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MERGERS AND ACQUISITIONS IN THE BANKING SECTOR OF INDIA – AN OVERVIEW

Dr. S. PAULMURUGAN

PG & Research Department of Commerce

Kalaignar Karunanidhi Government Arts College

Tiruvannamalai – 606 603

Tamil Nadu, India

ABSTRACT

In this paper study the Mergers and Acquisitions in the Banking Sector of India – An Overview. India's history in mergers and acquisitions dates back to 1921, when the Imperial Bank of India was formed through the amalgamation of three presidency banks. The merger of banks in India began around the 1960s. A merger or consolidation of banks refers to the procedure of two or more banks pooling their assets and liabilities to become one bank. An acquisition entails one organization acquiring the business of another. In this article discuss about the objectives, needs of M & As, differences between M & As, Types of Merger & Acquisition in India, Reasons for Mergers and Acquisitions under the Banking Sector of India, Challenges of Public Sector Banks' Merger in India etc. This article concludes that, the banking industry has been undergoing massive mergers and acquisitions in order to achieve bank consolidation. Mergers and amalgamations assist the institutions in scaling up fast and gaining a bigger number of new consumers so as to improve their balance sheet and cash flow statements. An acquisition or a merger not only offers a bank more capital to work with in terms of giving out loans and making investments, but it also helps in the expansion of the bank's geographic reach that enables it to provide services to a larger customer base.

KEYWORDS:

Mergers and Acquisitions, Public Sector Banks, Securities Exchange Board of India, Conglomerate Mergers, Congeneric Acquisition and Anchor Bank.

Introduction

Merger and Acquisition finds its root from the historical time periods in India. The firmly embedded culture of alliances can be traced from the conjugal alliances from the reign of Chandragupta Maurya to the Rajputs of Mewar & The East India Co. erstwhile acquisition to invade India. India's history in mergers and acquisitions dates back to 1921, when the Imperial Bank of India was formed through the amalgamation of three presidency banks. The merger of banks in India began around the 1960s. It was done to bail out the poor performing banks and protect customers' interests. As many as 46 mergers took place during the pre-nationalization period (1961-69) to revive weaker banks. This move proved to be successful since the performance of banks improved post mergers. Narasimham II Committee Report, 1998 as 'Committee on Banking Sector Reforms' stated that India needs to have larger and stronger banks for the betterment of the economy. For this, necessary Merger and Acquisitions are to be promoted in the banking sector. After the three phases of banking reforms, India stands strong on its own feet with a stabilized financial position and global competence.

What is a Bank Merger?

A merger or consolidation of banks refers to the procedure of two or more banks pooling their assets and liabilities to become one bank. In this situation, there is an anchor bank and one or more amalgamating banks, where the latter gets merged with the former. Considering that the public sector banks in India are highly fragmented compared to other key economies, the public sector banks' merger certainly helps the Indian banks to be in the league of global giants.

What is an Acquisition?

An acquisition entails one organization acquiring the business of another. The acquirer must purchase at least 51% of the target company's stock in order to gain absolute control over it. It usually occurs between two companies that are not equal in stature: a financially stronger entity generally acquires a smaller, relatively weaker one. It is not necessary for the decision to be a mutual one; when a company takes over the operations of another without the latter's consent, it is termed as a hostile takeover.

Objectives of Mergers and acquisitions

- Improvement and revamping of production.
- The expansion of markets.
- Protecting the existing markets.
- The stabilization of markets.
- The strengthening of the financial sector.
- The disposal of underperforming, outdated and unwanted assets.
- Satisfaction of the customers through grass root level services and expanded geographical outreach.

Need of M&A Advisory Services

Mergers and Acquisitions are an incredible way to accomplish development for an organization yet include complex steps and procedures to be trailed by the involved companies to shape the new business.

The Companies Act, 2013 should be followed for M&A to traverse, with inclusion from Court, SEBI (Securities Exchange Board of India) in the event of listed organizations, the Central Government as an Official Liquidator (OL), and the Regional Director of the Ministry of Corporate Affairs and so on. Since there are various parties involved, the procedure is for quite some time drawn, monotonous, and on occasion problematic.

Consequently, it is insightful to counsel an expert for the merger and Acquisition or to take mergers and acquisitions advisory administrations as the procedure includes rigid ramifications of laws and rules and contradicting which, makes an issue in future. There are various Mergers and Acquisitions advisory firms that control their customers through this change procedure, including complicated financial, legitimate, and accounting issues.

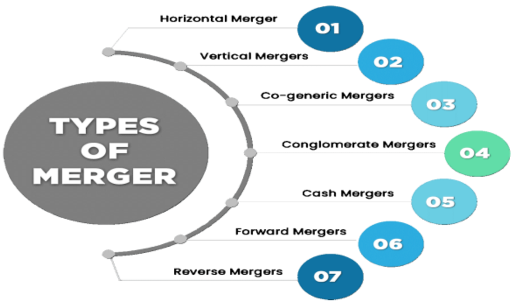
Differences between Mergers and Acquisition

The terms merger and acquisition essentially refer to the consolidation of two or more business entities for the purpose of achieving better synergies. The motives for entering into either contract include expanding operations, gaining a higher market share, reducing costs, or boosting profits. However, there are several prominent differences between the two, as summarized in the following table:

Table No.1

	Merger	**Acquisition**
Procedure	Two or more individual companies join to form a new business entity.	One company completely takes over the operations of another.
Mutual Decision	A merger is agreed upon by mutual consent of the involved parties.	The decision of acquisition might not be mutual; in case the acquiring company takes over another enterprise without the latter's consent, it is termed as a hostile takeover.
Name of Company	The merged entity operates under a new name.	The acquired company mostly operates under the name of the parent company. In some cases, however, the former can retain its original name if the parent company allows it.
Comparative Stature	The parties involved in a merger are of similar stature, size, and scale of operations.	The acquiring company is larger and financially stronger than the target company.
Power	There is dilution of power between the involved companies.	The acquiring company exerts absolute power over the acquired one.
Shares	The merged company issues new shares.	New shares are not issued.

Types of Merger & Acquisition in India



Types of Merger

1. Horizontal Merger

A merger between two companies who deal in the same product or services

2. Vertical Mergers

This type of merger happens between those entities who are involved in the dealing of complementary goods and services.

3. Co-Generic Mergers

A merger between two parties that are somehow related to each other

4. Conglomerate Mergers

A merger between organizations that deal in different types of business

5. Cash Mergers

A kind of merger where shareholders get cash instead of shares of the merged entity

6. Forward Mergers

When an organization decides to merge with its buyers

7. Reverse Mergers

When an entity decided to merge with its suppliers of raw material

Top Types of Acquisition

1. Horizontal Acquisition

This is when a company acquires another company in the same business, or industry or sector, that is, a competitor. A real-life example of the same would be Facebook acquiring Whatsapp. Whatsapp still exists with its brand name, however, it is now owned by Facebook. In the purpose classification of acquisitions, we can further elaborate on this transaction. Facebook & Whatsapp are both in the same industry that is social media; however, the acquisition has led to both benefitting from each other's expertise.

2. Vertical Acquisition

This is when a company acquires either a supplier of inputs or a distributor of its products or the company to which it sells its products; for example a garment company acquiring the source of cotton such as a farm**.** This is mostly done to have higher control over the supply chain and therefore impacting the receipt of raw material and delivery of products and in turn, impacting the turn-around time of the sourcing of input and delivery of the product to the end-user.

3. Conglomerate Acquisition

This is when a company acquires a company in a completely different kind of business, industry or sector. This is mostly done for diversification. An example of this would be a food industry company acquiring a company in the clothing industry. Reliance Industries recently took over Hamley's, a toy products company. Reliance is a giant conglomerate, which wanted to diversify into the toy industry and therefore undertook the acquisition by getting the 100% ownership transferred to it.

4. Congeneric Acquisition

This is when companies sharing a similarity come together. This can be anything, either similar production technology or similar distribution channel and so on but the production activity of the two companies is not related. This terminology exists because it is assumed that there can't be any other kind of similarity except that being considered while defining the types of acquisitions explained till now; however that is not the case practically. There is always some kind of overlap and therefore if an acquisition is not purely any other type, it is classified as the congeneric one.

Reasons for Mergers and Acquisitions under the Banking Sector of India

1. Financial synergy for lower cost of capital:

Value from synergy is always created by the joining or the merger of two companies. The synergy value can be seen either through the Revenues (higher revenues), Expenses (lowering of expenses) or the cost of capital (lowering of overall cost of capital).

2. Improving company's performance and accelerate growth:

The inflow of assets, manpower and finances from the company acquired or merged with creates increased opportunities for growth and performance.

3. Creating economies of scale:

The increased fund flow provides increased opportunities for further consolidation and expansion thus mitigating against any future fund flow constraints.

4. Diversification for higher growth products or markets:

Increased diversification leads to reduced overall risk. It's akin to not putting all the eggs in one basket.

5. Increase in market share and positioning giving broader market access:

Increased market share helps create loyal customers and get repeat business.

6. Creating a strategic realignment and technological change:

The company merged with or acquired would have technologies which add to the ease of doing business of the organization. This is something that will be of great advantage to the acquiring or merged entity.

7. For Tax considerations:

The ability to take advantage of the losses of the entity being acquired or merged into could be tantalizing for any business as it would bring down the losses of that entity.

8. Making pricing gains by purchasing an under-valued target:

The acquiring or merging entity could be great value because of the fact that it's coming cheap.

9. Skill and talent

As one firm merges or acquires the other, an exchange of talent and skills takes place. Due to the highly competitive nature of the industry, having a bigger pool of talent and skill gives an edge over the competitors.

Benefits of Public Sector Banks' merger

1. One of the most important advantages is that larger banks are capable of facing global competition.
2. It increases capital generation opportunities, both internally and from the market.
3. It leads to a reduced cost of banking operations and a better efficiency ratio.
4. Merger helps in improving NPA and risk management.
5. All merged banks share a common Core Banking Solution, synergizing them technologically.
6. The increased profitability may help raise the standard of living which is very crucial for growing economies like India.
7. The chances of survival of underperforming banks increase and so customer trust remains intact.
8. The objectives of financial inclusion and expanding the geographical reach can be achieved better by merging large PSU banks and leveraging their expertise.

Challenges of Public Sector Banks' Merger in India

While consolidation of banks is beneficial for customers as well as the overall economy, it comes with massive challenges and raises some serious concerns. Following are some of the key challenges for public sector banks' merger in India:

1. Tech Integration

These different banks could be seen as asymmetrical entities using different technological platforms and having various geographic reach. Hence, it is important to select the merger partners based on their IT compatibilities over anything else. This sometimes leads to a lack of geographical synergy as the geographic reach is overlooked. Then, there are cases where merger partners are using different versions of the same software solution hence it has to be upgraded for seamless integration. Besides, every bank has got a certain level of customization done depending on their needs. Thus, it takes a considerably long time to integrate technology platforms of partners involved.

2. Human Resource

Harmonizing the human resource is another key aspect of these bank mergers. The banks are merged only on papers but their people and culture don't. Employees of all partner banks often go through the changes in guidelines, policies, designation, and sometimes they get transferred. Ignoring their issues can decrease morale, productivity and may lead to an exodus of key talent. So, several committees are formed to look after various aspects of the merger including HR, IT, and product offerings. While the best available benefits from all the banks are passed on to employees, there remain many challenges to deal with. Apart from job security, different working styles, levels of stress, career-related issues in terms of growth, internal transfers, and pay structures need to be in synchronization.

3. Decision Making

When two banks are being merged, compliance is needed in every decision, which might not be favorable as their risk-taking abilities and thinking perspectives are different. This may lead to friction and rift which, if not managed well can result in the downfall of the organization as a whole.

4. Provisions

One of the purposes behind banks' merger is to bail out poor performing banks. The anchor banks are made to set aside crores for loans to harmonize the bad loan accounts of the banks to be merged and as the ensuing provisions after the merger. A complex merger with an under-capitalized PSB can halt the bank's recovery efforts and the merged entity may become weak as well.

Merger List of Public Sector Undertaking Banks in India

In recent years, there have been at least five mergers of banks in India, which were carried out between various PSU banks. Now, there remain only 12 public sector banks in India after the most recent mega-merger exercise. Here are some of the examples of major Mergers & Acquisitions in the Indian banking sector:

Table No.2

Sl.No.	Anchor Bank	Banks Merged	Year of Merger
1.	Punjab National Bank	Punjab National Bank acquired New Bank of India	Acquisition on 1993
2.	State Bank of India	State Bank of Bikaner and Jaipur State Bank of Hyderabad State Bank of Mysore State Bank of Patiala State Bank of Travencore Bharatiya Mahila Bank	State Bank of India was merged with its associate banks and Bharatiya Mahila Bank in 2017.
3.	Bank of Baroda	Dena Bank Vijaya Bank	Vijaya Bank and Dena Bank were merged with Bank of Baroda from April 1, 2019
4.	Punjab National Bank	Oriental Bank of Commerce United Bank of India	. Punjab National Bank taking over “Oriental Bank of Commerce and United Bank of India” during the year 1st April 2020.
5.	Canara Bank	Syndicate Bank	On 1st April 2020, the Syndicate Bank was merged into Canara Bank.
6.	Indian Bank	Allahabad Bank	Allahabad Bank was merged with Indian Bank in 1st April 2020.
7.	Indian Bank	Allahabad Bank	Allahabad Bank was merged with Indian Bank in 1st April 2020.

List of Public Sector Banks in India 2022

As of August 2019, there were 27 public sector banks, but due to this practice of Mergers & Acquisitions, the number was reduced to 12. The merger of Punjab National Bank with Oriental Bank of Commerce and United Bank of India is considered to be the second-largest merger in the public sector undertakings. Following is the Public Sector Banks were merged to reduce it to 12. This was a central government forced bank merger.

Table No.3

List of Public Sector Banks in India 2022		
Bank Name	**Establishment**	**Headquarter**
1. Bank of Baroda	1908	Vadodara, Gujarat
2. Bank of India	1906	Mumbai, Maharashtra
3. Bank of Maharashtra	1935	Pune, Maharashtra
4. Canara Bank	1906	Bengaluru, Karnataka
5. Central Bank of India	1911	Mumbai, Maharashtra
6. Indian Bank	1907	Chennai, Tamil Nadu
7. Indian Overseas Bank	1937	Chennai, Tamil Nadu
8. Punjab and Sind Bank	1908	New Delhi, Delhi
9. Punjab National Bank	1894	New Delhi, Delhi
10. State Bank of India	1955	Mumbai, Maharashtra
11. UCO Bank	1943	Kolkata, West Bengal
12. Union Bank of India	1919	Mumbai, Maharashtra

Source: https://www.jagranjosh.com/general-knowledge/list-of-all-public-and-private-sector-banks-in-india-1582542534-1

Conclusion

The unexpected increase in the country's nonperforming assets (NPAs) and bad loans has harmed its international standing and therefore mergers do seem like a way out. However, anti-competitive mergers and abuses of dominance in the banking sector should be closely scrutinized by the Government. Currently, there is also a need for the Government to adopt essential merger regulations relating to both PSBs and private banking organizations.

In recent years, the banking industry has been undergoing massive mergers and acquisitions in order to achieve bank consolidation. Mergers and amalgamations assist the institutions in scaling up fast and gaining a bigger number of new consumers so as to improve their balance sheet and cash flow statements. An acquisition or a merger not only offers a bank more capital to work with in terms of giving out loans and making investments, but it also helps in the expansion of the bank's geographic reach that enables it to provide services to a larger customer base. However, a sharp rise in the number of such mergers and acquisitions has resulted in an unprecedented increase in bank concentration at the market level, which may have an impact on banking competitiveness.

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