“A Study on Mergers and Acquisition of Banks in India”

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Abstract

This research paper seems at Mergers and Acquisitions (M&A’s) which have occurred in Indian banking zone to understand the ensuing synergies and the long time implications of the merger. The paper also analyses rising trends and recommends steps that banks should do not forget for future. The paper opinions the trends in M&A’s in Indian banking after which impact of M&A’s has been studied. The study covers the location of overall performance assessment of M&A’s in Indian banking region for the duration of the period. The paper compares pre and put up merger monetary performance of merged banks with the help of economic parameters. The findings suggest that to a point M&A’s has been a success in Indian banking area. The Government and Policy makers have to no longer sell merger among robust and distressed banks as a way to sell the interest of the depositors of distressed banks, as it can have unfavorable impact upon the asset nice of the stronger banks. It additionally studies the State Bank of India and its Associates merger with the professionals and cons of the banks and the personnel of the banks. The required records are accumulated from secondary source.

Keywords: Mergers, Acquisitions, State bank of India and it associates

Introduction

The banking device in India has surely earned numerous outstanding achievements, in a comparatively short time, for the World’s largest and the most numerous democracy. There have been several reforms inside the Indian banking zone, as well as pretty some a success mergers and acquisitions, that have helped it, develop manifold.

The 12 months 1968 witnessed an ordinance issued by means of the Government of India and 14 huge commercial banks within the us of a had been nationalized. These fourteen banks, lower back then, contained a whooping 80 five in step with cent of the overall bank deposits in our, changed into witness to yet another spherical of nationalization and six greater commercial banks got here under the government manage. With this massive leap, an good sized 91 in step with cent of the banking region came below direct manager of the
Indian Government. With this, the quantity of nationalized banks in India rose to twenty. Sometime later, within the 12 months 1993, the government took yet every other stride closer to monetary prosperity and made a flip in the direction of merger of banks. The New Bank of India become merged with the Punjab National Bank (PNB). This become the primary merger among nationalized banks, ever witnessed in Indian records and therefore, the variety of nationalized banks in India was decreased from twenty to nineteen and that remains the same until date

In brand new global market, banking agencies have substantially elevated the scope and complexity in their sports and face ever converting and increasingly more complicated regulatory surroundings. It has been realized globally that mergers and acquisition is only manner for gaining competitive gain domestically and internationally and as such the entire variety of industries are seeking out strategic acquisitions within India and abroad.

**Meaning of Merger**

A merger is a deal to unite current organizations into one new employer. There are several kinds of mergers and also numerous motives why businesses whole mergers. Most mergers unite two present organizations into one newly named organisation. Mergers and acquisitions are generally achieved to amplify a enterprise’s reach, extend into new segments, or advantage marketplace percentage.

**Meaning of Acquisition**

An acquisition is a company movement in which a company buys most, if now not all, of some other firm's ownership stakes to assume manage of it. An acquisition takes place while a buying organization obtains greater than 50% possession in a goal enterprise. As a part of the change, the obtaining company frequently purchases the goal corporation's stock and different assets, which permits the acquiring organization to make choices concerning the newly acquired assets without the approval of the goal company’s shareholders.

**REVIEW OF LITERATURE**

Several researches were conducted to take a look at the impact of mergers and Acquisition. Anand Manoj & Singh Jagandeep (2008) studied the impact of merger announcements of 5 banks within the Indian Banking Sector on the proportion holder financial institution. These mergers have been the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of trade and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had superb and great effect on share holder’s wealth. The impact on both the obtaining and the target banks, the result confirmed that the agreement with the European and the United States Banks Merger and Acquisitions except for the facts the cost of proportion holder of bidder Banks were destroyed in the US context, the marketplace price of weighted Capital Adequacy Ratio of the combined Bank portfolio due to merger declaration is four.29% in a 3 day duration (-1, 1) window and nine. Seventy one % in a Eleven days period (-5, five) occasion window. The occasion take a look at is used for proving the fantastic effect of merger on the bidder Banks.
Sinha Pankaj & Gupta Sushant (2011), studied a pre and post analysis of companies and concluded that it had high quality impact as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions(M&As) it got here to the factor that businesses might also were able to leverage the synergies springing up out of the merger and Acquisition that have no longer been able to manipulate their liquidity. Study confirmed the assessment of pre and publish evaluation of the firms. It additionally indicated the advantageous results on the premise of a few monetary parameter like Earnings before Interest and Tax (EBIT), Return on share holder finances, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency and many others.

RESEARCH METHODOLOGY

Need for the Study
Since the early Nineties, the structure of the banking region has considerably modified due to the deregulation and liberalization, observed by means of divestment of public area banks, entry of foreign banks and merger of many banks in India and within the international. In the publish reform period approximately 25 financial institution mergers passed off in India. These mergers have important implication at the performance and profitability in the banking gadget. Therefore from the factor of view of both managerial and coverage pastimes, it's miles extraordinarily critical to understand the impact of those merges at the efficiency stages of banks and their temporal behaviour so one can recognize how the banking enterprise has been reacting to those emerging demanding situations and which banks are performing higher than others in this period of transition.

Objectives
➢ To examine the reforms of Indian banking zone.
➢ To look at the overall performance of the banks inside the pre and put up M & A
➢ To examine the developments of M&A’s in Indian banking quarter.
➢ To look at on merger of SBI and its associates

Research Methodology
Secondary data: E-Journals, Manuals, articles and online resources.

Limitations of The Study
➢ The observe ignores the impact of viable variations within the accounting strategies adopted by exclusive businesses.
➢ The factors which effect the M & A performance might not be same for all businesses.
➢ The value of acquisition for mergers is not considered inside the technique.
➢ Analysis and Interpretation

INDIAN BANKING SECTOR-BANKING REFORMS Narasimhan Committee:
The Narasimhan Committee, to file a file concerning the reforms within the Indian Banking Sector, become installation inside the month of December, 1997. It submitted a record with the following hints, on April 23, 1998.
It stressed on the usage of merger of banks, to enhance size as well as operational energy for every of the banks.

- It made a advice for the merger of the massive banks in India, with an try to cause them to stronger, in order that they stand robust high-quality in international exchange.
- It advocated dashing up of computerization within the Public Sector Banks.
- It established that the prison framework should be strengthened, so one can intention for credit score recuperation.
- It suggested that there be 2 to a few banks in India that be oriented internationally, 8-10 country wide banks and a big network of local banks to assist the gadget reach the remote corners of India.
- It lay careworn that bank mergers should take vicinity among entities of similar size. This implies that weak banks merge with the weak ones while massive banks with the bigger and competitive ones.
- It additionally counseled the confinement of neighborhood banking community to the bounds of states or a few districts.
- Evaluation of the way of staffing, training manner and the remuneration coverage of PSU Banks.
- It said that the enhancement in banking threat can be directed and equated to growth in capital adequacy.
- Suggested the overview of the RBI Act, the Nationalization Act, Banking Regulation Act, as well as the SBI Act.
- It pressured on professionalization of banking boards.

Raghuram Rajan Committee:
Raghuram Rajan contributed a guest column, within the month of April 2009, for The Economist, and it changed into on this column that, he recommended a regulatory gadget, which may additionally reduce increase-bust financial cycles. His recommendations for the banking zone in India had been –

- India is a substantial country in itself, for this reason, given this reality, it's far practically not possible to control the waft of capital and consequently, the financial system will always be unsure and risky.
- In order to change into large banks, it is required that an entry point be presented within the system, which can be used by the our bodies.
- Technological advances may assist in evolving small banks and reduce the charges of operation.
- Encouragement have to be supplied to the expert markets, in complete swing.
- Underperforming PSU’s were suggested to be bought.
- Markets to be banned, a good way to lessen or put off creation of slightest uncertainty most of the buyers.
- The law of alternate to be added under the control of SEBI (Securities and Exchange Board of India).
He additionally cautioned an open-minded outlook in the direction of merger of banks and takeovers.

Encouragement ought to receive to participation in the home marketplace by the foreign corporations.

**Impacts of Merger & Acquisitions**

The Indian Banking Sector: The history of Indian banking can be divided into three main phases:

Phase I (1786-1969) - Initial phase of banking in India when many small banks were set.
Phase II (1969-1991) - Nationalization, regularization and growth
Phase III (1991 onwards) - Liberalization and its aftermath

1. **Growth:** Companies that choose fast boom in length or marketplace share or diversification inside the range of their merchandise may also locate that a merger can be used to satisfy the objective in preference to going thru the time eating manner of inner boom or diversification. The company may additionally obtain the same goal in a brief period of time via merging with an existing company.

2. **Synergy:** The merged entity has higher capability in terms of both revenue enhancement and fee discount. Mergers and Acquisition permits companies to achieve performance gains thru cost reductions (fee synergies) & revenue increases (sales synergies).

3. **Purchase Of Assets At Bargain Prices:** M&A’S have the opportunity to gather belongings, especially land mineral rights, plant and gadget, at decrease cost than would be incurred in the event that they were bought or constructed on the contemporary marketplace costs.

4. **Enhanced Managerial Skills:** Occasionally a firm with desirable capability finds it unable to expand completely due to deficiencies in positive regions of control or a lack of wanted product or manufacturing era. If the company can't rent the management or the generation it desires, it would integrate with a compatible firm that has wanted managerial, employees or technical understanding.

5. **Acquiring New Technology:** To live competitive, corporations need to stay on top of technological trends and their business programs. By buying a smaller company with unique technologies, a huge organization can maintain or broaden a competitive edge.

6. **Broader Array of Products:** When companies merge they have diverse style of products and after the merger every client in each the corporations might be benefited with the range of services or products to pick from M&A’s allows companies to widen its purchaser portfolio but it additionally leads to a more various range of services.

7. **Income Tax Advantages:** In some instances, income tax attention may additionally provide the financial synergy motivating a merger. Tax concessions act as a catalyst for a sturdy bank to acquire distressed banks that have collected losses and unclaimed depreciation benefits in their books.
8. **Own Developmental Plans:** The reason of acquisition is sponsored by the acquirer groups personal developmental plans. A employer thinks in terms of acquiring the alternative employer simplest when it has arrived at its very own development plan to make bigger its operation having tested its very own inner energy. It has to goal at appropriate aggregate where it can have opportunities to complement its budget by using issuance of securities; cozy extra monetary centers cast off opposition and make stronger its marketplace position.

9. **Strategic Purpose:** The Acquirer Company view the merger to gain strategic objectives thru alternative form of combos which may be horizontal, vertical, product growth, market extensional or other unique unrelated targets depending upon the company techniques.

10. **Corporate Friendliness:** Although it's miles rare however it's miles true that commercial enterprise houses showcase ranges of cooperative spirit regardless of competitiveness in imparting rescues to each other from adverse takeovers and cultivate conditions of collaborations sharing goodwill of each different to achieve overall performance heights thru commercial enterprise mixtures.

**Reasons for Bank Merger**

1) **Merger of vulnerable banks:** Practice of merger of susceptible banks with strong banks turned into occurring which will offer stability to weak banks but Narsimhan committee adverse this practice. Mergers can diversify danger control.

2) **Increase marketplace competition:** Innovation of latest financial merchandise and consolidation of local monetary machine are the reasons for merger. Markets evolved and became greater competitive and because of this marketplace percentage of all person firm reduced so mergers and acquisition started out.

3) **Economies of scale:** Capability of generating economies of scale while companies are merged.

4) **Skill & Talent:** Transfer of skill takes location between company takes place which allows them to improve and turn out to be extra aggressive.

5) **Technology, New services and Products:** Introduction of e-banking and a few economic gadgets / Derivatives. Removal of entry barrier opened the gate for brand spanking new banks with excessive technology and antique banks can't compete with them in order that they determine to merge.

6) **Positive Synergies:** When two companies merge their sole motive is to create a advantageous impact that's higher than the mixed effect of two character corporations operating alone. Two factors of it are price synergy and revenue synergy.

Mergers and acquisitions have virtually formed the Indian Banking area. Though there seem to be one of a kind evaluations on this particular be counted, but there's constantly desire for an improvement inside the cutting-edge state of affairs after bank mergers.
Recent Trends in Banks Regarding the Merger and Acquisition

<table>
<thead>
<tr>
<th>Name of the acquiring bank</th>
<th>Bank targeted</th>
<th>Year in which the merger took place</th>
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<tbody>
<tr>
<td>Kotak Mahindra Bank</td>
<td>ING Vyasa Bank</td>
<td>2014</td>
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<tr>
<td>ICICI Bank</td>
<td>Bank of Rajasthan Ltd.</td>
<td>2010</td>
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<td>HDFC Bank</td>
<td>Centurion Bank of Punjab</td>
<td>2008</td>
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<tr>
<td>Indian Overseas Bank</td>
<td>Bharat Overseas Bank</td>
<td>2007</td>
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<td>Federal Bank</td>
<td>Ganesh Bank of Kurandwad</td>
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<tr>
<td>Industrial Development Bank of India</td>
<td>United Western Bank</td>
<td>2006</td>
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<tr>
<td>Centurion Bank of Punjab</td>
<td>Lord Krishna Bank</td>
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<tr>
<td>ICICI Bank</td>
<td>Sangli Bank</td>
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<tr>
<td>Bank of Punjab</td>
<td>Centurion Bank</td>
<td>2005</td>
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<td>Industrial Development Bank of India</td>
<td>IDBI Bank Ltd.</td>
<td>2004</td>
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<tr>
<td>Bank of Baroda</td>
<td>South Gujarat Local Area Bank</td>
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<tr>
<td>Oriental Bank of Commerce</td>
<td>Global Trust Bank</td>
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<td>Punjab National Bank</td>
<td>Nedungadi Bank Ltd.</td>
<td>2003</td>
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<tr>
<td>ICICI Bank</td>
<td>ICICI Ltd.</td>
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<tr>
<td>Bank of Baroda</td>
<td>Banaras State Bank Ltd.</td>
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<td>ICICI Bank</td>
<td>Bank of Madura</td>
<td>2001</td>
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<td>HDFC Bank Ltd.</td>
<td>Times Bank Ltd.</td>
<td>2000</td>
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<td>Bank of Baroda</td>
<td>Bareilly Co-op Ltd.</td>
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<tr>
<td>Union Bank of India</td>
<td>Sikkim Bank Ltd.</td>
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<tr>
<td>Oriental Bank of Commerce</td>
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<td>1996</td>
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<td>State Bank of India</td>
<td>Kashinath State Bank</td>
<td>1995</td>
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<td>Bank of India</td>
<td>Bank of Karad Ltd.</td>
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<tr>
<td>Punjab National Bank</td>
<td>New Bank of India</td>
<td>1993</td>
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Merger of SBI and Its Associates

The Union cabinet on June 15, 2016 accredited the merger of the five subsidiaries of State Bank of India (SBI) with the figure, because the Indian banking device moves into a phase of consolidation.

The cabinet accredited the merger of the subsidiaries particularly State Bank of Mysore, State Bank of Travancore, State Bank of Hyderabad, State Bank of Patalia, State Bank of Bikaner and Jaipur along with Bhartiya Mahila Bank Ltd with SBI. SBI’s merger with subsidiaries will see the mixed entity’s stability sheet at a whopping Rs.37 trillion, making it one of the pinnacle 50 banks in the world.
What does a financial institution merger, which has been in discussion for over a
decade, mean for the banks in attention and the overall banking system? The amalgamation
of 5 companion banks of the State Bank of India (SBI) with the figure is the most important
merger nowadays. It will make SBI—already the u . S . A .’s largest commercial lender by
means of belongings and deposits— even larger.

The union cabinet has authorized the concept wherein State Bank of Bikaner and
Jaipur (SBBJ), State Bank of Travancore (SBT), State Bank of Mysore (SBM), State Bank
of Patiala and the State Bank of Hyderabad will merge with SBI. The Bharatiya Mahila
Bank (BMB) can also be merged with SBI, as part of the pass.

The pass comes at a time when SBI—like several different country- run banks—is
suffering to cope with growing horrific loans. Its internet income for the three months ended
March 31, 2016 slumped sixty six percent from the year-in the past length, due to higher
provisioning for terrible loans.

Three of the accomplice banks, SBBJ, SBT and SBM, are indexed at the inventory
exchanges and buyers have cheered the merger circulate. Stocks of the accomplice banks
moved up sharply when the cabinet clearance for the move came on June 15, but have
retraced due to the fact then, partially because of earnings booking and additionally due to
fears of a British exit from the European Union.

SBT stock is up 1.3 percentage, SBM up 12.12 percent and SBJJ up 2.4
percentages since the merger turned into permitted through the cupboard. SBI’s inventory,
however, has shed 1.2 percent within the duration. There are a few very clear long-time
period advantages from the merger; however it will come with short-time period ache. Cost
savings will come from commonplace treasury operations and audits.

Branch rationalisation will also be a medium- to lengthy-term advantage. But there can be
difficult troubles which SBI and the authorities will need to face, regarding integration of
manpower, restructuring process profiles and remuneration to group of workers.

Some of the pros and cons are as follows:

Pros:

- Currently, no Indian financial institution features inside the top 50 banks of
  the arena. With this merger, visibility at international degree is likely to
growth.
- Branch explanation, if carried out well, might be one of the key synergy
  advantages from the merger
- The merger benefits consist of getting economies of scale and reduction
  within the cost of doing business.
- After the amalgamation it can withstand the robust competition from non-
  public sector banks and might gather extra sources to channelize trained
  manpower throughout its branches.
The merger of SBI and its associate banks will bring about the network increase of SBI and its attain would multiply.

Cost savings on account of treasury operations, audit, era, and many others, would decrease price-to-earnings ratio in the long time.

Any advent of latest technology and features by SBI will uniformly be to be had to all clients of SBI, its friends and subsidiaries.

Shares of SBI and its friends will put up excellent profits in the inventory alternate thereby benefiting stake holders.

Cons:

- Immediate terrible effect might be from pension liability provisions (because of different employee advantage structures) and harmonization of accounting regulations for NPA (non-performing belongings) recognition.
- The companion banks are on a very exclusive footing as they've local flavour and regional attention as compared to nationalistic SBI culture.
- Various internal conflicts and disputes may get up in regards to advertising, pension and different ability issues.
- Post the merger, SBI's employee prices could upward thrust by using Rs 23 crore a month.

FINDINGS AND SUGGESTIONS

- The observe ignores the impact of possible differences within the accounting techniques adopted by specific companies.
- The factors which impact the M & A performance may not be identical for all companies.
- The cost of acquisition for mergers isn't taken into consideration within the technique. The thrust have to be on enhancing threat control talents, company governance and strategic business making plans.
- In the fast run, attempt alternatives like outsourcing, strategic alliances, etc. Can be considered. Banks need to take advantage of this rapid changing environment, in which product existence cycles are brief, time to marketplace is essential in figuring out who wins in destiny.
- The Government need to no longer pass for M&As as a means of bailing out of weak banks. The sturdy banks need to now not be merged with weak banks, as it could have unfavourable have an effect on upon the asset first-rate of the stronger banks.
- The strong banks should be merged with strong banks to compete with foreign banks and to enter in the global financial market.

CONCLUSION

The banking industry has been undergoing predominant Mergers and Acquisitions in the recent years, with a number of worldwide players rising thru successive Mergers and Acquisitions in all sectors including banking. The gift look at suggests that the pre and submit- Mergers and Acquisitions of decided on banks in India haven't any more
modifications in profitability ratio; a few banks are satisfactory all through the examine duration. Similar decline in overall performance is observed matching corporations. Thus, the decline in the overall performance of merging firms cannot be attributed to merger alone. But in future, there are sturdy possibilities of upgrades in profitability. But ordinary, results suggest that mergers brought about higher stage of cost efficiencies for the merging banks. Merger between distressed and robust banks did now not yield any sizeable performance profits to participating banks. However, the pressured merger amongst these banks succeeded in defensive the hobby of depositors of susceptible banks but stakeholders of those banks have no longer exhibited any profits from mergers.

The empirical findings of this look at advocate that fashion of merger in Indian banking area has up to now been constrained to restructuring of susceptible and financially distressed banks. The Indian economic device requires very massive banks to absorb diverse dangers which have been emerged from running in neighborhood and international marketplace. The top elements for destiny mergers in Indian banking enterprise blanketed the demanding situations of unfastened convertibility and requirement of large funding banks. Therefore, the Government and coverage makers have to be extra cautious in selling merger as a way to obtain economies of scale and scope.

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