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A study on "Investment Banking and Practices in India" *an* opportunity *and challenges* in the Present competitive environment.

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Abstract
Investment bank *is a financial institution that assists individuals, corporations, and governments in raising capital by underlying or acting as the client's agent in the issuance of securities (or both). An investment bank may also assist companies involved in merger and acquisition (M&A) and provide ancillary services such as market making, trading of derivatives and equity securities, and FICC services (fixed income instruments, currencies, and commodities).Unlike commercial banks and retail banks, investment banks do not take deposits. The two main functions of investment banking are known as* ***sell side*** *and the* ***buy side****. The "sell side" involves trading securities for cash or for other securities (e.g. facilitating transactions, market-making), or the promotion of securities (e.g. underwriting, research, etc.). The "buy side" involves the provision of advice to financial institutions concerned with buying investment services such as Private equity funds, mutual funds, life insurance companies, unit trusts, and hedge funds. An investment bank can also be split into private and public functions with an information barrier which separates the two to prevent information from crossing. The private areas of the bank deal with private insider information that may not be publicly disclosed, while the public areas such as stock analysis deal with public information.*

Keywords*: M&A, FICC, Market making, buy side, sell side*

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I. INTRODUCTION

Investment Banking falls under two broad headings: the provision of financial advice and capital raising. Investment banking provides services to their client for investment in capital market through share; these services are based on research activity. In this, primarily the act of the purchasing and selling of shares includes. Investment banking organization performs role as an intermediary between investor and capital market. Investment banking has now gained considerable position in Indian capital market. Investment banking should reach to investors and finally faithfulness of investor for investing in banking organization. The investment banking has the ability to draw willingness of their investors to invest more funds for investment in capital market. The government and semi-government agencies should come in a parallel manner to make new agenda or policies in the investment sector to improve Indian capital market.

OBJECTIVE OF THE STUDY:
To assess the role of investment banks for growing Indian capital market which will ultimately be examining the relationship between investor and capital market.

1.2 Core investment banking activities

Investment banking has changed over the years, beginning as a partnership firm focused on underwriting security issuance, i.e. initial public offerings (IPOs) and secondary offerings, brokerage, and mergers and acquisitions, and evolving into a "full-service" range including securities research, proprietary trading, and investment management. In the modern 21st century, the SEC filings of the major independent investment banks such as Goldman Sachs and Morgan Stanley reflect three product segments:
(1) Investment banking (fees for M&A advisory services and securities underwriting);
(2) Asset management (fees for sponsored investment funds), and
(3) Trading and principal investments (broker-dealer activities including proprietary trading ("dealer" transactions) and brokerage trading ("broker" transactions)).
(4) The traditional service of underwriting security issues has declined as a percentage of revenue. As far back as 1960, 70% of Merrill Lynch's revenue was derived from transaction commissions while "traditional investment banking" services accounted for 5%. However, Merrill Lynch was a relatively "retail-focused" firm with a large brokerage network.

1.3Organizational structure

Investment banking is split into (A) **front office**, (B) **middle office**, and (C) **back office activities**. While large service investment banks offer all lines of business, both "sell side" and "buy side", smaller sell-side investment firms such as boutique investment banks and small broker-dealers focus on investment banking and sales/trading/research, respectively. Investment banks offer services to both corporations issuing securities and investors buying securities. For corporations, investment bankers offer information on when and how to place their securities on the open market, an activity very important to an investment bank's reputation. Therefore, investment bankers play a very important role in issuing new security offerings.

(A)Front office

Front office is generally described as a revenue generating role. There are two main areas within front office:
(a)Investment Banking and
(b)Markets, which includes: Sales; Trading; Research; Structuring.

(a)Investment Banking involves advising the world's largest organisations on mergers, acquisitions, as well as a wide array of fund raising strategies. This is, on average, the most prestigious and highest paid department in the bank with first year analysts typically making £60,000 upwards (depending on individual, team and firm performance).

(i)Provision of financial advice investment banking advice relates to corporate actions rather than product or organizational matters, such as product improvement, market analysis or management of organization. Nonetheless, an investment banker needs to have an understanding of all these things because they, too, will have an impact on shareholder value.

(ii)Mergers and Acquisitions (or "M&A")

The majority of financial advice of investment bank relates to M&A. The client company seeks to expand by acquiring another business because of:
i-increasing the range of products
ii-increasing the business' geographical footprint
iii-complementing existing products integrating vertically (i.e. acquire suppliers, further up the chain, or customers, further down the chain) protecting a position (for example by preventing a competitor from acquiring the business in question).

(b)Investment Market

Markets are then split into further divisions; sales and trading, some research and also structuring. Though the average investment banker will make considerably more than the average trader, the best trader will make significantly more than the best investment banker.

(1)Sales and trading

On behalf of the bank and its clients, a large investment bank's primary function is buying and selling products. In market making, traders will buy and sell financial products with the goal of making money on each trade. *Sales* is the term for the investment bank's sales force, whose primary job is to call on institutional and high-net-worth investors to suggest trading ideas (on a caveat emptor basis) and take orders. Sales desks then communicate their clients' orders to the appropriate trading desks, which can price and execute trades, or structure new products that fit a specific need. *Structuring* has been a relatively recent activity as derivatives have come into play, with highly technical and numerate employees working on creating complex structured products which typically offer much greater margins and returns than underlying cash securities. In 2010, investment banks came under pressure as a result of selling complex derivatives contracts to local municipalities in Europe and the US.[4]*Strategists* advise external as well as internal clients on the strategies that can be adopted in various markets. Ranging from derivatives to specific industries, strategists place companies and industries in a quantitative framework with full consideration of the macroeconomic scene. This strategy often affects the way the firm will operate in the market, the direction it would like to take in terms of its proprietary and flow positions, the suggestions salespersons give to clients, as well as the way structures create new products. Banks also undertake risk through proprietary trading, performed by a special set of traders who do not interface with clients and through "principal risk"—risk undertaken by a trader after he buys or sells a product to a client and does not hedge his total exposure. Banks seek to maximize profitability for a given amount of risk on their balance sheet.

(2)Research

The equity research division reviews companies and writes reports about their prospects, often with "buy" or "sell" ratings. Investment banks typically have sell-side analysts which cover various industries. Their sponsored funds or proprietary trading offices will also have buy-side research. While the research division may or may not generate revenue (based on policies at different banks), its resources are used to assist traders in trading, the sales force in suggesting ideas to customers, and investment bankers by covering their clients. Research also serves outside clients with investment advice (such as institutional investors and high net worth individuals) in the hopes that these clients will execute suggested trade ideas through the sales and trading division of the bank, and thereby generate revenue for the firm. Research also covers credit research, fixed income research, macroeconomic research, and quantitative analysis, all of which are used internally and externally to advise clients but do not directly affect revenue. All research groups, nonetheless, provide a key service in terms of advisory and strategy. There is a potential conflict of interest between the investment bank and its analysis, in that published analysis can affect the bank's profits.

(B)Middle office

This area of the bank includes treasury management, internal controls, and internal corporate strategy. Corporate treasury is responsible for an investment bank's funding, capital structure management, and liquidity risk monitoring. Financial control tracks and analyzes the capital flows of the firm, the finance division is the principal adviser to senior management on essential areas such as controlling the firm's global risk exposure and the profitability and structure of the firm's various businesses via dedicated trading desk product control teams. In the United States and United Kingdom, a comptroller (or financial controller) is a senior position, often reporting to the chief financial officer. Internal corporate strategy tackling firm management and profit strategy, unlike corporate strategy groups that advise clients, is non-revenue regenerating yet a key functional role within investment banks.

(C)Back office

(i)Operations

This involves data-checking trades that have been conducted, ensuring that they are not wrong, and transacting the required transfers. Many banks have outsourced operations. It is, however, a critical part of the bank.

(ii)Technology

Every major investment bank has considerable amounts of in-house software, created by the technology team, who are also responsible for technical support. Technology has changed considerably in the last few years as more sales and trading desks are using electronic trading. Some trades are initiated by complex algorithms for hedging purposes.

1.4Global size and revenue mix

Global investment banking revenue increased for the fifth year running in 2016, to a record US$84.3 billion, which was an increase by 22% on the previous year and more than double the level in 2012. Subsequent to their exposure to United States sub-prime securities investments, many investment banks have experienced losses. As of late 2012, global revenues for investment banks were estimated at $240 billion, down about a third from 2009, as companies pursued less deals and traded less. Differences in total revenue are likely due to different ways of classifying investment banking revenue, such as subtracting proprietary trading revenue. In terms of total revenue investment banks in the United States show that investment banking (defined as M&A advisory services and security underwriting) only made up about 15-20% of total revenue for these banks from 2006 to 2016, with the majority of revenue (60+% in some years) brought in by "trading" which includes brokerage commissions and proprietary trading; the proprietary trading is estimated to provide a significant portion of this revenue.

According to estimates published by the International Financial Services London, for the decade prior to the financial crisis in 2008, M&A was a primary source of investment banking revenue, often accounting for 40% of such revenue, but dropped during and after the financial crisis. Equity underwriting revenue ranged from 30% to 38% and fixed-income underwriting accounted for the remaining revenue. Revenues of the investment banks have been affected by the introduction of new products with higher margins; however, these innovations are often copied quickly by competing banks, pushing down trading margins. For example, brokerages commissions for bond and equity trading is a commodity business but structuring and trading derivatives has higher margins because each over-the-counter contract has to be uniquely structured and could involve complex pay-off and risk profiles. Investment Banks also earned revenue by securitizing debt, particularly mortgage debt prior to the financial crisis. Investment banks have become concerned that lenders are securitizing in-house, driving the investment banks to pursue vertical integration by becoming lenders,.

1.6Top 10 Investment banks

The ten largest investment banks as of December 31, 2013, are as follows (by total fees from all advisory). The list is just a ranking of the advisory arm of each bank and does not include the generally much larger portion of revenues from sales and trading and asset management.

Rank	Company	Fees ($m)
1.	J.P. Morgan & Co.	6,271.74
2.	Bank of America Merrill Lynch	5,685.59
3.	Goldman Sachs	5,053.21
4.	Morgan Stanley	4,452.88
5.	Citigroup	3,952.09
6.	Deutsche Bank	3,616.12
7.	Credit Suisse	3,545.45
8.	Barclays	3,454.73
9.	Wells Fargo	2,277.88
10.	RBC Capital Markets	2,041.80

1.7Risk management by the Investment Banks

Risk management involves analyzing the market and credit risk that an investment bank or its clients take onto their balance sheet during transactions or trades. Credit risk focuses around capital markets activities, such as loan syndication, bond issuance, restructuring, and leveraged finance. Market risk conducts review of sales and trading activities utilizing the VaR model and provide hedge-fund solutions to portfolio managers. Other risk groups include country risk, operational risk, and counterparty risks which may or may not exist on a bank to bank basis. Credit risk solutions are key part of capital market transactions, involving debt structuring, exit financing, loan amendment, project finance, leveraged buy-outs, and sometimes portfolio hedging. Front office market risk activities provide service to investors via derivative solutions, portfolio management, portfolio consulting, and risk advisory. Well-known risk groups in JPMorgan Chase, Goldman Sachs and Barclays engage in revenue-generating activities involving debt structuring, restructuring, loan syndication, and securitization for clients such as corporates, governments, and hedge funds. J.P. Morgan IB Risk works with investment banking to execute transactions and advise investors, although its Finance & Operation risk groups focus on middle office functions involving internal, non-revenue generating, operational risk controls. Credit default swap, for instance, is a famous credit risk hedging solution for clients invented by J.P. Morgan's Blythe Masters during the 1990s. The Loan Risk Solutions group[8] within Barclays' investment banking division and Risk Management and Financing group[9] housed in Goldman Sach's securities division are client-driven franchises. However, risk management groups such as operational risk, internal risk control, legal risk, and the one at Morgan Stanley are restrained to internal business functions including firm balance-sheet risk analysis and assigning trading cap that are independent of client needs, even though these groups may be responsible for deal approval that directly affects capital market activities. Risk management is a broad area, and like research, its roles can be client-facing or internal.

II. CONCLUSION

The investment banking industry have come under criticism for a variety of reasons, including perceived conflicts of interest, overly large pay packages, cartel-like or oligopolic behavior, taking both sides in transactions, and more. Investment banking has also been criticized for its opacity. Many investment banks also own retail brokerages. During the 1990s, some retail brokerages sold consumers securities which did not meet their stated risk profile. This behavior may have led to investment banking business or even sales of surplus shares during a public offering to keep public perception of the stock favorable. Since investment banks engage heavily in trading for their own account, there is always the temptation for them to engage in some form of front running – the illegal practice whereby a broker executes orders for their own account before filling orders previously submitted by their customers, there benefiting from any changes in prices induced by those orders.

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