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MERGERS & ACQUISITIONS IN THE INDIAN BANKING SECTOR- AN OPPORTUNITY FOR GROWTH

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ABSTRACT:

Mergers and Acquisitions encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. A total mix of two separate companies including in a business is alluded as business merger. Acquisitions then again are take - over. For this situation one organization really purchases another organization. Through Mergers and Acquisitions banks not just get set up brand names, new geologies, correlative item contributions yet in addition chances to strategically pitch to new records gained.

The procedure of Mergers and Acquisitions is anything but another to the Indian Banking. The fundamental target of this paper is to survey the effect of Mergers and Acquisitions in Indian Banking Industry, their situation when Mergers and Acquisitions and discovering the purposes for these Mergers and Acquisitions. For the investigation optional information is utilized which has been taken from articles from magazines, papers, books and Websites.

KEYWORDS: *Indian Banking Sector, Mergers, Acquisitions, Strategy, Synergy, Growth.*

INTRODUCTION

Mergers and Acquisitions Mergers a d acquisitions movement can be characterized as a sort of rebuilding in that they result in some element revamping with the expect to give development or positive esteem. The shortened form of merger is as: M= Mixing, E= Entities ,R= Resources for G= Growth =Enrichment and R= Renovation From a lawful perspective, a Merger is a lawful combination of two organizations into one substance, though an Acquisition happens when one organization assumes control over another and totally sets up itself as the new proprietor (in which case the objective organization still exists as a free lawful element constrained by the acquirer).

Mergers and Acquisition assume a significant monetary job of moving assets from zones of under - usage to zones of better use. Inadequately run organizations are increasingly inclined to being taken over by the amazing and administrators have an impetus to guarantee that their organization is represented appropriately and assets are utilized to create most extreme esteem.

Bank mergers are back on the agenda across the globe. With the economic recovery in Europe and the US from the clutches of global financial crisis and clean-up of bank balance sheets, Western banks are now looking to reap the benefits of stronger economy by growing in size and adding new products by way of mergers.

In the US, the number of bank mergers rose to 302 in 2017 from 296 the year before and this year, there could be more consolidation with the Trump administration incentivisim

India has also set the ball rolling but the fundamental difference between the situation at home and that in the West is that New Delhi often faces the compulsion of sweeping the management inadequacies and inefficient allocation of capital at weak banks under the carpet.

On paper, mergers create economies of scale and improve efficiency by cutting the flab in overlapping territories. The Indian government has just begun the long awaited process by pronouncing a three-way merger between Bank of BarodaNSE 2.66 %, Vijaya Bank and Dena Bank as a test case.

The aim is to bring about operating efficiencies over time by lowering combined operating and funding costs while strengthening risk management practices. But here lies a risk because, as they say, a rotten apple can spoil the basket.

The challenges for the first set of merger would be to handle Dena Bank's books saddled with 22% gross NPA, which would have a 20% weightage on the combined balance sheet.

RECENT CHANGES IN INDIAN BANKING SYSTEM

The Indian banking system consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions.

As of Q3 FY19@ total credit extended by commercial banks surged to Rs 93,751.17 billion (US$ 1,299.39 billion) and deposits grew to Rs 120,818.92 billion (US$ 1,866.22 billion). Resources of open part banks remained at US$ 1,557.04 billion in FY18.

Indian banks are progressively concentrating on embracing incorporated way to deal with hazard the board. Banks have just grasped the worldwide financial supervision accord of Basel II, and dominant part of the banks officially meet capital necessities of Basel III, which has a due date of March 31, 2019.

Hold Bank of India (RBI) has chosen to set up Public Credit Registry (PCR) a broad database of credit data which is open to all partners. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed and is relied upon to reinforce the financial segment.

Stores under Pradhan Mantri Jan Dhan Yojana (PMJDY) expanded to Rs 988.74 billion (US$ 14.27 billion) and 355.4 million records were opened in India^. In May 2018, the Government of India gave Rs 6 trillion (US$ 93.1 billion) credits to 120 million recipients under Mudra conspire. In May 2018, the absolute number of supporters was 11 million, under Atal Pension Yojna.

Rising salaries are relied upon to improve the requirement for banking administrations in country regions and along these lines drive the development of the part. As of September 2018, Department of Financial Services (DFS), Ministry of Finance and National Informatics Center (NIC) propelled Jan Dhan Darshak as a piece of budgetary incorporation activity.

It is a mobile app to help people locate financial services in India.

The advanced installments transformation will trigger huge changes in the manner credit is dispensed in India. Charge cards have drastically supplanted Mastercards as the favored installment mode in India, after demonetisation. Platinum cards collected an offer of 87.14 percent of the complete card spending.*

DEFINITION OF MERGERS AND ACQUISITIONS

The terms mergers, acquisitions and consolidation may often be confused, look similar and mostly used interchangeably. However, the three have different meanings. Mergers may be of various types and so can acquisitions and consolidation be. A merger refers to the combination of two or more organizations into one larger organization. Such actions are commonly voluntary and often result in a new organizational name (often combining the names of the original organizations). An acquisition, on the other hand, is the purchase of one organization by another. Such actions can be hostile or friendly and the acquirer maintains control over the acquired firm. Mergers and acquisitions differ from a consolidation, which is a business combination where two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate also defines merger as 'a combination of two or more corporations in which only one corporation survives' while Section 590 of the Nigerian Companies and Allied Matters Act 1990 defines merger as ‘‘any amalgamation of the undertakings or any part of the undertakings or part of the undertakings of one or more companies and one or more bodies corporate’’.

TYPES OF MERGERS AND ACQUISITIONS

Vertical merger

VM is a merger in which one firms supplies its products to the other. A vertical merger results in the consolidation of firms that have actual or potential buyer-seller relationships.

Horizontal merger : HM is the merger of two or more companies operating in the same field and in the same stages of process of attaining the same commodity or service. In other words, a horizontal merger is the combination of firms that are direct rivals selling substitutable products within overlapping geographical markets.

Conglomerate merger: CM occurs when unrelated enterprises combine or firms which compete in different product markets, and which are situated at different production stages of the same or similar products combine, to enter into different activity fields in the shortest possible time span and reduce financial risks by portfolio diversification.

Concentric merger: This involves firms which have different business operation patterns, though divergent, but may be highly related in production and distribution technologies. The acquired company represents an extension of the product lines, market participation, or technologies of the acquiring firm under concentric M&A

Stages of Merger and Acquisition

A five-stage model that will result in successful pursuit of synergistic gains from M&A:

a. Corporate strategy development;
b. Organizing for acquisitions;
c. Deal structuring and negotiation;
d. Post-acquisition integration; and
e. Post-acquisition audit and organizational learning.

Corporate strategy development

Corporate strategy development is concerned ‘with ways of optimizing the portfolios of businesses that a firm currently owns, and how this port folio can be changed to serve the nterests of the corporation’s stakeholders’

Organizing for acquisition

The firm lays down the criteria for potential acquisitions consistent with the strategic objectives and value creation logic of the firm’s corporate strategy and business model.

Deal structuring and negotiation

This involves following stage of M&As:

a. valuing target companies, taking into account how the acquirer plans to leverage its own assets with those of the target; choice of advisers to the deal;
b. obtaining and evaluating as much intelligence as possible about the target from the target as well as other sources through due diligence;
c. determining the range of negotiation parameters including the walk-away price negotiating warranties and indemnities; negotiating the positions of senior management of both firms in the post merger dispensation; and
d. developing the appropriate bid and defense strategies and tactics within the parameters set by the relevant regulatory regimes.

Post-acquisition integration

This stage involves the combination of the distinct organizations into one, resulting in changes in both the target and the acquirer, to deliver the strategic and value expectations that informed the merger.

CONCEPTUAL FRAMEWORK

In the wake of economic reforms, Indian industries have started restructuring their operations around their core business activities through merger, acquisition, and takeovers because of their increasing exposure to competition both domestically and internationally.

As indicated by Accounting Standard (AS) 14,'Accounting for Amalgamations', issued by the Council of the Institute of Chartered Accountants of India, amalgamations fall into two general classes. In the main classification are those amalgamations where there is a veritable pooling not just of the advantages and of liabilities of the amalgamating organizations yet additionally of the investors' advantages and of the organizations of these organizations. Such amalgamations are in the idea of 'merger' and the bookkeeping treatment of such amalgamations ought to guarantee that the resultant figures of benefits, liabilities, capital and saves pretty much speak to the aggregate of the pertinent figures of the amalgamating organizations. In the second classification, those amalgamations which are as a result a mode by which one organization gets another organization and, as an outcome, the investors of the organization which is gained typically don't keep on having a proportionate offer in the value of the joined organization, or the matter of the organization which is obtained isn't expected to be proceeded. Such amalgamations will be amalgamations in the idea of procurement.

Need of Mergers and Acquisitions in Banking Industry of India

It is observed in literature that most of the work done on mergers and acquisition is based on financial &accounting aspect like performance of banking institutions based on. Devos, Kadapakkam & Krishnamurthy (2008) studied M&A as value creation, efficiency improvements as explanations for synergies and produced evidence that suggests mergers generate gains by improving resource allocation rather than by reducing tax payments of increasing the market powerof the combined firm has used accounting ratios to compare the post-merger profitability of two banks i.e.RBS and ABN AMRO. DeLong (2003) studied sampleof 54 bank mergers announced between 1991 and 1995, tests several facets of focus and diversification. The study found that upon announcement, the market rewards the merger of partners that focus their geography and activities and earning stream. Only of these facets, focusing earning streams enhances long term performance. Shanmugam & Nair (2004) identified factors in their study on mergers and acquisitions of banks in Malaysia like globalization, liberalization and information technology developments have contributed to the need for a more competitive, resilient and robust financial systems.

There are few efforts have been made to measure the impact of bank's M&A on their employees and staff. However, apart from this some efforts have been made to study the state of customers in the course of M&A. Acquisitions often have a negative impact on employee behavior resulting in counterproductive practices, absenteeism, low morale, and job dissatisfaction. It appears that an important factor affecting the successful outcome of acquisitions is top management's ability to gain employee trust. Panwar (2011) studied ongoing merger trends in Indian banking from the viewpoint of two important stakeholders of a banking firm stockholders and managers. The findings shows that the trend of consolidation in Indian banking industry has so far been limited mainly to restructuring of weak banks and harmonization of banks and financial institutions.

Voluntary mergers demonstrating market dynamics are very few. She concluded that Indian financial system requires very large banks to absorb various risks emanating from operating in domestic and global environments.

Mergers & Acquisition of Indian banks

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.

Recent Mergers:

Year of Merged	Name of the Banks Acquired	Name of the Banks Merged into
2019 April	Bank of Baroda	Vijaya bank and Dena Bank
2017 April	State Bank of India	Bhartiya Mahila Bank (BMB)
2017 April	State Bank of India	All the 5 associates of SBI
2014 Nov	Kotak Mahindra Bank	ING Vyasa Bank
2010 May	ICICI Bank	Bank of Rajasthan

Some of the past merged are:

- Grind lay Bank merged Standard Charted Bank
- Times Bank with HDFC Bank
- Bank of Madura with ICICI Bank
- Nedungadi Bank with Punjab National Bank
- Post Mergers of Banks 90's and 2000

Successful Approach to Mergers and Acquisition Integration

Years of Merged	Name of the Banks Acquired	Name of the Banks Merged into
1985	Canara Bank	Lakshmi Commercial Bank
1993	Punjab National Bank	New Bank of India
1994	Bank of India	Bank of Karad
1999	Union Bank of India	Sikkim Bank
2000	HDFC Bank	Times Bank
2001	ICICI Bank	Bank of Madura
2008	HDFC Bank	Centurion Bank of Punjab

Merits of Bank Mergers and Acquisitions:

- Through mergers, it will help the banks to scale up its business and gain a large no. of customers quickly.
- 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.
- It will bring better efficiency ratio to the business and banking operations and minimize the risk factor ratio by merging into one.
- It will also help in upgradation of technology, increase in profit and raise the standard of living.

Demerits of Bank Mergers and Acquisitions:

- The foremost disadvantage is compliance and risk consistency and both the merged organizations have different perspective of thinking, different risk culture so it creates a negative impact on the profitability of the organization.
- Another disadvantage is a poor culture fit as the bank only consider the perspective of merging on papers not consider their people or culture into account this is the reason why many bank mergers ultimately fail.

Important Points related to Sections and Law:

- Amalgamation of two banking companies is under the provisions of Section 44 of the Banking Regulation Act,1949.
- Amalgamation of a banking company with a non-banking company is governed by sections 391 to 394 of the Companies Act, 1956

CONCLUSION

Based on the trends in the banking sector and the insights from the cases highlighted in this study, one can list some steps for the future which banks should consider, both in terms of consolidation and general business. Firstly, banks can work towards a synergy based merger plan that could take shape latest by 2019 end with minimisation of technology-related expenditure as a goal. There is also a need to note that merger or large size is just a facilitator, but no guarantee for improved profitability on a sustained basis. Hence, the thrust should be on improving risk management capabilities, corporate governance and strategic business planning. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short, time to market is critical and first mover advantage could be a decisive factor in deciding who wins in future. Post- M&A, the resulting larger size should not affect agility. The aim should be to create a nimble giant, rather than a clumsy dinosaur. At the same time, lack of size should not be taken to imply irrelevance as specialised players can still seek to provide niche and boutique services.