exchange Controller, Raunak Singh and this author, history was made for the capital market, while the country was still under the dreaded emergency.

3. Dhirubhai Ambani and Reliance IPO gave a boost to the capital market as investors made money. The company in a few years achieved a shareholder count of 30,00,000.

Some Epic issue

The IPO of Southern. Petrochemical Industries Corporation (SPIC)

This was a large fertilizer company and whereas the entire loan and institutional. underwriting was tied up; their managing brokers could not tie the broker underwriting Rs 80,00,000. It was in the middle of the 1971 war. At

an interaction at Taj Mahal Hotel. The CEO made an appeal to the stockbrokers that he needs support in “national interest”. A gamble was taken and 4 brokers met for on a Sunday. They were Lewis & Jones , Champaklal Devidas ,L.K Panday and Jamnadas Morarji when each committed Rs20,00,000 each. The issue sailed through against great odds.

The IPO of East India Hotel Ltd

The legendary hotelier Rai Bahadur M S Oberoi was allotted a plot still undersea at Nariman Point which was being reclaimed. Only one 5 star the Taj Mahal Hotel existed at the time . The balance sheet of the company was very weak and no Bank or financial institution would touch it with a pair of tongs. This was perhaps one of the most challenging IPO issue. Mr. Oberoi was a very optimistic person and went to any extent to make the Hotel Trident a reality..

Mr. LK Panday whom I used to call as a one man office, my firm Ms Champaklal Devidas, plus , one investment strategist CP Merchant decided to take a challenge We literally marketed the shares on the streets. Roadside urchins were employed to push the forms into the car waiting at traffic lights. Mass scale mailing was also done. I recollect an incident when Mr R S Bhatt Chairman of UTI went to buy a cake and the girl at the counter suggested he should invest in East India hotels. Mr Bhatt wrote a stinker to this author saying this was no way of selling shares. One more spark of an idea came to us that at that stage. East India Hotel with a capital of just Rs 1 crore was taking deposits of Rs 12 crores from the public through small time brokers. A tea meeting was arranged for such small agents, when 800 people attended. We offered to share our commission. They were so loyal to the Oberois, and they went out of the way to sell the shares. Thus, the system of sub broker was invented . The unique strategy resulted in 4 times oversubscription We as a team had the last laugh while all around were skeptical.

IPO of Apollo Hospitals Ltd

While in Chennai the author had a call from Dr Pratap Reddy requesting him to manage an issue of a corporate hospital. His reaction was outright negative Dr Reddy tried to reason that hospital was like a hotel and if one can manage Oberoi Issue, it was not difficult to manage a hospital issue and gave a presentation. The author was not comfortable, but his colleague. Mr. Kamlesh Gandhi convinced him to take the plunge. The author pitched for overseas Indian Doctors for just US \$5000 each. In spite of the herculean effort. The issue was slightly under

subscribed but the rest is history.

For many years the merchant banking community was small ,there was a camaraderie between them. Also almost all Fera dilutions were managed by either Grindlays or CIFCO. There was an unwritten arrangement that we will not try to poach clients , The “BIG 4”.ruled the market for some time. The very first IPO issues of all the. BIG 4 bankers were disasters. All learnt by mistakes. JM Financial made its mark for launch of convertible debentures of. Telco.

The size of the market has grown exponentially. SEBI has replaced CCI . Today the Merchant bankers are regulated. The budget of 27 July 1991 created an history The then FM Dr Manmohan Singh liberalized the economy. As on today. H. L and Cifco disappeared for different reasons. DSP Consultant was taken over by Merrill Lynch and now to BANKAM. The only one from the original 4. which is still surviving and doing well is JM Financial Consultants

There has been many changes. Amongst a bunch of bankers. Consolidation and takeovers. Enam Securities made a good name in the market but was bought over by Axis Bank.

What is it today

The Office of CCI oversaw the capital market with a dozen officers . Today SEBI has around 1000 The market is regulated or I may dare say sometimes over regulated. The. 30-page prospectus is expanded to 500 pages and named DHRP . It contains a lot of information that has less relevance to the investors , The size of issues has grown very large . The good thing is that the allotment takes place in less then a week unlike the past when applicants money would get locked for 2 months . The role of brokers -underwriting has disappeared and replaced by book building process

The capital market in India has undergone a sea change. There are more players. From overseas financial institutions. The growth of the mutual fund industry in India has been a great achievement in channeling savings. The market has come of age and now linked to world markets .

The Merchant Banking industry in India, both domestic as well as from overseas has made a strong presence in the present capital market.

Suffice it to conclude that India will get its rightful place in the capital markets

All the intermediaries such as Merchant Bankers , R & T agents , Specialized printers and advertising agencies and stock brokers should do well with the roles constantly changing but all going towards Viksit Bharat by 2047 .