



## The Role of Investment Banking for Investment – A Theoretical Review

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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. 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 banking increases the resources in the country and its role in economic growth.

**Keywords:** Investment, banking, finance, capital, investor.

### INTRODUCTION TO INVESTMENT BANKING:

Investment bankers may gradually replace merchant bankers in India. SBI was the first Indian bank. Indian capital market today is lack of public-sector bank to set up its investment banking investor confidence. This is reflected in the poor division in 1972. SBI Caps and IDBI Caps are two performances of both primary & secondary markets. prime examples of investment banks in India today. The causes for existing situation are many but Currently, there are 300 investment banks primarily arise because of lack of liquidity, registered with SEBI. Currently, without holding unscrupulous issuers & merchant bankers & poor or certificate of registration granted by the Securities unapprised issues. Investment banking can solve this and Exchange Board of India, no person can act as problem because investor would be dealing with investment banker. reputed investment banker in the primary market rather than unknown issuers.

### REVIEW OF LITERATURE:

**Sakshi Goyal & Miss Chanchal Mourya (2019)** This article study about Investment banking is a combination of two words investment plus banking. This sector jointly perform the function of buying and selling of the corporate securities. They buy those securities which involves the provision of advice to various institutions which are interested in buying the securities such as private equity fund, mutual fund, hedge fund etc. moreover investment banks also guide the corporate sectors at the time of merger and acquisition(M& A). it also assist the government sector while doing investments. It makes the portfolio of the invested amount and invest in those areas which yield maximum ROI. Si this paper presents the working functions and the scope of investment banking in India

**Amitabh dugar, Siva Nathan. (2018)** This study shows that financial analysts of brokerage firms that provide investment banking services to a company (investment banker analysts) are optimistic, relative to other (noninvestment banker) analysts, in their earnings forecasts and investment recommendations. Returns earned by following the investment recommendations of investment banker analysts, however, are not significantly different from those of non-investment banker analysts. Given that information regarding the investment banking relationships of brokerage firms is publicly available, we find evidence that capital market participants rely relatively less on the investment banker analysts in forming their earnings expectations.

**patricia c. o'brien (2015)** This study examines whether investment banking ties influence the speed with which analysts convey unfavorable news. We hypothesize that affiliated analysts have incentives to respond promptly to good news but prefer not to issue bad news about client companies. Using duration models of the time between an equity issue and the first downgrade, we find affiliated analysts are slower to downgrade from Buy and Hold recommendations and significantly faster to upgrade from Hold recommendations, in both within-analyst and within-issuer tests. We also find affiliated analysts issue recommendations sooner and more frequently after an offering than unaffiliated analysts, and that unaffiliated analysts are more likely than affiliated analysts to drop coverage of sample firms.

**li raza , Muhammed Farhan and Muhammad (2011)** In their study covers the presents comparison of financial performance for the period 2006–2009 by using financial ratios and measures of investment banks working in Pakistan. This work concludes that the performance of investment banks on the basis of efficiency ratio is different than on the basis of liquidity ratio, capital or leverage ratio and financial measures. The findings are consistent with the analysis reported by the central bank of Pakistan (State Bank of Pakistan, SBP) in its report for financial sector analysis 2006-09. This study also equips the managers with important information about different activities of banks which have a high impact on the financial performance of investment banks.

### **INVESTMENT BANKING IN INDIA:**

Investment banking is Cited as the most complex financial mechanism worldwide, investment banking serves distinct purposes and business entities and covers a broad range of financial services such as proprietary trading or trading securities, mergers and acquisitions advisory, leveraged finance, and settlement acquisitions, and restructuring, and new issues or IPOs.

#### **Meaning of investment banking:**

Investment banking is the division of a bank or financial institution that serves governments, corporations, and institutions by providing underwriting (capital raising) and mergers and acquisitions (M&A) advisory services. Investment banks act as intermediaries between investors (who have money to invest) and corporations (who require capital to grow and run their businesses). This guide will cover what investment banking is and what investment bankers actually do.

#### **OBJECTIVES OF STUDY:**

- To study the purpose of Investment Banking for investment activities
- To Understand the interaction between divisions of Investment Banking groups (and the recent problems)
- To know the importance of Investment Banking for investor and enterprise.
- To know the trends of investment banking for investment opportunities.

#### **History of Investment Banking in India:**

The history of investment banking in India traces back to when European merchant banks first established trading houses in the region in the 19th century. Since then, foreign banks (non-Indian) have dominated investment and merchant banking activities in the country.

In the 1970s, the State bank of India entered the business by creating the Bureau of Merchant Banking and ICICI Securities became the first Indian financial institution to offer merchant banking services.

By 1980, the number of merchant banks had risen to more than 30. This growth in the financial services industry included the rapid expansion of commercial banks and other financial institutions.

### **Investment Banking in India – List of AIBI Member Investment Banks:**

- A.K. Capital Services Ltd.
- Ambit Corporate Finance Pvt. Ltd.
- Anand Rathi Advisors Ltd.
- Ashika Capital Ltd.
- Avendus Capital Pvt.Ltd.
- Axis Bank Ltd.

### **ROLE OF INVESTMENT BANKING:**

Investment Banks generally act as a intermediaries between the potential investors and the corporation. It takes money from the investor and invest in those are as which yield maximum returns. Investment banking offers wide range of services with full security of funds. Investment banking lends money to the firms to purchase assets and settles the payments. Investment banking helps the firms to earn more profit and also make its functioning more efficient and new issue or IPOs where these banks helps new firm go public.

Top 5 investment banking:

- JPMorgan Chase & co....
- The goldman sarchs group
- Morgan stanley
- Bank of america
- Citigroup Inc

### **INVESTMENT BANKING OF INDIAN ECONOMY:**

Before going into the nitty-gritty of investment banking in India, it's important to throw some light on the history of investment banking in India.

It all started in the 19<sup>th</sup> Century. During that period, European banks first established their trading industries in the land of India. Since that ancient time, foreign banks have taken the reign of investment banking in India. But that didn't last for a long time.

In the 1970s, State Bank of India started to spread its wings and created a bureau of merchant banking. And in the same decade, ICICI bank started offering various merchant banking services.

After a decade, banking became the thing of many and more than 30 merchant banks, financial institutions, and commercial banks started setting up their operations.

Under AIBI, now there are many banks and financial institutions are registered. Have a look at the following institutions which are registered under AIBI and have already made their name in the investment banking industry in India –

- Axis Bank Ltd.
- Barclays Bank PLC
- BNP Paribas
- Central Bank of India

➤ Credit Suisse Securities (India) Private Ltd.

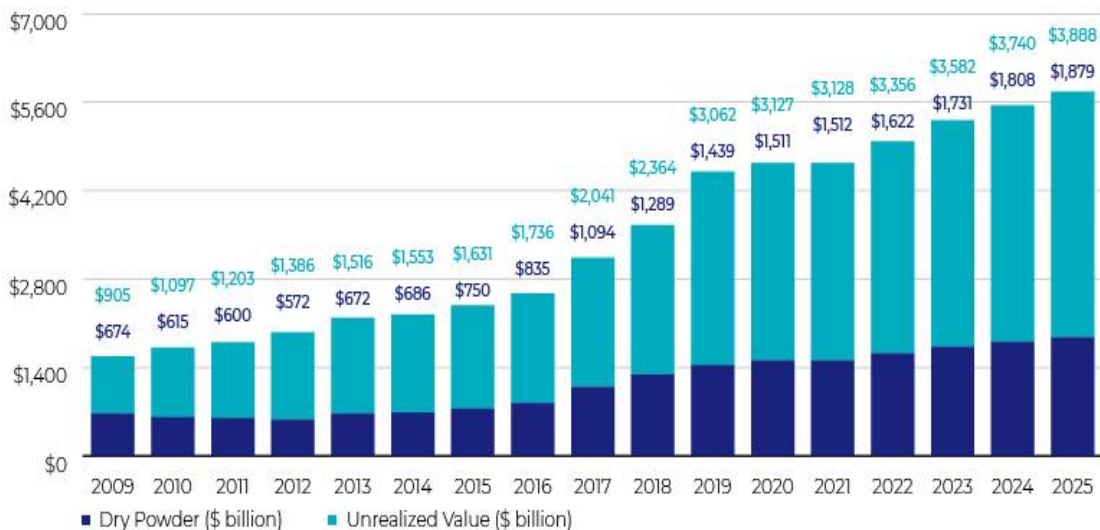
### **GLOABAL MARKET VIEW OF INVESTMENT BANKING:**

The global investment banking market is expected to grow from \$102.84 billion in 2020 to \$111.45 billion in 2021 at a compound annual growth rate (CAGR) of 8.4%. The growth is mainly due to the companies rearranging their operations and recovering from the COVID-19 impact, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges. The market is expected to reach \$137.97 billion in 2025 at a CAGR of 5%. North America was the largest region in the global investment banking market, accounting for 46% of the market in 2020. Asia Pacific was the second largest region accounting for 26% of the global market. Eastern Europe was the smallest region in the global investment banking market.

The countries covered in the global investment banking market are Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Denmark, Egypt, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, Malaysia, Mexico, Netherlands, New Zealand, Nigeria, Norway, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, UAE, UK, USA, Venezuela, Vietnam. The regions covered in the global investment banking market are Asia-Pacific, Western Europe, Eastern Europe, North America, South America, Middle East, Africa. The major players covered in the global investment banking market are Barclays, JP Morgan, Goldman Sachs, Bank of America Meril Lynch, Morgan Stanley.

The global investment banking market is segmented.

- 1) By Type: Mergers & Acquisitions Advisory, Financial Sponsor/Syndicated Loans, Equity Capital Markets Underwriting, Debt Capital Markets Underwriting
- 2) By Enterprise Size: Large Enterprises, Medium and Small Enterprises
- 3) By End-Use Industry: Financial Services, Retail & Wholesale, Information Technology, Manufacturing, Healthcare, Construction, Others



### **Major participants of investment banking:**

- Bank of America Merrill Lynch.
- Barclays Capital.
- Citi.
- Credit Suisse.
- Deutsche Bank.
- Goldman Sachs.

- J.P. Morgan.
- Morgan Stanley.

### **FUTURE TRENDS IN INVESTMENT BANKING:**

- **Regulation:** Regulation of the banking course in India will result in the flourishing of boutique investment banks as it helps them lure the senior bankers with cultural advantages of a more open partnership structure which the bigger banks had to give up when they went public. Additionally, they can also offer lesser overheads, fewer red-tape worries and bigger payouts on the principal amount. However, this growth will not be permanent and will be dependent on the financial abilities of the more prominent banks.
- **Technology:** Emerging technology is one of the factors that will have a tremendous impact in shaping the future of investment banking in India. Digitalization, AI, big data, mobile technologies, augmented and virtual reality will fast change the banking course across all financial sectors. E-trading has become the dominant technology in financial areas, hence, there is an urgent need to reform multiple trading platforms and investment banking IT systems. Technology will also promote safer work environments, enhance the customer experience and increase productivity.
- **Infrastructure:** A wave of new infrastructure schemes and programs has caught the attention of investors. From India to the USA, governments believe that spending on infrastructure will lead to domestic financial growth. There is a particular political interest to invest in infrastructure projects. Even investors are convinced easily to invest in such projects. Real estate and energy-related infrastructure spending are bound to make a significant impact on the future of investment banking in the country.
- **Future generation:** Millennial makeup about 50% of the world's population. People under the age of 30 are referred to as millennial. Their production makes their norms and has grown with and adapted to the ever-changing technological era. They are digital natives with a different mindset and priorities as compared to their older generations. They will impact the banking course in India by evolving as mature investors who value a fun-oriented but, conscious lifestyle. They will innovate and form more effective and modern ways of investing and overthrow the conventional methods.

### **Conclusion:**

Finally the study concludes that the Investment Banking is a financial service company or division of a bank that provides advisory services to government, individuals, and corporations in relation to underwriting, capital raising, merger, and acquisition, etc. It acts as a bridge between companies (who need investment to run and grow their business) and investors (who want to invest their funds in the market). Investment is important to achieve individual goal. Investment means we have money, then we need to make analysis to invest the money, and expected get return in future. 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.

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