



ROLE OF MERCHANT BANKING IN ENTREPRENEURSHIP DEVELOPMENT

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Abstract:

In India, we have witnessed remarkable changes in our economy especially in financial sector one of the major reform is implementation of Liberalization, Privatization and Globalisation. It has impacted banking sector to a new revolution along with that in 90s Merchant banking was also popularized. In America, merchant banking is concerned with mobilising savings of people and directing their funds to business enterprise. Here, in India the need for specialized merchant banking services was felt with the rapid growth of the number and size of the issues made in the primary market. Nowadays, new entrepreneurs with new ideas, new innovations and new technology are entering the market for developing their own business and they would require a person who can transform their ideas into a venture. And then merchant bankers comes into the picture as they plays a vital role as a promoter, advisor, rehabilitator and an agent or intermediary for corporate enterprise. This study will enable us to know the role played by merchant banker in developing entrepreneurship in India.

Keywords: *Merchant Banking, Entrepreneurship*

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Introduction:

In simple terms, Merchant banking is a professional services provided by merchant bankers to its clients in consideration of fees. Earlier, in India prior to enactment of Indian Companies Act, 1956, merchant banking services like evaluation of project reports, planning of capital structure, issuing houses for securities and to some extent providing venture capital for new firms were carried on by managing agents. With the growing demand for funds there was a pressure on capital market that encouraged the commercial banks, share brokers and financial consultant firms to enter into the field of merchant banking and share the growing capital market. So, there

was introduction of specialized merchant banking services in 1967 by National Gridlays bank which was a foreign bank and in 1972 the State bank of India setup its Merchant banking Division which was first Indian merchant bank.

Merchant banking has been defined as, “merchant bank are the financial institutions who provide special services which include the acceptance of bills of exchange, corporate finance, portfolio management and other banking services”

An entrepreneur is a person having the ability to do the business who establishes his venture and is ready to take risk to make profit, hence he is the source of new ideas and innovations. In today's scenario there is a



constant increasing of new business houses, start-ups, new ventures so new entrepreneurs are in search of capital, advisory services or publicity of their business, here they can appoint a merchant banker who is expert in this field and hence can help them with required services. The process of enhancing an entrepreneur's abilities and knowledge and training is known as entrepreneurship development. The intention is to promote entrepreneurship and assist newly established companies in realizing their objectives. Entrepreneurship development can help entrepreneurs to develop, manage, and organize a business while keeping in mind the risks associated with it.

“An entrepreneur need not necessarily mean one who is running a commercial business, but also one who is adventurous”. -Sadguru Jaggi Vasudev, founder of the Isha Foundation

In this study we will see what role has merchant bankers to play in development of entrepreneurs.

Objectives of the study:

1. To understand the services provided by merchant banker.
2. To study factors contribute to the growth and development of entrepreneurship in the country.
3. To determine the role of merchant banking services on entrepreneurship development.
4. To study the impact of merchant banking services at various stages of development of business.

Need of the study:

As per the Economic survey 2021-22, India has become third largest start-up ecosystem in the world which means there is an increase in Entrepreneurship development as a whole. As per Global Entrepreneurship Monitor (GEM) India Report (2021-22), India's total entrepreneurial activity rate was expanded in 2021 to 14.4% from 2020 which was only 5.3%.

For the new entrepreneurs, funding is crucial aspect as it impacts the growth and expansion of business. Funds

or capital is required in order to hire staff, create products or services, encourage marketing and promotional activities, and gain a competitive advantage and so on. To avail funds for establishing new enterprises merchant banks have impressive support from capital market, this will eventually help new entrepreneurs if they take help of merchant bankers for them. And hence this study will help to understand the role of merchant banking in entrepreneurship development as they act as an intermediary between entrepreneurs and investors.

Scope of the Study:

In the present day capital market scenario, the merchant banks play a vital role of an encouraging and supporting force to the entrepreneurs, corporate sectors and the investors. This study will enable new entrepreneurs, academicians, researchers, and investors to understand the role played by merchant bankers in developing new business.

Research Methodology:

The entire work depends on the secondary data source and the required secondary data will be collected from books, articles, SEBI Website, manual and latest economic journals.

Review of literature:

(Bhagat, 2018), In his study he studied the various aspects of merchant banking from origin, features, services and role of merchant banking also he studied the capital market operations and concluded the data of his findings. The conclusion of his study states that there are lesser merchant banks in India as compared to other countries, and majority of the merchant banks were in developed countries. Most of the merchant banks managed IPO as their mainline business and clients of merchant banks would prefer merchant banks with good report and lastly according to him there is a scope for merchant banking in upcoming future with current government policies.



(Kailani, 2016), her research is focused on performance of merchant banking during the year 1990-91 to 1997-97. This research had qualitative as well as quantitative dimensions for the performance of merchant bankers. Here the qualitative factors had focus on factors like issue management and quality of personnel services to its clients. And the quantitative study included the number of public issues held and variables were actual sales, profit interest, depreciation, and earnings per share. This study concluded that after the setting up of SEBI, role of merchant banks have become more diverse in nature.

Discussion and Analysis:

1. To understand the services provided by merchant banker.

The merchant bankers help industry, trade, entrepreneurs, new business to raise funds, and the investors to invest their saved money in good concerns with confidence, security and expectations of higher yields. For this they provide following services:

1. Corporate counselling
2. Project counselling
3. Issue management
4. Underwriting
5. Portfolio management
6. Pre- Investments studies
7. Credit syndication and project finance
8. Venture Capital Financing
9. Mergers, Amalgamations and take over
10. Off shore finance

2. To study factors contribute to the growth and development of entrepreneurship in the country.

In recent years, the government and other stakeholders in India have given entrepreneurship development considerable attention and support. The following are some of the variables that support and encourage entrepreneurship in the nation:

1. Programs of the Government: The Indian government has started a number of programs to encourage entrepreneurship, including Made in India, Start-up India, Stand-up India, and Atmanirbhar Bharat. By offering finance, tax breaks, assistance with incubation, and simplified regulatory compliance, these programs seek to establish a supportive environment for start-ups and small enterprises.
2. Access to Funding: Funding is an essential resource for aspiring business owners. Angel investment networks, venture capital funds, and government-backed programs like the Mudra Yojana, which lends money to small enterprises, have all increased in India. Entrepreneurs can receive financial support at different stages of their journey through platforms such as government-backed schemes, angel investor networks, crowdfunding platforms, and venture capital firm
3. Accelerators and Incubators for Start-ups: In major Indian cities, co-working spaces, accelerators, and start up incubators have proliferated, giving entrepreneurs access to resources, infrastructure, networking opportunities, and mentorship. These platforms are incredibly helpful for early-stage firms since they provide networks, mentorship, and guidance.
4. Innovation and Technology: In industries including IT, biotechnology, healthcare, e-commerce, fintech, and renewable energy, innovation and entrepreneurship have been stimulated by India's thriving tech ecosystem and the country's pool of highly trained personnel. The emergence of digital platforms, mobile technology, and the internet has made it easier for entrepreneurs to start their businesses and expand their customer base.



5. **Education and Skill Development:** Entrepreneurship education and skill development are becoming more and more of a priority for educational institutions and vocational training institutes. Aspiring entrepreneurs can acquire the knowledge, abilities, and mind-set necessary to start and run profitable businesses by enrolling in programs and courses on innovation, entrepreneurship, and company management.
6. **Encouraging Regulatory Environment:** To streamline the processes involved in company licensing, registration, and compliance, the Indian government has implemented a number of regulatory changes. It is now simpler for entrepreneurs to launch and run firms in India thanks to initiatives like the introduction of the Goods and Services Tax (GST), company rankings that make it easier to do business, and online platforms for regulatory filings.
7. **Social and Cultural Shift:** Young people in India are beginning to view entrepreneurship as a feasible career path. A new generation of ambitious business owners has been motivated by the success tales of Indian start-ups and entrepreneurs. A more inclusive and diversified entrepreneurial landscape has also been facilitated by efforts like social entrepreneurship projects and women entrepreneurship progra
8. **Global Opportunities:** India's entry into the world economy has given businesses the chance to work with partners from around the world, access overseas markets, and draw in foreign capital. Global market research and business expansion are encouraged by initiatives such as the "Made in India" program and export promotion schemes.

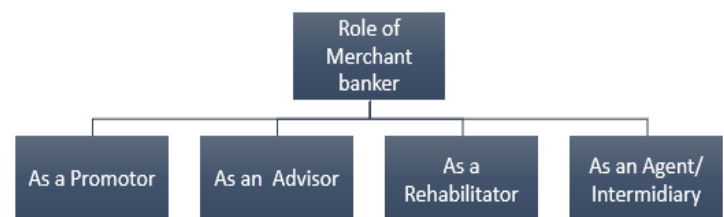
In conclusion, a number of factors, including government support, financial availability,

technology developments, ecosystems that foster entrepreneurship, education and skill development programs, legislative changes, shifting social perceptions, and international prospects, all contribute to the growth of entrepreneurship in India. India is positioned to become a major centre for innovation and entrepreneurship on the international scene with sustained attention to and investment in these fields.

3. To determine the role of merchant banking services on entrepreneurship development.

From the above mentioned services rendered by a merchant banker, it can be observed that the merchant banker is the most crucial link between an entrepreneur who wants to raise the fund for his company and the investor who wants to invest the fund. Here, merchant banker plays a role of a promoter, an advisor, a rehabilitator and an agent or intermediary for entrepreneurs.

Role of merchant banker:



Firstly as a promoter, the merchant banker translates the ideas of entrepreneur into ventures by providing a number of promotional services such as identification of projects, preparing feasibility reports, obtaining government approvals, raising funds for the project and so on.

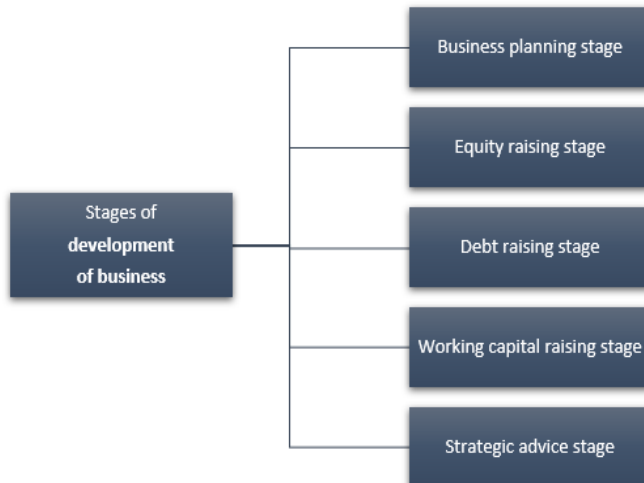
After the promotion stage of a project, a merchant banker acts as an advisor to the company and render various services to the company so as to run the company successfully. He is expert in various fields and gives advice on certain issues such as financial planning, tax planning, issue management, credit syndication, investment management, etc. all these

helps entrepreneur in carrying on the business in an uninterrupted manner.

A merchant banker also play a role as a rehabilitator during the time of merger, acquisition, takeover, amalgamation etc.

Nowadays, many of the merchant bankers act as an agent for their clients for doing various activities. For instance it can act as a transfer agents and paying agents for interest and debentures while maintaining registers of shareholders and debenture holders. And most importantly it act as an intermediary between the entrepreneurs and investors for purpose of helping new entrepreneurs in setting up and raising the capital.

4. To study the impact of merchant banking services at various stages of development of business.



1. Business planning stage

- Here, merchant banker does the project feasibility study for the entrepreneurs business then based on the study he advices the entrepreneur if the proposed project is feasible or not.
- Once the project is feasible in the market he then advices on capital structuring for the project based on capital market scenario.

2. Equity raising stage (if any)

- If the company wish to raise money from public first thing merchant banker has to do is preparation of prospectus and liaison it with SEBI.
- Next they should decide the price of per share to be issued to common public.
- After the prospectus is issued the merchant banker promotes the business by doing marketing of the business in his capacity.
- Then the underwriting agreement is signed by issuer and merchant banker, in that underwriting of merchant banker is mentioned.
- When the issue process is completed merchant banker has to fulfil post issue management requirements

3. Debt raising stage (if any)

- If the company issues debentures merchant banker has to manage the process of debenture issue.
- He has to prepare the bankable proposal and syndication of loan.

4. Working capital raising stage

- Merchant banker gives is assistance in arranging optimal capital finances to the company.

5. Strategic advice stage

- If there is any merger or acquisition merchant banker will give proper advice on the working of the process.
- He will also assist in corporate structuring after the merger or acquisition process of the company.

Conclusion:

In the early stages, the role of merchant banker was confined to the management of pubic issue of equity capital. But now merchant bankers are rendering a wide variety of services related to finance and other aspects



to its clients. In this study we had understood the services provided by a merchant banker to the growing businesses.

Secondly, as we have understood that the merchant banker is a main intermediary between issuer and investor as it has a vital role in development of entrepreneurship. Right from the promotion stage till completion of project it act as a promoter, an advisor, a rehabilitator and an agent for the enterprise. Lastly, we merchant banker has impacted the entrepreneurship development from the business development stage to final advising stage it is important at various stages of development of business.

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