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Mergers and Acquisitions in Indian Banking Sector – An Outline

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Abstract

Banking sectors are facing many changes and undergoing changes by consolidation by means of mergers and acquisitions all over the world. Mergers and Acquisitions in banking sectors are due to economies of scale. Large banks are in better position to introduce new technologies, reduce cost than small banks and which attract the customers. Mergers and Acquisitions (M&As) have resulted in universal banks in terms of total asset, products, and geographical locations. Banking size is considered as an important and efficient in today's economy. Banking in India originated in the last decades of the 18th century. The first bank is Bank of Hindustan, which was established in 1770 and liquidated in 1829-32; and General Bank of India, established 1786 but failed in 1791. SBI originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. Amalgamation of the three presidency banks - Bank of Bengal, Bank of Bombay and Bank of Madras in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1st July 1955. Mergers and Acquisitions in Indian Banking are not new and dates back from Imperial bank of India.

Keywords: *Mergers, Acquisitions, Consolidation, Indian Banking, Sector*.

Introduction

Indian banking sector has witnessed number of changes. It has undergone a huge transformation one such is Mergers and Acquisitions which are considered as an important mile stones for the economic development of our economy and future. Economic development leads to investment in various sectors of the economy. M&As are not only for economic reasons but also for non-economic reasons such as power, prestige, sensational seeking etc. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. It is not only a weaker bank merger with healthier bank but two healthier banks join to become even better than the best.

Mergers and Acquisitions

Merger is a combination of two or more companies to form one entity. Owners of separate, roughly, equal sized firms pool their interests in a single firm. Surviving firm takes on the assets and liabilities of a selling firm. Mergers are distinguished from acquisitions in that mergers are assumed to involve two firms with roughly the same size or equivalent resources. If one of the two firms is much smaller we are inclined to label their fusion an “acquisition”. Mergers are classified into four types are as follows they are Horizontal, Vertical, Conglomerate, Reverse they vary from an economic perspective depending on business combinations.

Horizontal Merger

A merger occurring between companies producing similar products, goods and offering similar services. This type of merger occurs frequently as a result of larger companies attempting to create more effective economies of scale.

Vertical Merger

A merger between two companies producing different goods and services for one specific finished product. The firm that have actual or potential buyer-seller relationship.

Conglamerate Merger

A merger between firms that are involved in totally unrelated, two types of conglomerate merger are pure conglomerate merger- it involves firms with nothing common. Mixed conglomerate merger-it involves firms that are looking for product extensions or market extensions.

Reverse Merger

Private company becomes a public company by purchasing control of public company. Acquiring company is smaller or weaker than the one being gobbled up. Parent company merging into subsidiary, or a profit-making firm merging into a loss- making one.

Mergers and acquisitions can take place

* by purchasing assets

* by purchasing common shares

* by exchange of shares for assets

*by exchanging shares for shares

Reasons for Mergers and Acquisitions

*Financial synergy for lower cost of capital

*Improving company's performance and accelerate growth

*Economies of scale

*Diversification for higher growth products or markets

*To increase market share and positioning giving broader market access

*Strategic realignment and technological change

*Tax considerations

*Under valued target

*Diversification of risk

Review of Literature

Reviews of literature always play a very significant role in every research study. Literature is treated as the back-support of the study. Tour on historical literature helps to explore and develop the ideas on the concerned topic.

1. D.RaviShankar (2005), in his paper stated that mergers and acquitions can lead to reductions in costs for a variety of reasons. Consolidation can lead to increased revenues through its effects on firms size, Firm scope or Marker power.

2. Anand shanbhag (2005) in his paper states as follows Management is strongly focused on the expectations of investors and consolidations is often seen as a route to sleeping up the growth and the expanding market share. Consolidation is only an enabling step towards realization of the synergies. Mergers drive mainly deals with Economies of scale, Economies of scope, potential for risk diversification, personal incentives of management and public policy, e.g., a desire to have a small number of global players rather than a large number of local players.The tangible benefits of a merger take longer and may enquire changes in the structure of merged entities.

3. Paras Mal Jain (2005),his outcomes states that the Consolidation in the present arena being talked about not the merger of weak banks in the strong banks, neither it is to protect the interest of the depositors of one bank by merging it into other bank. The idea is that a strong unit can absorb the shocks and survive in the difficult times. This article contains various aspects and advantages of consolidation in banking industry it also emphasises the need and importance, problems and suggestions for consolidation in banking industry.

4. Pramod Mantravadi and vidyadhar Reddy (2007), their research states that Mergers and Acquisitions are being increasingly used world over as a strategy for achieving larger size and faster growth in Market share and become completive through economies of scale. The results suggest that there are minor variations in terms of impact on operating performance following mergers in different intervals of time in India. M&A s are for increasing the asset base through consolidation of different business.

5. Georgios Kyriazopoolos and Dr.Dimitrios petropoul (2010),their outcomes are as follows Mergers and acquisitions usually contribute to the creation of big bank groups, in lifting of completion between the banks that merge, in their revitalization, as well as to the lowering of costs with the final result the improvement of efficiency. M&A s is a desire of management to improve the company's overall financial performance. Bank merger of about the same size increase significantly the performance of the merged banks through the economies of scale and synergies".

6. Mr. P.A.Steeven Raj (2011) in his Ph.D., Thesis he had analysed of post merger impact on banks of banking sector and concluded that financial implications plays a significant role in strategic planning and decision-making. A number of streamlining procedures need to be established and a lot of commit ant from top management is required.

7. Praveen Kumari (2014), the article stated that the Mergers and Acquisitions encourage banks to gain global reach and better synergy and allow banks to acquire the stressed assets of weaker banks. The small & medium size banks are working under the problem such as inadequacy of resources, outdated technology, and on-systemized management pattern. Faltering marketing efforts, weak financial structure, technique obsolance and luck of product innovations. Their reorganizations through merger could offer re-establishment. All the merged entities after mergers and acquisitions are continuously growing rather than before the merger.

8. Nand Lal (2014) a research scholar on his study had concluded that the main purpose of mergers and acquisitions is to reduce competition and protect existing market in the economy. Overall mergers and acquisitions have their own pros and cons. But mergers are good for the growth and development of country only when it does not give rise to competition issues. Mergers help banks to strengthen their financial base and access tax benefits and direct access to cash resources.

9. Dr. G. Manokaran & R.Radharukkumani (2015) in their research stated that the analysis of Non-performing assets had increased in all the sample acquirer banks except HDFC bank and the average amount of working fund by all the sample banks taken for this study was greater during post merger period.

Statement of the Problem

Indian economy is currently witnessing a change from the controlled to the market driven economy. Banking industry is considered critical from several aspects such as need for higher capital, risk management, financing, development project, technology up gradation and improvement in customer service. M&A in the banking industry are an important force of change taking place worldwide. Increasing need to archive economy of large scale brand building expanding branch net works over a under geographical area undergoing. Bad loans or NPA is a slowdown in the economy.Capital to Risk Asset Ratio CRAR has declined. Indian economy is currently witnessing a change from the controlled to the market driven economy. Banking industry is considered critical from several aspects such as need for higher capital, risk management, financing, development project, technology up gradation and improvement in customer service. M&A in the banking industry are an important force of change taking place worldwide. Increasing need to archive economy of large scale brand building expanding branch net works over a under geographical area undergoing. Bad loans or NPA is a slowdown in the economy. Capital to Risk Asset Ratio CRAR has declined.

Conclusion

Mergers are a good idea; this process should be carried with right banks for the right reasons in a future growth race through additional M&As. M&As, as a very important strategic decision, were conceptualized as a key factor that influences organizational evolution. Merger is also tricky job a huge challenges banks face, including the bad loan problem that has plunged many public sector banks in an unprecedented crisis M&As increase intra-firm variations and change firm's resources configuration. Since mergers are also about people, a huge amount of planning would be required to make the consolidation process smoother. M&As are need of an hour for universal Banking.

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