A THEORETICAL STUDY ON THE RECENT TRENDS IN MERGERS AND ACQUISITIONS WITH REFERENCE TO INDIAN BANKING SECTOR

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ABSTRACT

This study aims to understand the behavior of various mergers and acquisitions that are taking place in Indian Banking sector. Nowadays corporate entities undertake many strategies to modify its capital structure. These strategies or plans are usually followed to solve either administrative problems or financial crisis. The basic purpose of merging the organisations is to achieve faster growth in the corporate world. Mergers and acquisitions leads in reviving production, market expansion, aims in increasing the financial strength and helps in upgradation of technology and finally it promotes to improve the image of the sector, so that the end user is benefitted to a larger extent. Further a new dimension can be achieved through mergers and acquisitions in Indian Banking sector and the banks can create greater value to its stakeholders.

Key Words-Mergers, acquisitions, Banking Sector

I. INTRODUCTION

In recent years, the Banking Sector in India is undergoing the concept to Mergers and Acquisitions. The growth of banking industry in our country is astonishing and it has attracted the international investors to a greater extent. Due to liberalization and technological changes the Indian industries have been forced to adopt various strategies for its survival and one among the strategy is the adoption of corporate restructuring. Some of the common forms of corporate restructuring are mergers/amalgamations/acquisitions/takeovers/financial restructuring/divestitures/demergers and buyouts. Thus it is a process of re-designing one or more aspects of the company. The ultimate of restructuring is to increase the value of the business. Thus it is a sort of reorganization/reconstruction made on its financial or operational structure, particularly during the financial threats.

Recent trends in Mergers and Acquisitions

A good merger and acquisition strategy is focused on gaining economies of scale, helps the company to increase their growth rate through acquisition of new products, new customers capturing additional markets, to enhance research and development and for probable tax reasons.

The merger of ten government-run banks into four will come into force from April 1. The branches of the merging banks will operate as branches of the banks in which they have been merged. Customers of merging banks will also now be treated as customers of the banks in which these banks have been merged. The banks' merger was announced last year in August and the union cabinet gave the final approval on March 4.

Union Finance Minister Nirmala Sitharaman on 30th August 2019 had announced the consolidation of state-owned banks (PSBs) in which 10 PSBs being merged to form 4 bigger lenders to strengthen the Banking sector struggling with a bad-loan. The move was aimed at cleanup of the Bank Balance Sheets and creating lenders of global scale that can support the economy’s surge to $5 trillion by 2024. “Having done two rounds of bank consolidation earlier, this is what we want to do for a robust banking system and a $5-trillion economy. We are trying to build next-generation banks, big banks with the capacity to enhance credit,” FM Sitharaman said. The key factors for the mergers were: Technological platforms, Customer reach, Cultural similarities, and Competitiveness, Finance Secretary Rajiv Kumar added.

Meaning of Mergers and acquisitions
Mergers and acquisitions (M&A) are defined as consolidation of companies. Merger is the combination of two companies to form one, while Acquisitions is one company taken over by the other. M&A is one of the major aspects of corporate finance world.

**Types of Mergers**

- **Horizontal Merger:** A horizontal merger takes place when two companies, selling the same product or provide services to the same region, come together to enhance their reach. This merger happens between immediate competitors and is quite common in industries, which results in rigid competition.

- **Vertical Merger:** A Vertical mergers happen between two companies producing different goods or services for a particular product or service. This merger mostly occurs between two companies within a production process of a particular industry. The reason behind this kind of a merger is to have high-quality control and gain more command over the supply.

- **Concentric Merger:** Similar to horizontal mergers, concentric mergers occur when one company merges with another company to sell products to the same customer, even though they sell different products.

- **Conglomerate Merger:** A conglomerate merger happens between two unrelated companies. Conglomerate mergers are of two types:
  - **Pure Conglomerate Merger:** It happens between two companies selling completely unrelated products and who are operating in different markets
  - **Mixed Conglomerate:** It occurs between companies with the aim to expand product lines or target markets.

**Scope of the Study**

The positive effect includes that there is always synergy value created by the joining of two or more companies or banks. The values can be of increased revenues, lowering of expenditures or reducing the overall cost of capital. Hence a need arises to study the significance of mergers and acquisitions in Indian banking sector and to understand the importance and the relevant theories related to mergers and acquisitions.

**II. METHODOLOGY**

Secondary data have been gathered from various research papers, websites and books related to merger and acquisitions in Indian Banking sector.

**Objectives of the Study**

1. To understand the legal framework of mergers and acquisitions in India.
2. To study the various reasons behind mergers and acquisitions in Indian banking sector.
3. To study the steps to be followed in the process of mergers and acquisitions.

**III. LITERATURE REVIEW**

An elaborate review has been undertaken to understand the concept of mergers and acquisitions in Company form of organizations and in Indian Banking Sector. Here are some of the related review: Mergers and acquisitions (M&A) have become an important medium to expand product portfolios, enter new markets, acquire new technology, gain access to research and development, and gain access to resources which would enable the company to compete on a global scale (Yadav, A. K. and B.R. Kumar.; 2005, pp. 51-63) Dr. Sangita Ghosh (2016) researched on merger between Global Trust Bank and Oriental Bank of Commerce. She analysed liquidity factor, efficiency factor, profitability factor and performance factor of Oriental Bank of Commerce. And found that after merging bank profitability and efficiency of acquirer bank has improved but there was no change in liquidity position of Oriental Bank of Commerce. Sherma 2017 opines that Mergers and Acquisitions (M&As) are the most effective and efficient way to enter a new market. Lyndoh, 2017, examined the top private sector banks in India by comparing the financial performance of HDFC and ICICI bank. His study shows that HDFC bank’s performance and financial soundness is better than ICICI bank. However this study was conducted during the period of 2012/13 to 2016/17.
Reasons behind the merger of banks

The main reason for bank mergers is to increase the wealth/value of the shareholders. Mergers increase the financial capacity of the banks through the process of acquisition of assets. Further mergers can happen to set off the substantial carry forward tax losses. Merger may give the acquiring company a chance to grow its market share. It allows the acquiring company to eliminate future competition so as to gain a larger market share. Mergers are considered to be a more friendly corporate restructuring strategy, as it voluntary and it is mutually beneficial for both the parties involved in the process. By merging the banks, the legal costs and other costs drastically comes down, as banks spend larger amounts of money in the recovery of the bad loans. Further mergers may initiate the process of offering more products and a better service to the customers. It reduces the unhealthy competitions between banks. The banking sector staffs are also benefitted through the process of mergers as it increases their bargaining capacity/strength for better wage payments. Hence it can be summed up as

• To increase profits: The merger of banks will combine the assets of the amalgamated banks and this will certainly increase the share value.

• To diversify: With the merger of banks, a golden opportunity is created to diversify the services offered. Further the banks will also get the chance to grow quickly due to wide access to the market.

• Combine efficiency: The Bank merger will certainly enhance the performance efficiency.

• To reduce the risk: The Bank merger reduces the risk of bankruptcy that the banks are facing due to the current situation.

• To reduce the competition: With the merger of banks, potential competitors will become one single institution, and thus, market competition will decrease.

Steps to follow in the process of M&A

1. Develop an acquisition strategy – Developing a good acquisition strategy revolves around the acquirer having a clear idea of what they expect to gain from making the acquisition – what their business purpose is for acquiring the target company (e.g., expand product lines or gain access to new markets)

2. Set the M&A search criteria – Determining the key criteria for identifying potential target companies (e.g., profit margins, geographic location, or customer base)

3. Search for potential acquisition targets – The acquirer uses their identified search criteria to look for and then evaluate potential target companies

4. Begin acquisition planning – The acquirer makes contact with one or more companies that meet its search criteria and appear to offer good value; the purpose of initial conversations is to get more information and to see how amenable to a merger or acquisition the target company is

5. Perform valuation analysis – Assuming initial contact and conversations go well, the acquirer asks the target company to provide substantial information (current financials, etc.) that will enable the acquirer to further evaluate the target, both as a business on its own and as a suitable acquisition target

6. Negotiations – After producing several valuation models of the target company, the acquirer should have sufficient information to enable it to construct a reasonable offer; Once the initial offer has been presented, the two companies can negotiate terms in more detail

7. M&A due diligence – Due diligence is an exhaustive process that begins when the offer has been accepted; due diligence aims to confirm or correct the acquirer’s assessment of the value of the target company by conducting a detailed examination and analysis of every aspect of the target company’s operations – its financial metrics, assets and liabilities, customers, human resources, etc.

8. Purchase and sale contract – Assuming due diligence is completed with no major problems or concerns arising, the next step forward is executing a final contract for sale; the parties make a final decision on the type of purchase agreement, whether it is to be an asset purchase or share purchase
9. Financing strategy for the acquisition – The acquirer will, of course, have explored financing options for the deal earlier, but the details of financing typically come together after the purchase and sale agreement has been signed.

10. Closing and integration of the acquisition – The acquisition deal closes, and management teams of the target and acquirer work together on the process of merging the two firms.

Here are a few aspects of the Public Sector Undertaking bank merger:

1. As per the latest merger, Oriental Bank of Commerce (OBC) and United Bank of India (UBI) will be merged with Punjab National Bank (PNB). The merged entity will become the second-largest state-run bank. The new entity will have a business of Rs 17.95 lakh crore and 11,437 branches.

2. The amalgamation of Syndicate Bank into Canara Bank will create the fourth-largest public sector bank with Rs. 15.20 lakh crore business and a network of 10,324 branches.

3. Allahabad Bank branches will operate as those of the Indian Bank. The merger of Allahabad Bank with the Indian Bank will create the seventh-largest public sector bank with Rs. 8.08 lakh crore business.

4. Branches of Andhra Bank and Corporation Bank will function as the branches of Union Bank of India. Andhra Bank and Corporation Bank's merger with Union Bank of India will create India's fifth-largest public sector bank with Rs. 14.59 lakh crore business and 9,609 branches.

5. The government had front-loaded Rs. 68,855 crore to take care of the bank-merger plan.

6. Punjab National Bank was given Rs. 16,091 crore, Union Bank of India Rs. 11,768 crore, Canara Bank Rs. 6,571 crore and Indian Bank Rs. 2,534 crore. Allahabad Bank was provided Rs. 2,153 crore, United Bank of India Rs. 1,666 crore, Andhra Bank Rs 200 crore, Indian Overseas Bank Rs. 4,360 crore and UCO Bank Rs. 2,142 crore.

7. According to the government, the merger of the 10 banks will lead to the creation of stronger establishments. This merger would follow in the example of the amalgamation of Bank of Baroda, Vijaya Bank, and Dena Bank last year.

8. With this mega-bank mergers, the number of Public Sector Banks will get consolidated from 27 banks in 2017 to 12 banks in 2020.

9. The new 12 public sector banks will be -- six merged banks and six independent banks. State Bank of India, Bank of Baroda Punjab National Bank, Canara Bank, Union Bank of India, Indian Bank will be the six merged banks. And, Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab and Sind Bank, which have a strong regional focus, will remain independent entities.

Some of the mergers made in the recent past are:

- Grindlays Bank merged Standard Chartered Bank
- Times Bank with HDFC Bank
- Bank of Madura with ICICI Bank
- Nedungadi Bank with Punjab National Bank

The government has stated three broad gains from the merger:

- The amount of credit has been considerably increased.
- The merger will lead to a strong national presence and global reach.
- The gains in operational efficiency will reduce the cost of lending.

Recent Mergers

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<th>Year of Merger</th>
<th>Name of the banks acquired</th>
<th>Name of the banks merged into</th>
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Mergers and acquisitions help to acquire economies of scale, it can save an unprofitable firm from leaving the business line and it avoids duplication. It further manages the cultural differences, manages the manpower and it helps in technological up gradation and integration. Through mergers monopoly power gets increased, market growth may be reduced, it creates unemployment as it may result in job losses and the new company may have higher pricing power.

IV. CONCLUSION

Banking sector is one of the fastest growing sectors in our country. It is one of the most useful tools for growth, which has proved it as one of the strategy that can be used for the survival of weak banks by means of merging it into larger banks, Further it can be used to expand their horizons. Mergers and acquisitions strengthen the networks of banks across boundaries and improves customer base and market share. There are difficulties such as execution risk in bringing two banks under one platform, synchronizing the human resource, streamlining of processes in mergers and acquisitions and hence it is the duty of the Government to scrutinize the situation and to bring about a balance between the pros and cons of mergers and acquisitions.

REFERENCES