IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)
An International Open Access, Peer-reviewed, Refereed Journal

Mergers And Acquisitions In Indian Banking Sector

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Abstract: Mergers and Acquisitions have been used as an effective corporate restructuring and expansion tool in the business scenario worldwide. They are an effective tool in the hands of the management to achieve greater efficiency through synergies and growth opportunities. A merger is the process through which two separate firms combine their operations to become a single entity. In a merger, which is also known as a takeover, the existing shareholders of both companies that are involved continue to have an interest in the new corporation. On the other hand, in an acquisition, the company that is doing the acquiring purchases a sizeable portion of the stock of the company that is the target of the acquisition, regardless of whether or not the target company is willing to sell. A banking merger, on the other hand, is when two banks combine their resources to form a single institution. The purpose of this paper is to study about the recent trends and reasons of mergers and acquisitions (M & As) in India.

Keywords*:* Mergers and Acquisitions, Banking Sector, Indian Banking

I. INTRODUCTION

Undoubtedly, India's financial industry has accomplished several remarkable milestones in a relatively short period of time, especially considering that the country is the largest and most varied democracy in the world. Its exponential expansion has been facilitated by several modifications to the Indian banking system as well as a number of fruitful mergers and acquisitions.

14 of India's top commercial banks were nationalized in 1968 as a consequence of a government order. Unbelievably, at the time, only fourteen banks owned 85% of the nation's entire bank deposits. Six more commercial banks were placed under government control in 1980 as part of another round of nationalization. As a result of this brilliant manoeuvre, the Indian government now owns or controls 91%

of the country's banking system. There are already twenty nationalized banks operating in India. In 1993, the government continued its efforts toward economic development by pursuing bank consolidation. The New Bank of India and the Punjab National Bank amalgamated (PNB). As a result of this, India's first merger of nationalized banks, the number of nationalized banks in the country dropped from twenty to nineteen, where it has remained ever since.

An agreement to combine two current companies into one is known as a merger. There are several types of mergers as well as numerous reasons why companies join forces. The majority of mergers bring together two existing businesses under one new identity. Gaining market share, extending a company's reach, and entering new markets are typical justifications for mergers and acquisitions.

A corporation needs to buy the majority of another company's stock, if not all of it, in order to gain control of that company. When a firm has more than fifty percent of the shares of a target company, they are said to have acquired that company. As a standard practise, the purchasing company will participate in the exchange by purchasing shares and various other assets owned by the target company. This gives the purchasing company the ability to make decisions concerning the newly acquired assets without first obtaining the approval of the shareholders of the target company.

II. TYPES OF MERGERS

The many types of mergers are: vertical, horizontal, circular, conglomerate and reverse mergers.

Vertical Mergers

In a vertical merger, the business grows either forward toward the client or backward toward the raw material source. Using a supplier's or a buyer's product or intermediate material in the final production process allows for this. When a company merges or acquires another, it is said to have integrated its supply chain backwards, but when it integrates its supply chain forwards, it is said to have integrated its demand chain.

Horizontal Mergers

When two firms that operate in the same market, cater to the same type of consumer, or are in the same phase of production combine into one, it is considered a horizontal merger. In plain English, a horizontal merger occurs when two competitive businesses combine.

Conglomerate Mergers

A conglomerate merger is merger of two businesses operating in unrelated industries. Utilization of financial resources, expansion of debt-acquiring capacity, diversification of company risks, entry into new rising areas, and exploitation of managerial synergies are all motives for such mergers.

Reverse Merger

Reverse merger can be understood in two different ways. First, the most common kind of reverse merger combines a healthy organization with a failing or losing business. Technically speaking, it is categorized as a "tax-friendly merger." The second kind of reverse merger involves the union of an unlisted company with a publicly traded company. In a formal sense, it qualifies as a "listing friendly merger." The primary motivation for a reverse merger is to get access to tax advantages normally unavailable to a loss-making firm, such as set-off for loss. Additionally, it does away with the requirement for special authorization under tax laws (Section 72A of the Income Tax Act of 1961 or a special statute for the rehabilitation of ill industrial enterprises). Savings on stamp duty, public issue fees, etc., may be further justifications for a reverse merger.

III. LITERATURE REVIEW

Several studies have been carried out to investigate the effects of mergers and acquisitions in the business world.

Anand Manoj and Singh Jagandeep (2008) examined the effects of merger announcements on the shareholder bank. In India alone, four banks have merged in recent years: Times Bank and HDFC Bank; Bank of Madurai and ICICI Bank; ICICI Ltd and ICICI Bank; Global Trust Bank and Oriental Bank of Commerce; and Bank of Punjab and Centurion Bank. The stockholders' wealth was dramatically and favourably affected by the bank's merger announcement. The outcomes of the merger and acquisition agreement between European and American banks indicated the influence on both the acquiring and the target institutions, with the exception of the destruction of shareholder value in the US context. During the three-day (-1, 1) and eleven-day (-5, 5) event windows after the merger announcement, the weighted capital adequacy ratio of the combined bank portfolio was 4.29% and 9.71%, respectively. With the help of the event research, we can see how the merging of the two banks will benefit the former.

A pre- and post-analysis of corporations was conducted by Sinha Pankaj and Gupta Sushant (2011), who came to the conclusion that it had a positive impact since the majority of organisations saw a fall in profitability and an increase in liquidity. After a few years of mergers and acquisitions (M&A), organizations that couldn't control their liquidity may not have been able to take advantage of the synergies brought about by the M&A. The research compared the companies' first and subsequent analyses. A wide variety of financial measures, such as earnings before interest and taxes (EBIT), return on shareholders' funds (ROSF), profit margin (PM), interest coverage ratio (ICR), current ratio (CR), and cost efficiency, were all enhanced as a result of this (CE).

Rukmini Prarthasarathy (1998) researched the economics of mergers, notable bank merger occasions, and the Narshimham Committee Reports. They concluded that mergers burden the stronger bank with substantial nonperforming assets and diminish its profitability. Bank decreases the likelihood of a systemic collapse and provides the stronger bank with a deposit network that is relatively inexpensive.

K. Ravi Sankar and K.V. Rao (1999) made an effort to investigate the effectiveness or ineffectiveness of takeovers as a tactic for saving a failing unit as well as the financial effects of takeovers. He thinks a successful acquisition may be used to save a failing company. He gained an important realization while conducting his research: the turnaround of businesses after being taken over by respected management companies. He came to the conclusion that it is possible for a failing company to revive if it is taken over by capable management that puts forth genuine efforts.

Narasimham Committee Reports (1991) and (1998) were analyzed by Anjali Prasad. (2004). The data suggests that during the next two years, SBI and its Associates will merge to become a single company. Nationalized banks were also thought to consolidate into no more than four or five institutions every five to seven years, whereas private sector banks merged into no more than five in the same time frame.

According to VP Shetty (2006), banking sector consolidation and convergence are global processes, and the Indian banking system would reflect similar characteristics. A conducive environment for mergers and acquisitions in the banking industry would need to be established and fostered, in particular through banking sector reforms. He reached the conclusion that banks would opt to merge of their own will.

Kishore Chandra Padhy (2007) investigated changes in the banking business. There is no replacement for relationship-based banking in an environment with high competition. Relationship management is characterized by product, quality, and utility. Relationship banking necessitates unique abilities, including leadership, execution motivation, interpersonal relationships, and a management system. It was revealed that the resulting problem requires resolution. Individuals in the relationship should get system and initiative support. Quality should remain a driving factor in order to develop offerings and stabilise relationships.

According to K. Mohan (2006), the Indian market is overbanked yet underserviced. Consequently, Indian banks lack a worldwide footprint. Too many banks contribute to the paradox of low customer profitability for banks and higher consumer pricing. Consolidation of banks is vital for the financial system. The objective would be to fortify institutions, create economies of scale, enhance global competitiveness, offer more cheap financial services, and retain staff to combine skill sets. Consolidation will reduce operational expenses by merging resources, while providing banks with new entry barriers and rapid access to new markets. However, market-related factors like as scale, geographic and distribution synergies, skills, capacity, and mergers and acquisitions should be the primary motivators in the domestic banking sector.

According to Dilip Kumar Chanda (2005), deregulation in India had little effect on the profitability of public sector banks. In terms of profitability, the Indian banking industry is unrivalled across the globe. The stock valuations of public sector banks are exceptional. It may be claimed that not all client interests are served by bank mergers. The potential for monopolistic pricing may rise as a result. In a more competitive banking market, the consumer will obtain a lower rate of interest on deposits. Foreign banks continue to gain entry to India's borderless economy in this era of globalisation due to their massive size and extensive range of financial services.

In a more intensively competitive environment, the larger banks require competent employees in addition to good governance and regulation, according to Francis Atuche (2006). Nigeria's 25 post-consolidation banks are battling for top talent. There is a proportional increase in the need for greater management as the size of banks grows. As the level of competition increases, enhanced proficiency in areas such as strategy, risk management, and operations is necessary. In addition, a far more stringent regulatory environment will substantially increase the compliance burden. However, skill and knowledge are lacking.

IV. NEED FOR THE STUDY

Since the early 1990s, the structure of the banking sector has undergone significant change as a result of the deregulation and liberalization of the banking sector, as well as the divestiture of public sector banks, the entry of foreign banks, and the merging of numerous banks in India and around the world. These changes have been brought about by a combination of factors, including deregulation and liberalization, as well as the divestiture of public sector banks. Following the implementation of the reforms, around 25 bank mergers took place in India. These mergers will very certainly have a severe negative effect on both the efficiency and profitability of the banking industry. Gaining an understanding of the effects of these mergers on the efficiency levels and temporal behavior of banks from both a managerial and policy perspective can help one gain a better understanding of how the banking industry has responded to these new challenges and which banks are performing better than others during this period of transition. This can also help one gain a better understanding of which banks are performing better than others during this period of transition.

V. OBJECTIVES

- To aim to have a better understanding of the reform efforts now under way in India's banking industry.
- To investigate what factors lead to consolidation in India's financial sector.
- To investigate the results of mergers and acquisitions in India's financial sector.

VI. INDIAN BANKING SECTOR-BANKING REFORMS

Narasimhan Committee:

The Narasimhan Committee was commissioned in December 1997 to report on developments in the Indian banking industry. The following suggestions were included in the report it submitted on April 23, 1998.

• To expand their size and strength, it recommended bank mergers.

• It advocated for the consolidation of India's major banks in an effort to make them more powerful and better able to compete internationally.

• It suggested accelerating the computerization of public sector banks.

• It was decided that the legal framework needed to be strengthened in order to pursue credit recovery.

• For the system to be able to reach the most remote parts of India, it was suggested that India have two or three banks with an international focus, eight or ten national banks, and a vast network of local banks.

• Mergers between financial institutions should only occur between institutions of similar size, it was emphasized. According to this theory, strong banks join forces with other strong institutions, while weak institutions join forces with other weak institutions.

• It also advocated for local banking networks to be restricted to certain districts or state borders.

• Staffing practices, training methods, and pay structures of PSU banks are analyzed.

• It has been suggested that an increase in capital adequacy can be used to guide and compare a similar increase in banking risk.

• It advocated for a reexamination of the SBI Act, the Nationalization Act, the Banking Regulation Act, and the RBI Act.

• Among the points made was the importance of making banks boards more professional.

Raghuram Rajan Committee:

Raghuram Rajan wrote a guest essay to The Economist in the month of April 2009, in which he advocated a regulatory framework that may lessen boom-and-bust financial cycles. His recommendations for the Indian banking system were —

• Due to the country's size, it will be extremely difficult to limit the flow of money into and out of the country, guaranteeing that India's economy would be in a constant state of flux.

• In order for organizations to grow into huge banks, the system must provide a point of entry that may be utilized.

• Technological improvements may facilitate the evolution of small banks and minimize their operating expenses.

• Professional markets in full swing must be bolstered with encouragement.

• Selling underperforming PSUs was recommended.

• If we want to stop even the tiniest amount of investor doubt from forming, we need to shut down the markets.

• The Securities and Exchange Board of India (SEBI) would be tasked with regulating the financial markets (Securities and Exchange Board of India).

• He pushed for an accommodating stance toward financial institution takeovers.• Foreign enterprises should be encouraged to participate in the domestic marketplace.

VII. IMPACTS OF MERGER & ACQUISITIONS

There are two main periods in India's financial history.

Many local banks began operations in India during Period I (1786-1969).

Part Two: Institutionalization, Normalization, and Development (1969–1991)

1. **Growth** - Businesses strive for rapid expansion, whether in terms of overall size, market share, or product range.
2. **Synergy:** The combined company is better equipped to expand income streams and reduce costs. Businesses can gain efficiencies through mergers and acquisitions in the form of cost savings (cost synergies) and revenue growth (revenue synergies).
3. **Purchase of Assets at Bargain Prices:** Mergers and acquisitions can be used to save money on the purchase or development of assets, especially land mineral rights, plant and equipment.
4. **Enhanced Managerial Skills:** Inadequate management in some areas or a lack of appropriate product or production technology might hold back an otherwise promising business.
5. **Acquiring New Technology:** For businesses to remain competitive, they must be abreast of technical advancements and their commercial applications. A major firm can preserve or create a competitive edge by acquiring a small company with distinctive technology.
6. **Broader Range of Products:** Customers of both firms will benefit from a merger by having access to a larger range of goods and services, which will be made possible by the combined product lines of the merged companies. When businesses combine forces or buy one another, not only do the resulting entity(s) have access to a bigger pool of potential customers, but they also gain access to a greater variety of available products.
7. **Income Tax Advantages:** In certain circumstances, the financial synergy that propels a merger may be provided by advantages in terms of income tax.
8. **Own Developmental Plans:** Own Developmental Goals: The acquisition's aim is supported by the acquirer's own developmental plans.
9. **Strategic Purpose**: The acquiring firm intends to use the merger to advance its strategic goals, which may include horizontal or vertical integration, product or market expansion, or the creation of new business opportunities.
10. **Corporate Friendliness**: Although it is uncommon, it is true that corporate houses demonstrate a degree of cooperative spirit despite their rivalry in rescuing one another from hostile takeovers.

VIII. REASONS FOR BANK MERGER

1. Merger of weak banks: There was a tradition of merging weak banks with strong banks to give stability to weak banks, however the Narsimhan committee was against this practice. Risk management may be diversified via mergers.

2. Increase market competition: It was customary to combine weak banks with strong banks in order to stabilize weak banks, but the Narsimhan committee opposed this practice. Mergers can diversify risk management.

3. Economies of scale: Capacity to provide economies of scale when businesses unite.

4. Skill & Talent: The sharing of knowledge and expertise between two organizations allows them to grow and become more formidable rivals in their respective markets.

5. Technology, New services and Products: Introduction of various financial derivatives and electronic banking.

6. Positive Synergies: When two companies come together, they do so with the sole intention of creating a better result than would have been possible had they remained separate.

IX. RECENT MERGERS AND ACQUISITIONS ON BANKING SECTOR IN INDIA

In August of last year, the government announced its plan to combine 10 public sector banks into four, reducing the overall number of state-owned lenders from 21 to 12. In an earlier statement, Sitharaman said that the combination will improve financial management. The merger would go into effect on April 1, 2020.

Since the National Democratic Alliance took administration in 2014, consolidating public sector banks has been a priority. In 2017, the State Bank of India amalgamated with the Bharatiya Mahila Bank and five of its subsidiary banks. The 2018 merger of Bank of Baroda, Vijaya Bank, and Dena Bank was approved. In order to privatize IDBI Bank Ltd., the government also permitted Life Insurance Corporation of India to purchase 51% of the company's shares.

Recent Mergers:

Year of Merged	Name of the Banks Acquired	Name of the Banks Merged into
2019 August	Indian Bank	Indian Bank and Allahabad Bank
2019 August	Union Bank	Union Bank, Andhra Bank and Corporate Bank
2019 August	Canara Bank	Canara Bank and Syndicate bank
2019 August	Punjab National Bank	Punjab National Bank, Oriental bank of commerce and United bank of India
2019 April	Bank of Baroda	Vijaya bank and Dena Bank
2017 April	State Bank of India	Bharatiya 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

X. CONCLUSION

Recent mergers and acquisitions in the banking industry have resulted in the formation of a number of big worldwide corporations. There were not many variations between the profitability ratios of a few Indian banks selected for mergers and acquisitions before and after the study period, according to the current research. Comparable decreases in performance are observed among matched firms. Consequently, the merger cannot be held wholly responsible for the decline in performance of the merging organizations. However, there is a significant possibility that future profitability will improve. However, overall statistics indicate that merging banks were more cost-effective. Mergers between strong and struggling banks did not result in any significant efficiency gains for participating institutions. However, the forced merger of these banks was effective in protecting the depositors of weak institutions, but the stakeholders of these banks have not established any merger advantages. The empirical findings of this study suggest that the trend of bank mergers in India has thus far been restricted to the reorganization of financially challenged and weak institutions. Because they operate on both domestic and foreign markets, India's largest banks are exposed to a number of hazards. Future mergers in the Indian banking sector were primarily driven by the challenges of free convertibility and the necessity for large investment banks. In order to reap the benefits of economies of size and scope, the government and policymakers must be more cautious when pushing for mergers.

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