Research Paper Commerce

An Experiential Study of Mergers And Acquisitions in Indian Banking Sector

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ABSTRACT

The research aims to understand the behavior of various "Mergers and Acquisitions in Indian Banking Sector." A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. Mergers and Acquisitions are important corporate strategy actions that aid the firm in external growth and provide it competitive advantage. In today's globalized economy, mergers and acquisitions (M&A) are being increasingly used world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale etc.

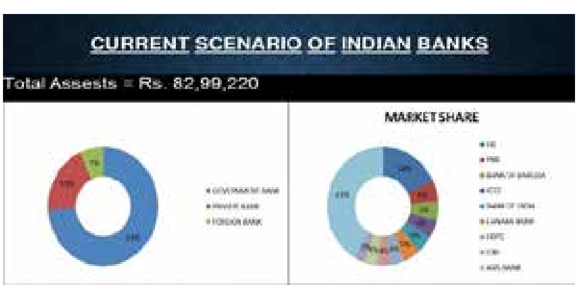
Today, the banking industry is counted among the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and therefore, it has become the most preferred banking destinations for international investors. A relatively new dimension in the Indian banking industry is accelerated through mergers and acquisitions. It will enable banks to achieve world class status and throw greater value to the stakeholders. The main objective of this paper is to analyze whether the bank has achieved financial performance efficiency during the post merger & acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards. This study is testing the impact of merger and acquisition of banks and provides insights about their role after merger on banks profitability.

KEYWORDS Merger, Acquisition, Banking, Profitability, Leverage, Liquidity.

Introduction :

Mergers and acquisitions have been long known to direct the merging entities towards positive synergies, enhanced resources and hence, overall increase in the profit statements. Mergers among different banks are classified as horizontal mergers. The deal is always expected to be beneficial for both merging firms. Mega amalgamations raise hopes to redefine the scenario.

Merger is the combination of two or more entities by purchase acquisition whereby the identity of one of the entities remain while the others are being dissolved. The reasons behind the merger transactions are basically gaining market share, competitive advantage, increasing revenues and risk and product diversifications. With the global financial crises, it is noticeable that mergers and acquisitions have considerably increased. Corporations employed such combination not only for the sake of competitiveness but to maintain a firm foothold in the industry as well. This has led to the significant transformation in the business landscape.



https://www.google.co.in/search?q=images+of+mergers+and+acquisitions+in+indian+banking+sector&espv

M & As since 2000

2000	Times Bank with HDFC Bank	2005	Bank of Punjab with centurion Bank and the formation of centurion Bank of Punjab IDBI bank with IDBI
2001	ICICI with ICICI Bank Bank of Madura with ICICI Bank	2007	Lord Krishna Bank with centurion Bank of Punjab
2002	Benares State Bank with Bank of Baroda ING bought stake in Vysya Bank and ING Vysya Bank formed	2008	Centurion Bank of Punjab with HDFC bank
2003	Nedungadi Bank with Punjab National Bank	2010	Bank of Rajasthan with ICICI bank
2004	Global Trust Bank with Oriental Bank of Commerce	2014	ING Vysya Bank with Kotak Mahindra bank

Objectives Of The Study:
- To understand the purpose of mergers and acquisitions
- To know about the benefits of mergers and acquisitions
- To examine the effects of merger
- To study recommendations of expertise.
- To recognize banking awareness regarding mergers and acquisitions in general

Research Methodology:

Primary and secondary data collection tools are used for the study. In the primary data collection direct observation has been used. Various web sites have been observed and studied and in the secondary data collection various study material and research works which have been done on mergers and acquisitions have been studied. Important and related data has been gathered and used for this research work.

For the purpose of evaluation, investigation data is collected from Merger and Acquisitions (M&A's) of the Indian banking industry. The financial and accounting data of banks is collected from companies Annual Report to examine the impact of M&A's on the performance of banks. Financial data has been collected from Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Securities and Exchange Board of India (SEBI), Money control for the study and other websites.

Purpose Of Mergers And Acquisitions
The purpose for an offer or company for acquiring another company shall be reflected in the corporate objectives. It has to decide the specific objectives to be achieved through acquisition. The basic purpose of merger or business combination is to achieve faster growth of the corporate business. Faster growth may be had through product improvement and competitive position. Other possible purposes for acquisition are short listed below: -

- Procurement of supplies:
- Revamping production facilities:
- Market expansion and strategy:
- Financial strength:
- General gains:
- Own developmental plans:
- Strategic purpose
- Corporate friendliness

Benefits Of Mergers And Acquisitions
Growth or diversification: Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfill the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period of time by merging with an existing firm. In addition such a strategy is often less costly than the alternative of developing the necessary production capability and capacity.

Synergism: The nature of synergism is very simple. Synergism exists whenever the value of the combination is greater than the sum of the values of its parts. In other words, synergism is "2+2=5". But identifying synergy on evaluating it may be difficult; in fact sometimes its implementations may be very subtle. As broadly defined to include any incremental value resulting from business combination, synergism is the basic economic justification of merger. The incremental value may derive from increase in either operational or financial efficiency.

Increased Managerial Skills or Technology: Occasionally a firm with good potential finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner.

Acquiring new technology –To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.

Recommendations:

- It stressed on the use of merger of banks, to enhance size as well as operational strength for each of the banks.
- It made a recommendation for the merger of the large banks in India, with an attempt to make them stronger, so they stand mighty fine in international trade.
- It recommended speeding up of computerization in the Public Sector Banks.
- It established that the legal framework must be strengthened, in order to aim for credit recovery.
- It suggested that there be 2 to 3 banks in India that be oriented internationally, 8-10 national banks and a vast network of local banks to help the system reach the remote corners of India.
- It lay stressed that bank mergers must take place among entities of similar size. This implies that weak banks merge with the weak ones while large banks with the larger and competitive ones.
- It also suggested the confinement of local banking network to the boundaries of states or a few districts.
- Evaluation of the manner of staffing, training process and the remuneration policy of PSU Banks.
- It stated that the enhancement in banking risk can be directed and equated to increase in capital adequacy.
- Suggested the review of the RBI Act, the Nationalization Act, Banking Regulation Act, as well as the SBI Act.
- It stressed on professionalization of banking boards.

Banking Awareness regarding Mergers and Acquisitions in general
Banks must insist on making the complete process transparent for their shareholders. Banks should try not to merge at the stake of the value of shareholders. Shareholders own the amount they invest in the bank and hence, they have all rights to have necessary details such as the financial conditions, details of merger, etc. with regard to the merger that is to take place.

At times, the commission may raise an objection to merger of banks so as to safeguard the interests of the nation. This nature of restriction has been noticed primarily where cross border bank mergers are concerned. This is due to the fact that consolidation of bank with a foreign entity which has a strong hold might eliminate the local banks and hence create unwanted issues.

Commissions have generally not been seen restricting any merger based on the deposits held by the bank or its total number of branches. But, there may be certain situations in which they might if the merger has the potential to raise competition related issues, etc.

When to big entities undergo a merger then in attempt to decrease the potential confrontational effects on the competition due to low market shares of the bank in a particular area, the commission may notify the merging firms to decrease the shares and deposits they hold.

Mergers in any area if creating problems, they can be offset by divestment.

Conclusions:
Growth is an important aspect for any organization. Various challenges and problems faced by the Indian banking sector and the economy have made mergers and acquisitions activity not an unknown phenomenon in Indian banking industry. Historically, mergers and acquisitions activity started way back in 1920 when the Imperial Bank of India was born when three presidency banks (Bank of Bengal, Bank of Bombay and Bank of Madras) were reorganized to form a single banking entity, which was subsequently known as State Bank of India. Globally mergers and acquisitions have become a major way of corporate restructuring and the financial services industry has also experienced merger waves leading to the emergence of very large banks and financial institutions. It drives the organization to create synergy and value creation by way of diversification and improved management.

The banking system in India has undoubtedly earned numerous outstanding achievements, in a comparatively short time, for the World's largest and the most diverse democracy. There have been several reforms in the Indian banking sector, as well as quite a few successful mergers and acquisitions, which have helped it, grow manifold.

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