A Study on the Role of Investment Banks in the Economic Development of India

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Abstract-*An Investment Bank is a financial intermediary which specializes in the field of selling securities and underwriting the issuance of new equity shares to raise capital funds. Investment Banking is a special segment of banking operations that helps individuals or organisations raise capital in the primary market, where new securities are issued and occupy a significant role in the secondary market by acting on behalf of their clients. Investment banks underwrite new debt and equity securities for all types of corporations and help in selling securities and facilitate mergers and acquisitions for institutions and private investors. Investment banking organization performs the role of an intermediate between investor and capital market. Investment banking has become significant in Indian capital market on the basis of so many factors which includes awareness of the investment banking among investors and the various other functions performed by the investment banks. The Research paper aims to show the role of investment banks in the present scenario. The present study is descriptive in nature and used secondary data. The study shows the growth, development, functions and the role of investment bank in the Indian Economy. The main objective of the study is to find out how investment banks increase the resources in the country and its role in economic growth. It analyses the various functions performed by investment banks. Investment banks match those selling securities with those investors. Investment banks add liquidity to the market. Investment banks remove deficiency of capital by stimulating savings and investment. It mobilizes small and scattered savings of the community and makes them available for investment in productive enterprises. It is concluded that the role of investment banks in the economic development is significant.*

Keywords: Investment Banks, Economic Growth, Indian Economy, Liquidity, Primary Market

I. INTRODUCTION

An Investment Bank is a financial intermediary which specializes in the field of selling securities and underwriting the issuance of new equity shares to raise capital funds. Investment Banking is a special segment of banking operations that helps individuals or organisations raise capital in the primary market, where new securities are issued and occupy a significant role in the secondary market by acting on behalf of their clients. They act as intermediaries between security issuers and investors and help new firms to go public. Investment banks provide various types of financial services such as proprietary trading or trading securities for their own accounts, mergers and acquisitions advisory, leveraged finance that involves lending money to firms to purchase assets and settle acquisitions, restructuring that involves improving structure of companies to make a business more efficient and help it make maximum profit and new issues or IPOs where these banks help new firms go public. Investment banks are split into Front office, Middle office and Back office. Each sector is very different yet plays an important role in making sure that the bank makes money, manages risk and runs smoothly. The organisation structure of investment banks are described as follows:

Front Office: plays a very important role in the investment banking firm and is also described as the highest revenue generating department. It is further divided according to its major activities as Investment banking (helps its clients to raise capital from the market and guides them on mergers and acquisition and strategy formulation) Sales and Trading (according to which investment bank plays the role on behalf of its clients and sell the securities to the investors through its own risk.) Research (under which investment banks review the companies and write reports about their prospects in a legal document to protect both sides from making bad investment.

Middle Office: includes treasury management which is responsible for its funding, internal controls, compliance with the rules and regulations formed by the Government. Internal corporate strategy which tackles the firm's management and profit strategy and liquidity risk monitoring to analyze the firm's capital flows i.e. keeping a watch on the inflows and outflows of cash so as to have fair idea about the liquidity of the firm. It also includes product control teams.

Back Office: Back office services play an important role in the field of operations and Technology. They handle trade confirmation, checking dates, ensuring that right securities are being bought and the complete availability of the required software and technology. Their services are critical to the functioning and success of the investment banking firm.

II. OBJECTIVES OF THE STUDY

- To find out how investment banks increase the resources in the country.
- To analyse the various functions performed by the investment banks.
- To understand the role of investment banks in capital formation and economic growth.

III. IMPORTANCE OF INVESTMENT BANKS IN THE DEVELOPMENT OF THE COUNTRY

The role of investment banks in the present scenario is significant. Investment banks provide valuable services to a country. Investment banks are critical agents of capital formation and price setting. Government and large companies rely on investment banks to mobilise funds. Investment banks are considered as intermediaries or middlemen as they add liquidity to a market. By matching producers with savers, financial development becomes more efficient and business grows faster. Investment banks work with commercial banks and help to determine prevailing market interest rates. The market rates of interest determine how profitable it is to save and how expensive it is to borrow. For the development of the country a sound financial system is inevitable. Some of the important role of investment banks in the development of a country is explained as below.

- Capital Formation and Promote Industry

Capital is one of the most important aspects of any business or industry. It is the life blood of the business. Investment banks remove deficiency of capital by stimulating savings and investment. It mobilizes small and scattered savings of the community and makes them available for investment in productive enterprises.

- GDP Growth And Investment Banking

Investment banks make direct and indirect investment in the economic development of India over the years. The amount generated by investment banks increase as years pass and provide healthy contribution in GDP growth.

- Create employment opportunity

Creation of employment opportunity is significant for a developing country like India. Investment banks can play an important role towards employment creation. As the number of investment banks increase with increased volume of business, it creates employment opportunity in the country. More employment opportunities are created by generating capital fund for different industries. Growth in the investment sector generates more employment which helps in the overall development of the country.

- Infrastructure Development

Government undertakes project for the infrastructure development of the country. For the implementation of the project funds are required. Investment bank can generate fund for infrastructure development projects undertaken by the Government which boosts the development of the economy.

- Technological Improvement

In the present digital era technology plays significant role. Investment banking activities always work with new technology. Every major investment bank has considerable amounts of in-house software created by the technology experts who are also responsible for technical support. Technology has changed considerably in the last few years as more sales and trading desks are following electronic trading.

IV. FUNCTIONS OF INVESTMENT BANKS

- Research Services

Investment banks provide research services to its clients which includes giving advice on buying and selling of securities, financial statement analysis, financial forecasting, financial modeling . Investment banks provide not only equity research services but also it provides fixed income research, financial research, economic research and analytical support across various asset classes, markets and client segments. Majority of the banks have staff of research analyst's who studies economic trends and news, individual company stocks and industry developments to provide prosperity investment advice to institutional clients and in-house groups.

- Sales and Trading

This sales and trading activity in investment bank is much different. Investment banks deals with sales and trading of securities in secondary market. Investment banks are a bridge between large enterprise and the investor. Their main roles are to advise business and governments on how to meet their financial challenges and to help them procure financing from stock offerings, bonds issue or derivative products.

- Raising capital

As a financial intermediary investment banks helps his clients for raising capital through IPO and FPO process or private placements. They primarily help their clients for raising money through debt and equity offerings. As above mentioned this includes raising capital through IPO (Initial Public Offerings), Private placements, or others on behalf of the client. Investment banks earn revenue through consulting fees. Client's takes help of investment banks for capital raising.

- Underwriting

Investment banks provide underwriting of securities and broking related services for their clients.

When an investment bank underwrites equity or any debt instrument, then investment banks ensures his clients that investors will purchase his newly issue of stocks. Investment banks plays intermediary role between his client and the investors.

- Merger and Acquisition

This is one of the major functions which are performing by an investment bank. Investment banks provide advisory regarding to merger and acquisition to its clients. Investment banks create different merger and acquisition models. Investment bankers do accretion or dilution analysis to analyze company. Also Banks check synergies analysis. Investment banks have their separate mergers and acquisitions section that functions within their corporate finance departments. The major function of this department is to undergo market research and find out firms having excess cash which enables them to buy other firms which are willing to sell their entities due to various reasons. The investment banks around the world are now adopted a new tactic in which they offer package for financing the entire process of mergers from

- Risk Management

Risk management is a continuously ongoing process which involves analysing the market risk and credit risk that an investment bank or its client takes onto their balance sheet during transaction or trade. It helps on setting limits on the amount of capital that they are able to trade in order to prevent bad trades having a negative effect. Credit risk focuses around capital market activities and market risk conducts review of sales and trading activities.

V. ROLE OF INVESTMENT BANKS IN ECONOMIC DEVELOPMENT

1. When the company holds its IPO investment banks will buy all or much of that company's share directly by acting as an intermediary and subsequently sell the shares into the public market creating immediate liquidity.
2. Advise businesses and Governments on how to meet their financial challenges and to help them procure financing from stock offering, bond issues or derivative products
3. Helps to determine how to price these instruments by utilizing different financial models.
4. Investment banks act as middlemen between a company that wants to issue new securities and the public who buy the securities.
5. Investment banks like JP Morgan and Goldman Sachs manage huge portfolios for pension funds foundation and insurance companies through their management department. Their financial experts assist in selecting the right mix of stocks, debt instruments, and real estate to achieve their clients' unique goals.
6. Foreign currency revenue plays an important role for a country. It reflects the country's overall financial strength. Investment banking plays indirectly in the foreign currency revenue as they help to enhance export through their investment activities.

VI. CONCLUSION

The role of banks in the economic development is to remove the deficiency of capital by stimulating savings and investment. A sound banking system mobilizes the small and scattered savings of the community and makes them available for investment in productive organisations. With the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025, India's banking and financial sector is expanding rapidly. Investment Banking helps individuals or organisations raise capital and provide financial consultancy services to them. Investment banking is the most complex financial mechanisms in the world. Bank of America, Barclay's capital, Citigroup Investment banking, Deutsche bank, JP Morgan, Goldman Sachs are some of the largest investment banks in India. Investment Banks are critical agents of capital formation and price setting. Investment banks influences the rate of economic growth because it is a component of aggregate demand and more importantly influences the productive capacity of the economy. Investment bankers generated the fees from 24 IPOs in which companies raised 30,850.8 crore in total according to data from the final prospectuses filed by companies with SEBI. From the analysis of the various functions performed by the investment banks as well as its role in the economic development clearly proves that the role of investment banks in the economic development of the country is significant.

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