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# A STUDY ON MERGER AND ACQUISITION IN INDIAN BANKING SECTOR

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**ABSTRACT**

For the expanding Indian banking industry, consolidation in the banking sector is crucial in terms of mergers and acquisitions. Cost reduction and revenue growth are two ways to do this. Why do we need banking consolidation in India and what are the challenges that lie ahead are the key points here. The part that the

The central government must be carefully considered throughout the process because it is essential to the development of the policies necessary for the expansion of Indian banking.

Recently, it is observed that some M&A as voluntary efforts on the part of banks. The first of these consolidations after financial sector reforms were introduced in 1991 involved the merger of Times Bank and HDFC Bank. Banks have made voluntary attempts to consolidate and expand through the merger of Bank of Madura with ICICI Bank, the reverse merger of ICICI with ICICI Bank, the union of Centurion Bank and Bank of Punjab to become Centurion Bank of Punjab, and the recent choice of Lord Krishna Bank to unite with Federal Bank.

Is it better for Indian banks to grow in size? Even the biggest Indian banks are considered minnows by international standards in a sector where scale matters and where boundaries between countries are vanishing. India is still an unbanked nation. The majority of the banking industry is undersized even by Indian standards: the top 25 banks, of which 18 are owned by the government, account for nearly 85% of banking assets.

According to a study of the Indian banking sector, M & A is essential due to variables like stability, shareholder return, adherence to regulations, etc. Additionally, M & A offers these Indian institutions the chance to establish a universal bank. Additionally, mergers may be employed strategically.

**Key words:** Finance, Mergers and Acquisition.

## INTROUCTION

One of the key measures of an economy's health is the banking sector. The ability and independence of a bank to borrow from other banks and lend to corporations has a significant impact on the rate of economic growth.

After US banks were deregulated in the 1970s, the US banking industry saw a significant transformation, with institutions growing and becoming more diverse. Soon, banks from other industrialized countries started to conduct business in more cutthroat areas.

Developing nations did the same in the final ten years of the 20th century. Similar to the US, numerous changes have been made to the Indian banking system since the start of financial sector reforms in 1992.

Because of the expanding economy, deposits and credit have increased quickly.

## OBJECTIVES:

1. To examine the causes of and effects of bank mergers on the Indian economy.

2. To explain why bank mergers are necessary.

## METHODOLOGY

The study is based on secondary data and descriptive. The data collected from various journals, reports, articles, and websites.

## MERGER AND ACQUISITION IN BANKING SECTOR:

A merger is the joining of two or more businesses to create a single organization. A merger is more or less similar to an acquisition or takeover, with the exception that existing shareholders of the two companies involved retain a shared interest in the new corporation, whereas in an acquisition, one company acquires the majority of the stock of the acquired company with or without the consent of the other company.

Like any commercial entities, banks must protect themselves from dangers and take advantage of possibilities made available by current and anticipated trends. Recently, both internationally and in India, M&As in the banking sector have increased. Against this backdrop of globalization and Indian banking industry changes. M&A transactions

## PURPOSE OF MERGER AND ACQUISITION:

The primary goal of the firm merger is to generate faster corporate growth.

Improvements to the products may help the company grow, and other reasons for acquisition are listed below:

Purchasing supplies for the business through mergers and acquisitions can protect the sources for raw material supplies and ways to save money on purchases, such as getting a discount or avoiding paying for shipping or other ancillary expenses. To accomplish this, the businesses unite.

1.Production Redesign

a. By combining production facilities, economies of scale can be achieved through more intensive use of equipment and resources.
b. To acquire better production technology and know-how from the prospective business.

2.Market Development and Strategy

a. To reduce competition and safeguard the current market.
b. To lower advertising expenses and enhance the perceived value of the product.

3. Financial Stability

a. To increase liquidity and have immediate access to financial resources
b. To take advantage of tax advantages
c. To sell surplus and out-of-date assets for cash out

**PROCEDURE OF BANKS MERGER AND ACQUISITION:**

The Banking Rules Act and various state regulations outline the process for merging, whether it be voluntarily or not.

The authorized officers of the merging bank and the exploit bank sit on a conference table and debate the financial terms and procedural modalities when deciding the merger. A theme was ready to contain all the fine print of each bank and the space terms and conditions once the conversation was through. Once the topic was decided upon, it was put on the agenda for the meeting of the bank administrators' board. The board deliberates on the subject and, if the idea is ultimately determined to be both financially and practically viable, confirms it. After the merger proposal was approved by the board, an extra regular

**COMPETITION ACR ,2002 & BANKING SECTOR:**

All industries are covered by the Competition Act, including the banking industry and other financial operations. CCI has the authority to look into agreements between banks, including vertical and horizontal arrangements; abuse of the powerful

position, combination, and rules governing bank combination exceeding the central government-mandated threshold restrictions. Being the regulator, RBI may consult CCI for advice on any matter that may have a competitive component, including agreements. CCI has the authority suo moto to look into such anticompetitive actions. However, a competitive analysis of the share subscription, financing facility, purchase, loan, or investment agreement is not necessary. However, the concerned bank must notify CCI within 7 days of the acquisition of the shares or control.

## BANK MERGERS ON THE BLOCK

The merging of 10 public sector banks into four was announced by Finance Minister Nirmala Sitharaman in a significant step that is expected to completely reshape the Indian banking industry. Indian Bank and Allahabad Bank, Oriental Bank of Commerce and United Bank of India and Punjab National Bank, Canara Bank and Syndicate Bank, Union Bank of India, Corporation Bank, and Andhra Bank are among the institutions that will combine under the amalgamation plan. The government's announcement to inject more than 55,000 crore in capital into public sector banks (PSBs) is also notable. The sum allocated to the PSBs is displayed in the table below. After State Bank of India, Punjab National Bank, Oriental Bank of Commerce, and United Bank will merge to form the second-largest Public Sector bank. SBI

| PSBs | CAPITAL INFLUSION (IN.RS) |
|---|---|
| PNB | 16000 crore |
| Union Bank of India | 11700 crore |
| Bank Of Baroda | 7000 crore |
| Indian Bank | 2500 crore |
| Indian Overseas Bank | 3800 crore |
| Central Bank of India | 3300 crore |
| UCO Bank | 2100 crore |
| United Bank of India | 1600 crore |
| Punjab and Sind bank | 750 crore |

## LEGAL PROVISION AS TO M & A IN BANKING SECTOR

- Section 44A of the Banking Regulation Act of 1949 governs the merger of two banking companies.
- The Banking Regulation Act of 1949 discusses the requirement for bank mergers in Section 45. (The Reserve Bank of India has the authority to petition to the Central Government for the dissolution or suspension of a banking sector's operations and to create a plan for reconstruction or amalgamation.)
- The Companies Act of 2013's selections 230 and 232 deal with mergers and amalgamations.
- Sections 391 to 394 of the Companies Act of 1956 regulate the merger of a banking company and a non-banking company.
- Section 35 of the State Bank of India Act of 1955 provides that the bank may purchase the business of other banks.

## MERITS AND DEMERITS

### MERITS OF BANK MERGERS AND ACQUISITION

- Through mergers, the banks will be able to quickly expand their customer base and scale their operations.
- It also aids in bridging the technological or product gap for the business, and once being acquired by a large corporation, it will assist in effectively modernizing its technological foundation.

- By combining, it will improve the efficiency ratio of business and banking operations and reduce the risk factor ratio.
- It will also assist in technological advancement, profit growth, and an improvement in living standards.

## DEMERITS OF MERGER AND ACQUISITION

- With varied ways of thinking, various risk cultures, and risk consistency, the profitability of enterprises is negatively impacted.
- Another drawback is that bank's view mergers and acquisitions as a risky endeavor The failure of merger negotiations is the end result because they only take into consideration in the paper mode and not on the basis of accounts.

## CONCLUSION

In essence, the idea of a merger and acquisition between two or more businesses might result in a successful merger and acquisition. The Companies Act of 2013 in India recognized the practice of mergers and acquisitions, and in order to merge with another business, it is crucial that the company follow the steps outlined in that same statute. Whether a company's merger and acquisition efforts are profitable or unsuccessful depends on its strategy and strategies. There are numerous case laws that demonstrate that it is not underperforming in this area of merger and acquisition globally. Additionally, the idea of a merger and acquisition might be a risky procedure that must be.

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