# Purpose of Mergers and Acquisition – An Empirical View

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**Abstract**

Consolidation in the Banking sector is very important in terms of mergers and acquisitions for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analyzed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking. In the recent times, we have seen some M&A as voluntary efforts of banks. Merger of Times Bank with HDFC Bank was the first of such consolidations after financial sector reforms ushered in 1991. Merger of Bank of Madura with ICICI Bank, reverse merger of ICICI with ICICI bank, coming together of Centurion Bank and Bank of Punjab to form Centurion Bank of Punjab and the recent decision of Lord Krishna Bank to merge with Federal Bank are voluntary efforts by banks to consolidate and grow.

Is growing is size better for the Indian banks? India is still an _unbanked country and by global standards, even the biggest of Indian banks are minnows in a business where size means clout and where geographical boundaries are blurring. Even by Indian standards, most of the banking sector is disadvantaged by size: the top 25 banks — of which, 18 are owned by the government — account for about 85 per cent of banking assets.

*Keywords: Women Entrepreneurship, Women Entrepreneurs, Challenges, MSME, Finance*

## Introduction

The banking industry is one of the prominent indicators of the health of an economy. A bank‘s ability and freedom to borrow from other banks and lend to corporate has a great impact on the growth rate of the economy. Deregulation of US banks in the 1970s was followed by a drastic change in US banking – banks became larger and better diversified. Soon banks of other developed nations also began to operate in more competitive markets. Developing countries also followed suit in the last decade of the 20th century. Similar to the US, the Indian banking industry too has undergone several changes since the initiation of financial sector reforms in 1992. Deposits and credit have grown at a fast pace driven by the booming economy, increasing disposable income and increased corporate activity; credit penetration has increased significantly though it remains way below the numbers in developed markets; and foreign banks have set the trend in product and service innovation.

The future of Indian banking looks quite exciting with Competition intensifying which would lead to consolidation, though foreign banks are likely to jump into the fray only by 2009, New regulations pertaining to corporate governance and BASEL II coming into effect which would make the banking infrastructure more robust and transparent, Technology being adopted aggressively by banks to make processes efficient and cost-effective, provide services 24X7 and analyze customer data to offer products and services tailor-made to suit their tastes new segments emerging which would enable banks to tap into new markets and offer new products and services product and service innovation by banks (both foreign and Indian), offering the customer greater choice.

From the Public sector dominated scenario, Indian Banking has come a long way to the current scenario where private banks co-exist with their public bank counterparts who have adjusted to the changing times. While The Indian Banking system has done fairly well in adjusting to the changing market dynamics, greater challenges lie ahead.

Consolidation in the Banking sector is very important in terms of mergers and acquisitions for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analyzed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.

Are we seeing the beginning of a phase of consolidation in Indian banking? Will liberalization and globalization make consolidation through Mergers and Acquisitions a logical way forward for banks to survive and grow? Will banks in India willingly agree to be taken over by other banks? Do we need changes in our legal framework for facilitating mergers and acquisitions in the Indian banking industry? Will Mergers and Acquisitions always lead to an appreciation in shareholder value? Well, these are some of the questions which need to be analyzed keeping in the mind the future prospects of the Indian Banking Industry.

**Objective:**

This paper seeks

1. To study causes and effect of bank mergers to Indian economy.

2. To explicate the need for bank mergers

The company makes an effort to achieve strategic objectives through different types of combinations or mergers which may be horizontal, vertical, product expansions other specific unrelated objectives depending upon the corporate strategies. Thus, these types of combination distinct from each other in their nature and are adopted to pursue the objectives.

**Procedure of Banks Merger and Acquisition**

● The procedure for merger either voluntary or otherwise is printed within the several state statutes/the banking rules act.

● While choosing the merger, the approved officers of the exploit bank and therefore the merging bank sit on and it discuss concerning the procedural modalities and financial terms. Once the discussion was finished, à theme was ready to include all the small print of each the banks and therefore the space terms and conditions. Once the theme was finalized, it's been tabled among the meeting of board of administrators of banks. The board discusses concerning the theme and accords its confirmation if the proposal was found to be financially viable and useful in end of the day.

● After the board approval of the merger proposal, an additional normal general meeting of the shareholders of the several banks is converted to debate the proposal and look for their approval.

● After the board approval of the merger proposal, a registered appraiser is appointed to evaluate each the banks. The appraiser valuates the banks on the premise of its share capital, market capital, assets and liabilities, its reach and anticipated growth and seeks their approval.

● Once the valuation is completed and accepted by the several banks, they send the proposal with all the relevant documents like board approval, shareholders approval, valuation report etc to reserve Bank of India and alternative restrictive bodies such security and exchange board of India for his or her approval.

● At last when getting approvals from all the establishments, approved officers of each the banks then they sit along to debate and settle share allocation proportion by the exploit bank to the shareholders of the merging bank.

● After finishing higher than procedures then it'll signed by the banks

**COMPETITION ACT, 2002 & BANKING SECTOR**

Competition Act covers all sectors, including banking and other financial sector activities. CCI is competent to inquire into agreement such as horizontal agreements and vertical agreements - among banks; Abuse of dominant position and combination and regulations of combinations between banks above the prescribed threshold limits set by the central government .Being the regulator RBI may make reference to CCI for opinion in any issue suspected to have competition angle, including agreements. CCI has a suo moto power to inquire into such anti-competitive practices. The share subscription or financing facility or any acquisition, to any loan or investment agreement does not, however, require scrutiny from competition angle. The concerned bank is, however, required to make disclosure to CCI within 7 days of acquisition of shares /control.

**Bank mergers on the block**

In a major move that is set to redefine India's banking space, Finance Minister Nirmala Sitharaman announced the merger of 10 public sector banks into four. The amalgamation scheme includes the merger of Indian Bank with Allahabad Bank; Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB); Canara Bank with Syndicate Bank; Union Bank of India, Corporation Bank and Andhra Bank.What's also noteworthy is the fact that the government has announced capital infusion worth more than 55,000 crore into public sector banks (PSBs). The table below shows the amount distributed among the PSBs. Punjab National Bank, Oriental Bank of Commerce and United Bank are merging to become the second largest Public Sector bank after State Bank of India. SBI still holds the coveted role as the largest PSB in India. Syndicate Bank and Canara Bank are merging to be the fourth largest PSB. Union Bank, Andhra Bank and Corporation Bank are merging to become the fifth largest PSB, while Indian Bank and Allahabad Bank are merging to become the seventh largest.

The book size or the total business is also expected to be leveraged by the mergers. The second largest PSB is expected to have a total business volume of over Rs 18 lakh crore. The merger of Canara Bank and Syndicate Bank as the fourth largest PSB is expected to have a Rs 15.2 lakh crore business volume. The fifth largest PSB of Union Bank, Andhra Bank and Corporation Bank merger is expected to have a Rs 14.6 lakh crore business volume.

| PSBs | Capital Infusion (In ₹) |
|---|---|
| PNB | 16,000 Crore |
| Union Bank of India | 11,700 Crore |
| Bank of Baroda | 7,000 Crore |
| Indian Bank | 2,500 Crore |
| Indian Overseas Bank | 3,800 Crore |
| Central Bank of India | 3,300 Crore |
| UCO Bank | 2,100 Crore |
| United Bank of India | 1,600 Crore |
| Punjab and Sind Bank | 750 Crore |

**Legal Provisions as to M&A in Banking Sector**

o Amalgamation of two banking companies is under the provisions of Section 44A of the

Banking Regulation Act, 1949

o Section 45 of Banking Regulation Act, 1949 talks about the compulsory amalgamation of

banks. (Power of Reserve Bank of India is to apply to Central Government for dissolution /

suspension of business by a banking sector and to prepare the scheme of reconstruction / amalgamation.)

o Selection 230 and 232 of the Companies Act, 2013 relates with the mergers and amalgamation.

o Amalgamation of a banking company with a non-banking company is governed by sections 391 to 394 of the Companies Act, 1956

o Section 35 states acquisition of business of other banks by State Bank of India under state bank of India Act 1955.

**Merits & Demerits**

***Merits of Bank Mergers and Acquisitions:***

o Through mergers, it will help the banks to scale up its business and gain a large no. of customers quickly.

o It also helps to fill the business gap, to empower the business to fill product or technology gaps and being acquired by the big business firm it will help to upgrade its technology platform efficiently.

o It will bring better efficiency ratio to the business and banking operations and minimize the risk factor ratio by merging into one.

o It will also help in upgradation of technology, increase in profit and raise the standard of living.

***Demerits of Bank Mergers and Acquisitions:***

o With the different perspective of thinking, various risk culture , risk consistency lays the negative approach on the profitability of the organizations

o Another disadvantage is the perspective of banks in regard to mergers and acquisitions as they only consider in the paper mode and not on the basis of account ultimately the result is failure of merger deals.

## Conclusion

In nutshell the concept of merger and acquisition between two or more companies can turn out to be a successful merger and acquisition. The merging and the acquisition process is accepted in India by the Companies Act, 2013 and for the company to get merge with another company, it is important, for the company to follow the procedure explained in the same Companies Act, 2013. When the company acquires merger and acquisition it depends upon its planning and strategies whether they will profitable or in losses. There are many case laws through which it is proved that it's not lagging in this aspect of merger and acquisition from worldwide. The concept of merger and acquisition can also be a risky process which has to be adopted, as it may bring various problems to the company in terms of the management, its working, etc. But overall the concept is definitely contributing to the economy especially in the banking sector domestically as well as on the global level.

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