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MERGERS AND ACQUISITIONS IN BANKING SECTOR OF INDIA

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A merger is a combination of two or more companies to form a single entity. A merger is more over similar like an acquisition or takeover but the only difference is that in merger existing shareholders of both companies involved they retain a shared interest in the new corporation while in acquisition one company acquire of a bulk of acquired company's stock by willingness or unwillingness of another company.

Mergers and Acquisitions in Banking Sector

Like all business entities, banks need to safeguard against risks, as well as exploit obtainable opportunities indicated by existing and expected trends. M&As in the banking sector are on the increase within the recent past, each globally and in India. During this background of emerging world and Indian trends within the banking sector. M&A that have occurred in India post-2000, analyse the advantages and costs to each parties concerned and the consequences for the integrated entity.[1]

Consolidation has been considered as a serious strategic tool and it has become worldwide development, driven by apparent edges of scale-economies, geographical diversification, lower costs through branch and workers rationalization, cross-border enlargement and market share concentration. M&As that have happened post-2000 in India to grasp the intent (of the targets and to boot the acquirers), succeeding synergies (both operational and financial), modalities

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[1] http://www.rainmaker.co.in/IntroductoryProgrammes/IntroductionMergersAcquisitions.pdf

other deal, harmony of the strategy with the vision and goals of the involved banks, and to boot the long haul implications of the merger.[2]

Before Independence in 1921 three banks merged from imperial Bank of India, and became the part of State Bank of India in 1955[3]. In the last few years banking sector has witnessed many tremendous mergers and one of the most prominent mergers is a merger of ICICI Ltd. with its banking arm ICICI bank Ltd. The merger of Global Trust Bank with Oriental Bank of Commerce and the merger of IDBI with its banking arm IDBI Bank Ltd.

Recent Mergers[4]

Year of Merger	Name of the Banks Acquired	Name of the Banks Merged into
2019 April	Bank of Baroda	Vijaya bank and Dena Bank
2017 April	State Bank of India	Bhartiya 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

Successful Approach to Mergers and Acquisition Integration[5]

Years of Merged	Name of the Banks Acquired	Name of the Banks Merged into
1985	Canara Bank	Lakshmi Commercial Bank
1993	Punjab National Bank	New Bank of India
1994	Bank of India	Bank of Karad

[2] http://www.ey.com/Publication/vwLUAssets/Assocham_White_paper_Companies_Act/$File/Assocham_White_paper_Companies_Act.pdf
[3] https://en.wikipedia.org/wiki/Banking_in_India
[4] https://www.bankexamstoday.com/2017/12/mergers-and-acquisitions-in-banking.html
[5] https://www.bankexamstoday.com/2017/12/mergers-and-acquisitions-in-banking.html

1999	Union Bank of India	Sikkim Bank
2000	HDFC Bank	Times Bank
2001	ICICI Bank	Bank of Madura
2008	HDFC Bank	Centurion Bank of Punjab

Purpose of Mergers and Acquisition

The basic purpose of merging the company is to achieve faster growth in the corporate world. The growth of the company may be shelf through product improvement and other purpose for acquisition are given below:

Procurement of Supplies the company by the way of merging and acquisition can safeguard the sources of supplies of raw materials and to obtain economies of purchase in the form of discount, saving cost of transportation costs, overhead costs in buying department etc.. The companies get merged to achieve this purpose.[6]

1. Revamping Production

● To achieve the economies of scale by amalgamating production facilities is more intensive utilization of plant and resources.

● To obtain improved production technology and knowhow from the offered company.

2. Market Expansion and Strategy

● To eliminate competition and protect existing market.

● To reduce the cost of advertising and to improve the public image of the offered.

3. Financial Strength

● To improve the liquidity and have direct access to the cash resources.

● To utilize the tax benefits.

● To dispose of surplus and outdated assets for cash out of combined companies.

[6] http://www.dnb.co.in/FESConfTool/Uploads%5CDownloads%5C102%5CM&A%20Write%20-%20up.pdf

4. General Gain

The company is said to improve its own image and attract superior managerial talents to manage its affairs by the way of merger and acquisition. The most general purpose of merging is to offer better satisfaction of product to the consumers or uses of the product.

5. Strategic Purpose

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.[7]

Merits of Bank Mergers and Acquisitions:

- Through mergers, it will help the banks to scale up its business and gain a large no. of customers quickly.
- 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.
- It will bring better efficiency ratio to the business and banking operations and minimize the risk factor ratio by merging into one.
- It will also help in upgradation of technology, increase in profit and raise the standard of living.

Demerits of Bank Mergers and Acquisitions:

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

[7] http://ijbed.org/admin/content/pdf/i-5_c-58.pdf

Legal Provisions as to M&A in Banking Sector[8]

- Amalgamation of two banking companies is under the provisions of Section 44A of the Banking Regulation Act, 1949
- 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.)
- Selection 230 and 232 of the Companies Act, 2013 relates with the mergers and amalgamation.
- Amalgamation of a banking company with a non-banking company is governed by sections 391 to 394 of the Companies Act, 1956
- Section 35 states acquisition of business of other banks by State Bank of India under state bank of India Act 1955.
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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.

Number of competition issues in banking sector

I. **Multi-market contacts**: banks that compete in many markets recognize the need to co-exist rather than compete

[8] https://www.bankexamstoday.com/2017/12/mergers-and-acquisitions-in-banking.html

II. **Barriers to entry**: Contestable markets are highly competitive. However, entry restrictions exist in the form of:

Regulatory barriers: minimum capital requirements; restraints on lines of business; licensing of branches or subsidiaries; restrictions on entry of foreign banks etc.

Substantial state ownership –Non interference of foreign banks in domestic banks ownerships. **Exit barriers** are in the form of preventive measures for bank insolvencies.

III. **Economies of scale and scope and branch networks**: Banks market access depends on the network of branches it has and its nation or worldwide presence.

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.[9]

[9] http://www.iosrjournals.org/iosr-jbm/papers/Vol18-issue6/Version-1/J1806017986.pdf

● 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.[10]

● 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.[11]

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

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.

[10] https://mpra.ub.uni-muenchen.de/63410/1/MPRA_paper_63410.pdf

[11] http://www.icaiknowledgegateway.org/littledms/folder1/chapter-13-merger-acquisitions-restructuring.pdf