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MERGER AND ACQUISITION IN BANKING INDUSTRY

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Abstract

This paper analyzes some critical issues of consolidation in Indian banking with particular emphasis on the views of two important stake-holders viz. shareholders and managers. First we review the trends in consolidation in global and Indian banking. Then to ascertain the shareholders‟ views, we conduct an event study analysis of bank stock returns which reveals that in the case of forced mergers, neither the bidder nor the target banks‟ shareholders have benefited. But in the case of voluntary mergers, the bidder banks‟ shareholders have gained more than those of the target banks. In spite of absence of any gains to shareholders of bidder banks, a survey of bank managers strongly favors mergers and identifies the critical issues in a successful merger as the valuation of loan portfolio, integration of IT platforms, and issues of human resource management. Finally we support the view of the need for large banks by arguing that imminent challenges to banks such as those posed by full convertibility, Basel-II environment, financial inclusion, and need for large investment banks are the primary factors for driving further consolidation in the banking sector in India and other Asian economies .

Key words: Merger, Acquisition, stakeholders, share capital

I. Introduction

In Indian banking sector Mergers and acquisitions has become admired trend throughout the country. A large number of public sector bank, private sector bank and other banks are engaged in mergers and acquisitions activities in India. The Main motive behind Mergers and acquisitions in the banking sector is to harvest the benefit of economies of scales. Merger and acquisition have played an important role in the transformation of industrial sector of India since the Second World War period. During the Second World War period Economic and political conditions give rise to effective Mergers and acquisitions (M&A). Mergers can be a large source of growth in any economy but particularly in one that's comparatively stagnant and mired in deep uncertainty. Mergers and acquisitions (M&A) are considered as a relatively fast and efficient approach to expand into new markets and incorporate new technologies. the main motive behind used strategy by firms to strengthen and sustain their position in the market place. Mergers and acquisitions (M&A) have played a major role for corporate restructuring and the financial services industry. We can find many evidences that their success is by no means assured. Pressures on the employees of banks around the world have been manifold across, entry of new players and products with superior technology, globalization of financial markets, changing demographics of customer behavior, consumer pressure for wider choice and low cost service, shareholder wealth demands, shrinking margins.

Our objective here is to present a panoramic view of merger trends in India, to ascertain the perceptions of two important stake-holders viz. shareholders and managers and to discuss dilemmas and other issues on this contemporary topic of Indian banking. We believe that the currently available merger cases do not form a sufficient data set to analyze the performance of mergers based on corporate finance theory because almost all the mergers are through regulatory interventions and market driven mergers are very few. The perception of bank managers is ascertained through a questionnaire based survey that brings out several critical issues on bank mergers with insights and directions for the future. Finally, we present arguments on why Indian banks should go for mergers. These arguments are also applicable to other Asian countries which have bank consolidation on their agenda. To the best of our knowledge, this paper is perhaps the first attempt at analyzing a plethora of issues on bank mergers in one place, thus providing useful inputs for researchers as well as policy makers.

Changes in Banking Scenario

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, this article illuminates the key problems encompassing M&As during this sector with the focus on India. It seeks to clarify the motives behind some M&As that have occurred in India post-2000, analyse the advantages and costs to each parties concerned and the consequences for the integrated entity. A look at the future of the Indian banking sector, and a few key recommendations for banks, follow from this analysis.7 The International banking situation has shown major turmoil within the past few years in terms of mergers and acquisitions. Deregulating has been the most driver, through three major routes - dismantlement of interest rate controls, barriers that has been leads to disintermediation, investors hard-to-please high returns, price cutting war, reduced margins, falling spreads and competition across geographies forcing banks to appear for brand new ways .8 Consolidation has been a serious strategic tool for this and has become a worldwide development, driven by apparent edges of scale-economies, geographical diversification, lower costs through branch and workers rationalisation, cross-border enlargement and market share concentration. The new metropolis II norms have additionally diode banks to ponder M&As. 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 of the deal, harmony of the strategy with the vision and goals of the involved banks, and to boot the long haul implications of the merger. The article additionally analyses rising future trends and recommends steps that banks have to be compelled to think about, given the forecasted

Acquisition

Acquisition normally sense is acquiring the possession within the property. In the context of business combos, an acquisition is that the purchase by one company of a interest within the share capital of another existing company.6(Hasegawa 2000) Methods of Acquisition: An acquisition is also affected by:

● Agreement with the persons holding majority interest within the company management like members of the board or major shareholders commanding majority of vote power;

● Purchase of shares in open market;

● to make takeover provide to the final body of shareholders;

● Purchase of recent shares by personal treaty;

● Acquisition of share capital through the subsequent sorts of concerns viz. means that of money, issue of loan capital, or insurance of share

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. The registrars, being the authorities United Nations agency are unconditional with the responsibility of administering the provisions, are going to be guaranteeing that the due process of law prescribed within the statutes been complied with before they look for the approval of the run.

● 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 finalised, 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 accepted by the several banks, they send the proposal beside all 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.

BENEFITS OF MERGER TO INDIAN BANKS

After clearly understanding the motives and rationale for merger, we studied the mergers of 17 banks in India. In this analysis, we can identify following benefits of mergers to the all participants.

• Sick banks survived after merger.

• Enhanced branch network geographically.

• Larger customer base (rural reach).

• Increased market share.

• Attainment of infrastructure

Types of Mergers A vertical merger is completed with an aim to mix two corporations that are within the same worth chain of manufacturing identical sensible and repair, however the sole distinction is that the stage of production at that they're operational. as an example, if a clothing store takes over a textile mill, this might be termed as vertical merger, since the business is same, i.e. clothing, however the stage of production is different: one firm is works in territory sector, whereas the opposite works in secondary sector. These varieties of merger are typically undertaken to secure provide of essential merchandise, and avoid disruption in provide, since within the case of our example, the haberdashery store would be rest assured that garments are going to be provided by the textile mill. it's conjointly done to limit provide to competitors, therefore a bigger market share, revenues and profits. Vertical mergers conjointly supply price saving and a better margin of profit, since manufacturer's share is eliminated.(Ivanova and Podsiadlowski 2002) Horizontal Combination Horizontal mergers happen when an organization merge or takeover another company that gives constant or similar product lines and services to the ultimate shoppers, which suggests that it's within the same trade and at constant stage of production. Companies, during this case, are typically direct competitors. for instance, if an organization manufacturing cell phones merges with another company within the trade that produces cell phones, this might be termed as horizontal merger. The advantage of this type of merger is that it eliminates competition, that helps the corporate to extend its market share, revenues and International Journal of Pure and Applied Mathematics Special Issue 1015 profits. Moreover, it additionally offers economies of scale thanks to increase in size as price decline because of higher production volume. These sorts of merger additionally encourage value potency, since redundant and wasteful activities are aloof from the operations i.e. varied body departments or departments such as advertising, getting and selling.3 Circular Combination Firms manufacturing distinct product for merger to share equal distribution and to analysis facilities to urge political economy by eliminating the costs of duplication and promoting market enlargement. The deed company obtains benefits at intervals the sort of political economy of resources sharing and diversification.4 Conglomerate Combination Its merger of 2 companies engaged in unrelated industries like Hyundai and hdfc. the essential purpose of such merger remains utilization monetary resources and enlarges debt capability through reorganizing their money structure so on service the shareholders by raised investment, lowering value of capital and thereby raising gift price of the outstanding shares. Mergers enhance the steadiness of the non inheritable company and build balance at intervals the company's total portfolio of diverse product and production processes..

Conclusion

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 acquire merger and acquisition it depends upon its planning and strategies whether they will profitable or in losses. India has many cases through which they proved its 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, it working, etc.,

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