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PERFORMANCE OF INVESTING, BANKING AND PRACTICES IN INDIA

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Abstract

Investment banking is an important constituent of the financial market. As financial institutions, banks have an irreplaceable part in the functioning of the world's economies. Together with fiscal documents and financial markets they constitute the fundaments of the financial system.

The financial market is a complicated system of interconnected relations of particular segments of the market, and investment banking is one such part. Its existence makes it possible to shift the savings of financial resources from saving subjects to ones in deficit by means of mediatory activities, which is performed with the help of various kinds of financial instruments, which are called investment instruments. The mediatory function of investment banking is a basic feature which makes a distinction between investment and commercial banking. Investment banks are main mediators that place released resources (savings) into the stock market. As is well known from the inherent laws of economy, the role of investments is crucial for a healthy circulation and functioning of the state economy. Without them the steady economic growth would be impossible. Due to these reasons I decided to analyze investment banking: its development and economic context, as well as the legal basis of these institutions and their activities in Czech system of law. In this diploma thesis I analyze particular aspects of investment banking and at the same time I point attention to regulations that might lead to interpretation problems.

Keywords: *Investment, Capital Markets, Risk.*

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INTRODUCTION:

Investment banking is a special segment of banking operation that helps individuals or organizations raise capital and provide financial consultancy services to them. They act as intermediaries between security issuers and investors and help new firms to go public. They either buy all the available shares at a price estimated by their experts and resell them to public or sell shares on behalf of the issuer and take commission on each share.

Investment banking is among the most complex financial mechanisms in the world. They serve many different purposes and business entities. They provide various types of financial services, such as proprietary trading or trading securities for their own accounts, mergers and acquisitions advisory which involves helping organizations in M&As,; leveraged finance that involves lending money to firms to purchase assets and settle acquisitions, restructuring that involves improving structures of companies to make a business more

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efficient and help it make maximum profit, and new issues or IPOs, where these banks help new firms go public.

Investment banks serve a number of purposes in the financial and investment world, including underwriting of new stock issues, handling mergers and acquisitions, and acting as a financial advisor.

Other roles of investment banks include asset management for large investment funds and personal wealth management for high-net-worth individuals. Some of the major investment banks include Goldman Sachs, JPMorgan Chase and Credit Suisse.

Objectives:

1. To access the role of investing banks for growing India capital market
2. To examine the relationship between investors and capital market.

How Investment Banks Works

As their core function, Investment banks help corporations obtain debt financing by finding investors for corporate bonds. The investment bank's role begins with pre-underwriting counseling and continues after securities distribution in the form of advice. The investment bank will also examine the company’s financial statements for accuracy and publish a prospectus that explains the offering to investors before the securities are made available for purchase.

Investment banks’ clients include corporations, pension funds, other financial institutions, governments, and hedge funds. The best investment banks are usually the largest. The more connections the bank has within the market, the more likely it is to profit. The largest investment banks have clients around the globe.

Key Roles:

- Roles of investment banks include underwriting of new stock issues, handling mergers and acquisitions, and acting as a financial advisor.
- Investment banks help corporations obtain debt financing by finding investors for corporate bonds.

Underwriting New Stock Issues

One of the primary roles of an investment bank is to serve as a sort of intermediary between corporations and investors through initial public offerings (IPOs). Investment banks provide underwriting services for new stock issues when a company decides to go public and seeks equity funding. Underwriting basically involves the investment bank purchasing an

agreed-upon number of shares of the new stock, which it then resells through a stock exchange.

Part of the investment bank's job is to evaluate the company and determine a reasonable price at which to offer stock shares. IPOs, especially for larger companies, commonly involve more than one investment bank. This way, the risk of underwriting spreads across several banks, reducing the exposure of any single bank and requiring a relatively lower financial commitment to the IPO. Investment banks also act as underwriters for corporate bond issues.

Financial Advisory Roles

Investment bankers act in several different advisory capacities for their clients. In addition to handling IPOs, investment banks offer corporations advice on taking the company public or on raising capital through alternative means. Investment banks regularly advise their clients on all aspects of financing.

Mergers and Acquisitions

Handling mergers and acquisitions is a major function of investment bankers. As with IPOs, one of the main areas of expertise for an investment bank is its ability to evaluate the worth of a possible acquisition and arrive at a fair price. An investment bank can additionally assist in structuring and facilitating the acquisition to make the deal go as smoothly as possible.

ORGANIZATIONAL STRUCTURE OF INVESTMENT BANKING:

Investment banks are split up 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.

Front Office

Think you want to be an investment banker? Chances are the role you are imagining is a front office role. The front office generates the bank’s revenue and consists of three primary divisions: investment banking, sales & trading, and research. Investment banking is where the bank helps clients raise money in capital markets and also where the bank advises companies on mergers & acquisitions. At a high level, sales and trading is where the bank (on behalf of the bank and its clients) buys and sells products. Traded products include anything from commodities to specialized derivatives. Research is where banks review companies and write reports about future earnings prospects. Other financial professionals buy these reports from these banks and use the reports for their own investment analysis.

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Other potential front office divisions that an investment bank may have include: commercial banking, merchant banking, investment management, and global transaction banking.

Middle Office

Typically includes risk management, financial control, corporate treasury, corporate strategy, and compliance. Ultimately, the goal of the middle office is to ensure that the investment bank doesn't engage in certain activities that could be detrimental to the bank's overall health as a firm. In capital rising, especially, there is significant interaction between the front office and middle office to ensure that the company is not taking on too much risk in underwriting certain securities.

Back Office

Typically includes operations and technology. The back office provides the support so that the front office can do the jobs needed to make money for the investment bank.

Largest full-service investment banks

The following are the largest full-service global investment banks; full-service investment banks usually provide both advisory and financing banking services, as well as sales, market making, and research on a broad array of financial products, including equities, credit, rates, currency, commodities, and their derivatives. The largest investment banks are noted with the following:

1. JPMorgan Chase
2. Goldman Sachs
3. B of A Securities
4. Morgan Stanley
5. Citigroup
6. Credit Suisse
7. Barclays Investment Bank
8. Deutsche Bank
9. UBS
10. RBC Capital Markets
11. Wells Fargo Securities
12. HSBC
13. Jefferies Group
14. BNP Paribas

15. Mizuho
16. Lazard
17. Nomura
18. Evercare Partners
19. BMO Capital Markets
20. Mitsubishi UFJ Financial Group

Many of the largest investment banks are considered among the "Bulge Bracket banks" and as such underwrite the majority of financial transactions in the world.[5] Additionally, banks seeking more deal flow with smaller-sized deals with comparable profitability are known as "Middle Market investment banks" (known as boutique or independent investment banks).

Types of investment risk:

1. Market risk:

The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk and currency risk.

- Equity risk – applies to an investment in shares. The market price of shares varies all the time depending on demand and supply. Equity risk is the risk of loss because of a drop in the market price of shares.
- Interest rate risk – applies to debt investments such as bonds. It is the risk of losing money because of a change in the interest rate. For example, if the interest rate goes up, the market value of bonds will drop.
- Currency risk – applies when you own foreign investments. It is the risk of losing money because of a movement in the exchange rate. For example, if the U.S. dollar becomes less valuable relative to the Canadian dollar, your U.S. stocks will be worth less in Canadian dollars.

2. Liquidity risk:

The risk of being unable to sell your investment at a fair price and get your money out when you want to. To sell the investment, you may need to accept a lower price. In some cases, such as exempt market investments, it may not be possible to sell the investment at all.

3. Concentration risk:

The risk of loss because your money is concentrated in 1 investment or type of investment. When you diversify your investments, you spread the risk over different types of investments, industries and geographic locations.

4**. Credit risk:**

The risk that the government entity or company that issued the bond will run into financial difficulties and won't be able to pay the interest or repay the principal at maturity. Credit risk applies to debt investments such as bonds. You can evaluate credit risk by looking at the credit rating of the bond. For example, long-term Canadian government bonds have a credit rating of AAA, which indicates the lowest possible credit risk.

5. Reinvestment risk:

The risk of loss from reinvesting principal or income at a lower interest rate. Suppose you buy a bond paying 5%. Reinvestment risk will affect you if interest rates drop and you have to reinvest the regular interest payments at 4%. Reinvestment risk will also apply if the bond matures and you have to reinvest the principal at less than 5%. Reinvestment risk will not apply if you intend to spend the regular interest payments or the principal at maturity.

6. Inflation risk:

The risk of a loss in your purchasing power because the value of your investments does not keep up with inflation. Inflation erodes the purchasing power of money over time – the same amount of money will buy fewer goods and services. Inflation risk is particularly relevant if you own cash or debt investments like bonds. Shares offer some protection against inflation because most companies can increase the prices they charge to their customers. Share prices should therefore rise in line with inflation. Real estate also offers some protection because landlords can increase rents over time.

7. Horizon risk:

The risk that your investment horizon may be shortened because of an unforeseen event, for example, the loss of your job. This may force you to sell investments that you were expecting to hold for the long term. If you must sell at a time when the markets are down, you may lose money.

8. Longevity risk:

The risk of outliving your savings. This risk is particularly relevant for people who are retired, or are nearing retirement.

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9. Foreign investment risk:

The risk of loss when investing in foreign countries. When you buy foreign investments, for example, the shares of companies in emerging markets, you face risks that do not exist in Canada, for example, the risk of nationalization.

Capital market:

A capital market is a financial market in which long-term debt (over a year) or equity-backed securities are bought and sold.[6] Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments.[a] Financial regulators like Securities and Exchange Board of India (SEBI), Bank of England (BoE) and the U.S. Securities and Exchange Commission (SEC) oversee capital markets to protect investors against fraud, among other duties.

Modern capital markets are almost invariably hosted on computer-based electronic trading platforms; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. As an example, in the United States, any American citizen with an internet connection can create an account with Treasury Direct and use it to buy bonds in the primary market, though sales to individuals form only a tiny fraction of the total volume of bonds sold. Various private companies provide browser-based platforms that allow individuals to buy shares and sometimes even bonds in the secondary markets. There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically, the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong.

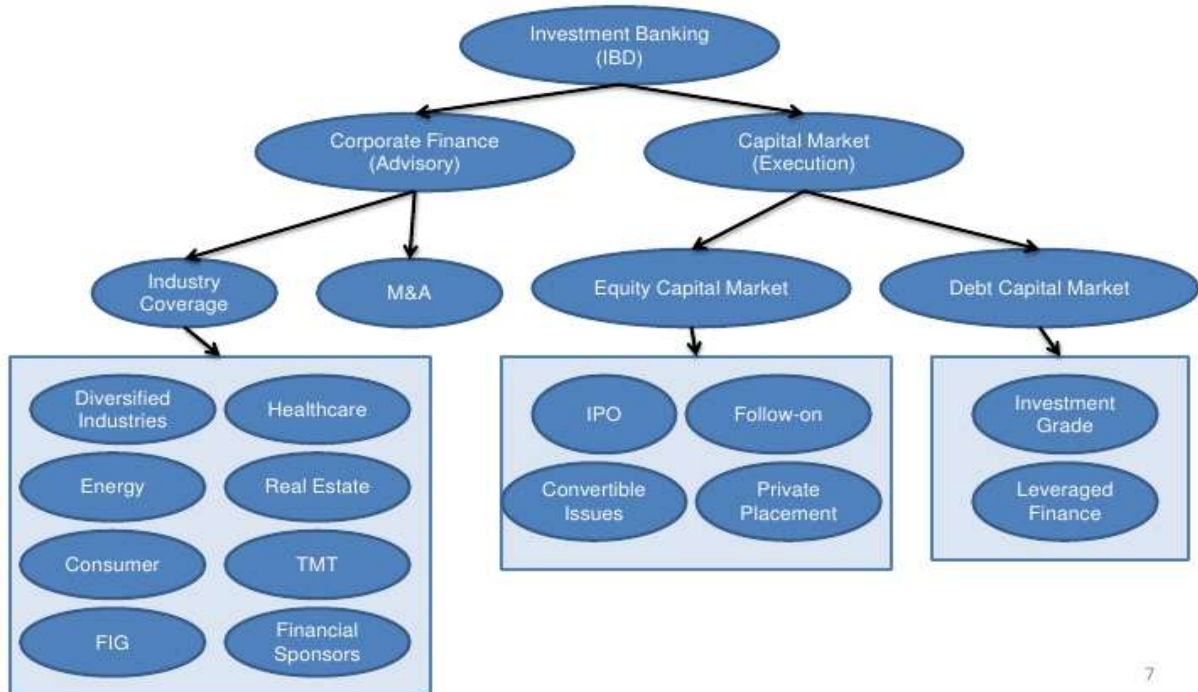
Investments Banking vs. Capital Markets - How different are they?

Capital Markets Job Description

Investment banking and capital markets go hand in hand. Each plays a role in the advisory and capital raising function of "investment banking."

Coverage / sector banking / corporate finance focus on a particular industry (TMT, Healthcare, etc).

Capital markets generally consist of equity capital markets, debt capital markets, and leveraged finance. These bankers focus on their respective products and know the markets for these products inside and out.



The investment banking division makes the product (the model) and the deck. Equity Capital Markets sells the product to investors (the syndicate).

What do people in capital markets do?

User "JustAnotherBanker" explains that:

"Desirable" work includes being constantly aware of the equity markets (if that's your thing), and there is limited pitch work."Undesirable" work includes being called upon frequently to create detailed trading-related reports for sector bankers (e.g. detailed ownership breakdowns and calculations of major shareholders' cost basis).

Capital Markets in the IPO Lifecycle

- Source the deal (coverage): Find client. Convince client that an IPO (by your bank) is a good idea. Involves pitchbooks, golf, and booze.
- Take the deal to committee (coverage): Make sure your bank is willing to take the risk (underwriting is risky).
- Negotiate fees (coverage): Set an underwriting/bookrunning fee (~7%). Set the "economics" (the fraction of fees paid to each bank on the deal), haggle over how expenses will be shared, and set provisions such as the Green Shoe (an over-allotment option that helps the underwriter to stabilize the stock price following the IPO).

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- Set a target valuation and range (coverage): Come up with a valuation using dcf, benchmarking, and public peers. The client wants a high range, the bank wants a low range.
- Refine roadshow presentation (coverage and ECM): Help management put forth the best possible pitch to institutional investors. Involves re-tooling powerpoint presentations and coaching management.
- Create prospectus (coverage and lawyers): Write up a huge document about the business, its management, its market, the risks involved, and a million other things.
- Due diligence (coverage and lawyers): Make sure the company is legit. Make sure those "factories in Taiwan" actually exist.
- Create internal offering memoranda (coverage or ECM): Turn the information in the prospectus (if there's extra, don't let the SEC find out) into the banking equivalent of Cliff Notes for the sales/salestraders in S&T so that they can stabilize the offering when it finally hits the market (days/weeks later).
- Road show (coverage and ECM): Fly around for two weeks with the client, making the same presentation 3 times per day to various institutional investors. Sector bankers prep the client for tough questions and occasionally answer the really ridiculous ones. Sector bankers schmooze the investors and introduce the client. ECM (someone at the VP+ level) provides frequent market updates. ECM "builds the book" -- they take orders from the investors.
- Pricing (ECM): The team in syndicate (a cap markets function) arrives at a final price for the IPO shares based on the order book.

CONCLUSION:

The aim of this work was to develop a comprehensive, systematic ordering and Classification of issues in the area of alternative investments connected with Wealth Management. Particular emphasis has been placed on the development of the segment of services in the countries of Central and Eastern Europe, especially in Poland.

A developed capital market contributes to the growth of wealth, for example, through more profitable investments. Moreover, it enables a more efficient flow of funds between operating entities. The market exists because of the savings that can be invested on it.

The emergence of numerous financial innovations will change the structure of the financial market. In today’s financial market, there is no longer any difficulty of access to

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different segments of the financial market in each country. Globalization, liberalization, computerization as well as improved management techniques have reduced the level of financial expenses. They have thus enabled a wider group of customers to be given individual care.

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