Recent Mergers and Acquisition in Indian Banking sector- A Study

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Abstract

Consolidation in the Banking sector is very important in terms of mergers and acquisitions for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analyzed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.

In the recent times, we have seen some M&A as voluntary efforts of banks. Merger of Times Bank with HDFC Bank was the first of such consolidations after financial sector reforms ushered in 1991. Merger of Bank of Madura with ICICI Bank, reverse merger of ICICI with ICICI bank, coming together of Centurion Bank and Bank of Punjab to form Centurion Bank of Punjab and the recent decision of Lord Krishna Bank to merge with Federal Bank are voluntary efforts by banks to consolidate and grow.

Is growing is size better for the Indian banks? India is still an _unbanked country and by global standards, even the biggest of Indian banks are minnows in a business where size means clout and where geographical boundaries are blurring. Even by Indian standards, most of the banking sector is disadvantaged by size: the top 25 banks — of which, 18 are owned by the government — account for about 85 per cent of banking assets.

An analysis of the Indian banking industry shows that due to factors like stability, return to shareholders, adhering to regulatory norms, etc make m & a as an imperative. Also m & a gives an opportunity to these Indian banks of creating a universal bank. Also mergers can be used as a strategic tool and also there is a possibility of strategic investments where traditional M&A are not possible. In the changing economic and business environment characterized by speed, flexibility and responsiveness to customers, size has a lot to contribute to staying ahead in the competition. It is in this context that mergers and acquisitions (M & A‘s) as a tool to gain competitive strength comes into the forefront with partnering for competitiveness being a recognized strategic argument for the same.

***Keywords**: Women Entrepreneurship, Women Entrepreneurs, Challenges, MSME, Finance*

Introduction

The banking industry is one of the prominent indicators of the health of an economy. A bank's ability and freedom to borrow from other banks and lend to corporate has a great impact on the growth rate of the economy. Deregulation of US banks in the 1970s was followed by a drastic change in US banking – banks became larger and better diversified. Soon banks of other developed nations also began to operate in more competitive markets. Developing countries also followed suit in the last decade of the 20th century. Similar to the US, the Indian banking industry too has undergone several changes since the initiation of financial sector reforms in 1992. Deposits and credit have grown at a fast pace driven by the booming economy, increasing disposable income and increased corporate activity; credit penetration has increased significantly though it remains way below the numbers in developed markets; and foreign banks have set the trend in product and service innovation.

The future of Indian banking looks quite exciting with Competition intensifying which would lead to consolidation, though foreign banks are likely to jump into the fray only by 2009, New regulations pertaining to corporate governance and BASEL II coming into effect which would make the banking infrastructure more robust and transparent, Technology being adopted aggressively by banks to make processes efficient and cost-effective, provide services 24X7 and analyze customer data to offer products and services tailor-made to suit their tastes new segments emerging which would enable banks to tap into new markets and offer new products and services product and service innovation by banks (both foreign and Indian), offering the customer greater choice.

From the Public sector dominated scenario, Indian Banking has come a long way to the current scenario where private banks co-exist with their public bank counterparts who have adjusted to the changing times. While The Indian Banking system has done fairly well in adjusting to the changing market dynamics, greater challenges lie ahead.

Consolidation in the Banking sector is very important in terms of mergers and acquisitions for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analyzed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.

Are we seeing the beginning of a phase of consolidation in Indian banking? Will liberalization and globalization make consolidation through Mergers and Acquisitions a logical way forward for banks to survive and grow? Will banks in India willingly agree to be taken over by other banks? Do we need changes in our legal framework for facilitating mergers and acquisitions in the Indian banking industry? Will Mergers and Acquisitions always lead to an appreciation in shareholder value? Well, these are some of the questions which need to be analyzed keeping in the mind the future prospects of the Indian Banking Industry.

Objective:

This paper seeks

1. To study causes and effect of bank mergers to Indian economy.

2. To explicate the need for bank mergers

Mergers and Acquisitions in Banking Sector

A merger is a combination of two or more companies to form a single entity. A merger is more over similar like an acquisition or takeover but the only difference is that in merger existing shareholders of both companies involved they retain a shared interest in the new corporation while in acquisition one company acquire of a bulk of acquired company's stock by willingness or unwillingness of another company.

Like all business entities, banks need to safeguard against risks, as well as exploit obtainable opportunities indicated by existing and expected trends. M&As in the banking sector are on the increase within the recent past, each globally and in India. During this background of emerging world and Indian trends within the banking sector. M&A that have occurred in India post-2000, analyse the advantages and costs to each parties concerned and the consequences for the integrated entity. Consolidation has been considered as a serious strategic tool and it has become worldwide development, driven by apparent edges of scale-economies, geographical diversification, lower costs through branch and workers rationalization, cross-border enlargement and market share concentration.

M&As that have happened post-2000 in India to grasp the intent (of the targets and to boot the acquirers), succeeding synergies (both operational and financial), modalities other deal, harmony of the strategy with the vision and goals of the involved banks, and to boot the long haul implications of the merger.2 Before Independence in 1921 three banks merged from imperial Bank of India, and became the part of State Bank of India in 19553 . In the last few years banking sector has witnessed many tremendous mergers and one of the most prominent mergers is a merger of ICICI Ltd. with its banking arm ICICI bank Ltd. The merger of Global Trust Bank with Oriental Bank of Commerce and the merger of IDBI with its banking arm IDBI Bank Ltd.

Purpose of Mergers and Acquisition

The basic purpose of merging the company is to achieve faster growth in the corporate world.

The growth of the company may be shelf through product improvement and other purpose for

acquisition are given below:

Procurement of Supplies the company by the way of merging and acquisition can safeguard the sources of supplies of raw materials and to obtain economies of purchase in the form of discount, saving cost of transportation costs, overhead costs in buying department etc.. The companies get merged to achieve this purpose.

1. Revamping Production

● To achieve the economies of scale by amalgamating production facilities is more intensive utilization of plant and resources.

● To obtain improved production technology and knowhow from the offered company.

2. Market Expansion and Strategy

● To eliminate competition and protect existing market.

● To reduce the cost of advertising and to improve the public image of the offered.

3. Financial Strength

● To improve the liquidity and have direct access to the cash resources.

● To utilize the tax benefits.

● To dispose of surplus and outdated assets for cash out of combined companies.

4. General Gain

The company is said to improve its own image and attract superior managerial talents to manage its affairs by the way of merger and acquisition. The most general purpose of merging is to offer better satisfaction of product to the consumers or uses of the product.

5. Strategic Purpose

The company makes an effort to achieve strategic objectives through different types of combinations or mergers which may be horizontal, vertical, product expansions other specific unrelated objectives depending upon the corporate strategies. Thus, these types of combination distinct from each other in their nature and are adopted to pursue the objectives.

Procedure of Banks Merger and Acquisition

● The procedure for merger either voluntary or otherwise is printed within the several state statutes/the banking rules act.

● While choosing the merger, the approved officers of the exploit bank and therefore the merging bank sit on and it discuss concerning the procedural modalities and financial terms. Once the discussion was finished, à theme was ready to include all the small print of each the banks and therefore the space terms and conditions. Once the theme was finalized, it's been tabled among the meeting of board of administrators of banks. The board discusses concerning the theme and accords its confirmation if the proposal was found to be financially viable and useful in end of the day.

● After the board approval of the merger proposal, an additional normal general meeting of the shareholders of the several banks is converted to debate the proposal and look for their approval.

● After the board approval of the merger proposal, a registered appraiser is appointed to evaluate each the banks. The appraiser valuates the banks on the premise of its share capital, market capital, assets and liabilities, its reach and anticipated growth and seeks their approval.

● Once the valuation is completed and accepted by the several banks, they send the proposal with all the relevant documents like board approval, shareholders approval, valuation report etc to reserve Bank of India and alternative restrictive bodies such security and exchange board of India for his or her approval.

● At last when getting approvals from all the establishments, approved officers of each the banks then they sit along to debate and settle share allocation proportion by the exploit bank to the shareholders of the merging bank.

● After finishing higher than procedures then it'll signed by the banks

COMPETITION ACT, 2002 & BANKING SECTOR

Competition Act covers all sectors, including banking and other financial sector activities. CCI is competent to inquire into agreement such as horizontal agreements and vertical agreements - among banks; Abuse of dominant position and combination and regulations of combinations between banks above the prescribed threshold limits set by the central government .Being the regulator RBI may make reference to CCI for opinion in any issue suspected to have competition angle, including agreements. CCI has a suo moto power to inquire into such anti-competitive practices. The share subscription or financing facility or any acquisition, to any loan or investment agreement does not, however, require scrutiny from competition angle. The concerned bank is, however, required to make disclosure to CCI within 7 days of acquisition of shares /control.

Bank mergers on the block

In a major move that is set to redefine India's banking space, Finance Minister Nirmala Sitharaman announced the merger of 10 public sector banks into four. The amalgamation scheme includes the merger of Indian Bank with Allahabad Bank; Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB); Canara Bank with Syndicate Bank; Union Bank of India, Corporation Bank and Andhra Bank.What's also noteworthy is the fact that the government has announced capital infusion worth more than 55,000 crore into public sector banks (PSBs). The table below shows the amount distributed among the PSBs. Punjab National Bank, Oriental Bank of Commerce and United Bank are merging to become the second largest Public Sector bank after State Bank of India. SBI still holds the coveted role as the largest PSB in India. Syndicate Bank and Canara Bank are merging to be the fourth largest PSB. Union Bank, Andhra Bank and Corporation Bank are merging to become the fifth largest PSB, while Indian Bank and Allahabad Bank are merging to become the seventh largest.

The book size or the total business is also expected to be leveraged by the mergers. The second largest PSB is expected to have a total business volume of over Rs 18 lakh crore. The merger of Canara Bank and Syndicate Bank as the fourth largest PSB is expected to have a Rs 15.2 lakh crore business volume. The fifth largest PSB of Union Bank, Andhra Bank and Corporation Bank merger is expected to have a Rs 14.6 lakh crore business volume.

PSBs	Capital Infusion (In ₹)
PNB	16,000 Crore
Union Bank of India	11,700 Crore
Bank of Baroda	7,000 Crore
Indian Bank	2,500 Crore
Indian Overseas Bank	3,800 Crore
Central Bank of India	3,300 Crore
UCO Bank	2,100 Crore
United Bank of India	1,600 Crore
Punjab and Sind Bank	750 Crore

Legal Provisions as to M&A in Banking Sector

o Amalgamation of two banking companies is under the provisions of Section 44A of the Banking Regulation Act, 1949

o Section 45 of Banking Regulation Act, 1949 talks about the compulsory amalgamation of banks. (Power of Reserve Bank of India is to apply to Central Government for dissolution / suspension of business by a banking sector and to prepare the scheme of reconstruction / amalgamation.)

o Selection 230 and 232 of the Companies Act, 2013 relates with the mergers and amalgamation.

o Amalgamation of a banking company with a non-banking company is governed by sections 391 to 394 of the Companies Act, 1956

o Section 35 states acquisition of business of other banks by State Bank of India under state bank of India Act 1955.

Merits & Demerits

Merits of Bank Mergers and Acquisitions:

o Through mergers, it will help the banks to scale up its business and gain a large no. of customers quickly.

o It also helps to fill the business gap, to empower the business to fill product or technology gaps and being acquired by the big business firm it will help to upgrade its technology platform efficiently.

o It will bring better efficiency ratio to the business and banking operations and minimize the risk factor ratio by merging into one.

o It will also help in upgradation of technology, increase in profit and raise the standard of living.

Demerits of Bank Mergers and Acquisitions:

o With the different perspective of thinking, various risk culture , risk consistency lays the negative approach on the profitability of the organizations

o Another disadvantage is the perspective of banks in regard to mergers and acquisitions as they only consider in the paper mode and not on the basis of account ultimately the result is failure of merger deals.

Conclusion

In nutshell the concept of merger and acquisition between two or more companies can turn out to be a successful merger and acquisition. The merging and the acquisition process is accepted in India by the Companies Act, 2013 and for the company to get merge with another company, it is important, for the company to follow the procedure explained in the same Companies Act, 2013. When the company acquires merger and acquisition it depends upon its planning and strategies whether they will profitable or in losses. There are many case laws through which it is proved that it's not lagging in this aspect of merger and acquisition from worldwide. The concept of merger and acquisition can also be a risky process which has to be adopted, as it may bring various problems to the company in terms of the management, its working, etc. But overall the concept is definitely contributing to the economy especially in the banking sector domestically as well as on the global level.

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