TRENDS OF MERGERS AND ACQUISITIONS IN BANKING SECTOR OF INDIA

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ABSTRACT

The mergers and acquisitions have recently been used as the shortcut to expansion in the corporate world. This strategical tool has extensively been used for restructuring business organizations. . The primary objective behind this move is to attain growth at the strategic level in terms of size and customer base. This, in turn, increases the credit-creation capacity of the merged bank tremendously. The mergers in Indian banking sector have time and again been used as revival or expansion strategies. The primary objective of this paper is to study the recent trends in M&As in India and to analyze the motives behind mergers.

Keywords:

WHAT'S THE BACKGROUND OF THE STUDY?

The enhanced competition after the Indian economic reform since 1991 opened its doors for other nation's business houses to establish and run their business in India, has prompted the Indian corporations to resort to mergers and acquisitions as a means to fight back the increased competition. Following the economic reforms introduced back in 1991, Indian economy underwent a remarkable transformation and structural changes, pushing Indian companies on their toes to grow and expand to be able to face growing competition.

OBJECTIVES OF THE STUDY:

The main objectives of this study are:

1. To understand the history of Indian banking sector.

2. To study on reasons of bank mergers and acquisition in Indian banking sector.

3. To observe the trends of mergers and acquisitions in Indian Banking Sector.

LITERATURE REVIEW

Jay and Kumar (2006) listed out the multiple reasons for which banks would merge. While mergers are importantly beneficial for the customers of Indian banks, these merger were also found to be imperative for the state to create few large banks.

Pramod and Vidyadhar (2007) assessed the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. The study concluded that banking and finance industry had a slightly positive impact of profitability.

Leeladhar, V. (2008) observed that private sector bank mergers and acquisitions made great improvement, particularly between weak and healthy banks, and between two healthy banks. To enhance financial sector and boost growth while ensuring system stability, the RBI, as regulator and supervisor, continues to encourage banks to participate in commerce-related mergers and acquisitions

RESEARCH METHODOLOGY

This research paper is based on secondary data. The data is collected from various published sources like e-Journals, newspapers, magazines, articles and online resources.

WHAT'S THE HISTORY OF BANKING SECTOR IN INDIA?

Indian banking industry is governed by the Banking Regulation Act of India, (1949) and is completely regulated by the Reserve Bank of India (RBI). RBI handles the working of banks and through them manages the country's money supply and foreign exchange. The largest public sector bank of India is the State Bank of India, which originated in 1955, is basically a result of consolidation of three banks, in the Bank of Calcutta, Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The combination was initially in the name of the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935 (Praveen Kumari, 2014).

Indian banking sector can be majorly divided into three phases of development.

Phase 1: Important events of Phase one of the Indian Banking Sector are:

- Bank of India was set up in the year 1786
- Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were incorporated as independent units by East India Company. These three banks were amalgamated to form imperial Bank of India in 1921.
- In 1865 Allahabad Bank was incorporated.
- Punjab National Bank Ltd. was set up in 1894 which was established first time exclusively by Indians.
- Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up in this phase of Indian banking Sector.
- Reserve Bank of India came into effect in 1935.

Phase II: characterized by banking sector reforms and nationalization, the important events during this phase were:

- Imperial Bank of India in 1955 was renamed as State Bank of India and was nationalized with the main objective to handle banking transactions of the Government of India.
- Later in 1959, 7 subsidiary banking units of State Bank of India were also nationalized.
- In 1969, 14 major commercial banks in the country were also nationalized.
- In 1980 with six more banks got nationalized bringing almost 80% of the banking segment in India under Government. Nationalization brought about the public faith and immense confidence in the banking sector of India.
- In legal 1949, Banking Regulation Act was enacted to regulate the functioning of these banks.
- In 1975, regional rural banks were created.

Phase III: During this phase more banking sector reforms were introduced in the wake of liberalization and globalization. During this phase the country is flooded with foreign banks and their ATM stations, concept of customer sovereignty was introduced. Phone banking and net banking became reality.

WHY GOVERNMENT SHOULD SUPPORT CONSOLIDATION?

Government of India supports consolidation for the following reasons:

- To Create Next Generation Banks.
- To create big banks with enhanced capacity to increase credit.
- To create more globally Recognized Indian Banks
- To cut down on cost by reducing overlapping costs.
- To enhance operational efficiency

- To bring down the cost of lending.
- To add more banks in D-SIB's framework of RBI
- To build stronger risk taking capacities of Indian Banks.
- To provide wider range of financial services with enhanced technology

WHAT HAVE BEEN THE TRENDS IN MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR LIKE?"

First ever banking merger record in Indian history is that of The madra Bank, which was found in 1683, Merged with the Carnatic Bank, The British Bank of Madras (1795), and the Asiatic Bank to form the Bank of Madras in 1843 *(Wikipedia)*. After this merger the biggest merger that happened was that of Bank of Calcutta, Bank of Bombay and the Bank of Madras to form Imperial Bank of India in 1921. Next important merger was later in the year 1993, when The New Bank of India and The Punjab National Bank merged and this was the only merger between nationalized banks, after that the numbers of nationalized Banks reduced from 20 to 19. Table 1 shows that the mergers in Indian banking industry at a glance:

TABLE 1

S.No	Merger Year	Target Bank	Acquirer
1.	1969	Bank of Bihar Ltd	State Bank of India
2.	1970	National Bank of Lahore Ltd	State Bank of India
3.	1985	Miraj State Bank Ltd	Union Bank of India
4.	1985	Lakshmi Commercial Bank ltd.	Canara Bank
5.	1985	Bank of Cochin Ltd.	State Bank of India
6.	1986	Hindustan Commercial Bank Ltd.	Punjab National Bank
7.	1988	Traders Bank Ltd.	Bank of Baroda
8.	1989	Union Industrial Bank Ltd.	Allahabad Bank

9.	1990	Bank of Tamilnadu Ltd.	Indian Overseas Bank
10.	1990	Bank of Thanjavur Ltd.	Indian Bank
11.	1990	Parur Central Bank Ltd.	Bank of India
12.	1990	Purbanchal Bank Ltd.	Central Bank of India
13.	1993	New bank of India	Punjab National bank
14.	1994	Bank of Karad ltd	Bank of India
15.	1995	Kashinath Seth Bank	State Bank of India
16.	1996	Punjab co-op Ltd	Oriental bank of Commerce
17.	1997	Bari Doab bank Ltd	Oriental bank of Commerce
18.	1999	Bareilly coop Ltd	Bank of Baroda
19.	1999	Sikkim Bank Ltd	Union Bank of India
20.	2000	Times Bank Ltd.	HDFC Bank Ltd
21.	2001	Bank of Madura	ICICI Bank
22.	2002	ICICI Ltd	ICICI Bank
23.	2002	Banaras State bank Ltd	Bank of Baroda
24.	2003	Nedungadi Bank Ltd	Punjab National Bank
25.	2004	IDBI Bank Ltd	Industrial development bank of India
26.	2004	South Gujarat local area Bank	Bank of Baroda
27.	2004	Global Trust Bank	Oriental Bank of Commerce
28.	2005	Centurion Bank	Bank of Punjab
29.	2006	Ganesh Bank of Kurandwad	Federal Bank
30.	2006	United Western Bank	Industrial Development Bank of India
31.	2006	Lord Krishna Bank	Centurion Bank of Punjab
32.	2006	Sangli Bank	ICICI Bank
33.	2007	Bharat Overseas Bank	Indian Overseas Bank
34.	2008	Centurion Bank of Punjab	HDFC Bank

35.	2010	Bank of Rajasthan	ICICI Bank
36.	2010	State Bank of Indore	State Bank of India
37.	2014	ING Vyasa Bank	Kotak Mahindra Bank

(Source: Source: Report on Trend and Progress, RBI, Various Issues, VIII competition and consolidation, 04 Sep 2008 (updated by authors))

SO WHAT'S THE CONCLUSION?

The mergers are important for expansion and consolidation purposes. Mergers have provided great results in terms of saving the weak banks which are going to be crucial in meeting their expectations. The merger certainly helps in creating a stronger banks and thereby leading to a rise in bank's efficiency & sounder balance sheet. This also rationalizes by removing the duplicacy in some important parameters like expenses including branches, employees, technology, etc. PSU banks in India are in general laced with service and cost duplicities. Most banks replicated the same set of banking standards and market insights. In the process, they had to spend much more on branch networks, manpower, administrative costs etc. Now all that can be quickly rationalized. Common services can be shared and overheads can be slashed. The costs so saved can be actually used to give a digital push to banks that is currently lacking. It's high time for India to believe more in quality than the quantity and have a handful of banks with a wider reach, better services, stronger financials and sounder capital base. So, to merge is a great idea if only it is carried out with right banks for the right reasons and at the right time.

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