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A Study on Recent Acquisitions and Mergers in the Indian Banking Industry

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Abstract

The rapidly expanding Indian banking industry places a premium on mergers and acquisitions as a means of sector consolidation. Reducing costs and increasing revenue are two ways to do this. Why is consolidation necessary in Indian banking, and what are the next challenges? That is the crucial element to consider here. Since the central government is so vital in formulating the policies that are essential to the development of Indian banking, it is imperative that their participation be thoroughly examined throughout the process. Some mergers and acquisitions (M&A) in recent times have been initiated voluntarily by banks. The first of these mergers after the 1991 financial sector reforms was Times Bank's merger with HDFC Bank. Banks have made deliberate attempts to consolidate and develop via mergers and acquisitions, such as the Bank of Madura merging with ICICI Bank, the Centurion Bank of Punjab joining together with Bank of Punjab to become Centurion Bank of Punjab, and the recent choice of Lord Krishna Bank to unite with Federal Bank. Would it be beneficial for Indian banks to expand? Even the largest banks in India are considered little fish in a world where influence is based on size and where borders are becoming more porous. As a result, a large portion of India remains unbanked. There is a significant size disparity within the Indian banking sector, even when compared to other countries. The top 25 banks, including 18 controlled by the government, control almost 85% of the industry's assets. When looking at the Indian banking sector, it becomes clear that m & an is crucial for reasons like as stability, shareholder return, compliance with regulatory standards, etc. M&A also provides these Indian banks with a chance to become a universal bank. Where conventional mergers and acquisitions (M&A) are not an option, strategic investments may be considered. Mergers may also serve as a tool for long-term planning. Being large helps a company keep ahead of the competition in today's fast-paced, flexible, and customer-responsive business and economic climate. Partnerships for competitiveness is a well-known strategic rationale in favour of mergers and acquisitions (M&As) in this setting, where they are seen as a means to increase competitive power.

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

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Introduction

A strong banking sector is a good sign of a thriving economy. The ease and flexibility with which banks may borrow money from other banks and lend it to corporations greatly affects the pace of economic development. After deregulation in the 1970s, US banking saw a dramatic shift, with institutions growing in size and diversification. Banks in other industrialised countries quickly followed suit, entering more competitive sectors. In the latter decade of the twentieth century, developing nations also did the same. Since the beginning of financial sector reforms in 1992, the banking business in India has also seen several changes, much like the US banking system. Foreign banks have been at the forefront of product and service innovation, and the booming economy, rising disposable income, and increased corporate activity have all contributed to rapid increases in both deposits and credit. Credit penetration has also risen substantially, though it is still far lower than in developed markets.

Exciting times are ahead for India's banking industry as consolidation drives up competition; nevertheless, international banks are unlikely to join the contest before 2009. Coming into force new corporate governance rules and BASEL II, which would strengthen and clarify the financial system, Financial institutions are rapidly embracing technology in order to streamline operations, reduce costs, provide round-the-clock service, and personalise products and services based on customer preferences. New market segments are opening up opportunities for banks to expand into, and provide customers with even more innovative products and services.

Banking in India has gone a long way from being controlled by the public sector to the present day, where private banks live side by side with their public sector counterparts. Despite some success, the Indian banking industry still faces more difficult times ahead as it attempts to adapt to shifting market conditions.

The rapidly expanding Indian banking industry places a premium on mergers and acquisitions as a means of sector consolidation. Reducing costs and increasing revenue are two ways to do this. Why is consolidation necessary in Indian banking, and what are the next challenges? That is the crucial element to consider here. Since the central government is so vital in formulating the policies that are essential to the development of Indian banking, it is imperative that their participation be thoroughly examined throughout the process.

Is the consolidation of Indian banks just around the corner? Will banks be able to thrive in the face of liberalisation and globalisation by merging and acquiring one another? Are Indian banks open to being acquired by other financial institutions? In order to ease bank mergers and acquisitions in India, should our legislative structure be revised? Can we be sure that shareholder value will rise after every merger and acquisition? These are only a few of the many issues that must be answered in light of the Indian banking industry's potential for the future.

Review of literature

An analysis of the Global Trust Bank–Oriental Bank of Commerce merger was conducted by Dr. Sangita Ghosh in 2016. Oriental Bank of Commerce's liquidity, efficiency, profitability, and performance were all factors she examined. As a result of the merger, the acquiring bank is more profitable and efficient than before, however the liquidity situation of Oriental Bank of Commerce has not changed.

Professor Ritesh Patel (2014) looked into the financials and stock returns of a few banks to see what happened after a merger. He found that M&A had a good effect on Indian banks and that certain public sector banks were better off after the merger than private sector ones.

In her 2014 study, Parveen Kumari demonstrated that bank mergers and acquisitions are a strategic method, with the goal of increasing credit generation and making progressive changes. She found that the number of branches and ATMs, net profit, deposits, and net worth had all grown after the merger.

Professor Ritesh Patel and Dr. Dharmesh Shah (2016) used the Economic Value Added method and other financial metrics, such as the average net profit margin, return on net worth, return on assets, return on long-term funds, interest earned, and total assets, to compare the financial performance of banks before and after mergers. I was informed that it is not essential for all other banks to use the EVA method. Their research led them to the conclusion that a merger may boost the bank's bottom line. However, mergers may be successful if previous financial data is reviewed.

Objective:

1. To investigate the factors that have led to bank mergers and their impact on the Indian economy.
2. To Study reasons for Bank Mergers.

Mergers and Acquisitions in Banking Sector

The term "merger" refers to the process by which two or more businesses become one. When two or more companies combine, it creates a new corporation with the existing shareholders keeping a portion of their shares in both companies. In contrast, when one company acquires a large portion of another's stock, whether willingly or not, it is called an acquisition.

To be successful, banks must take precautions against potential threats and seize opportunities presented by current and future trends, just like any other company. The banking industry has seen a rise in mergers and acquisitions (M&As) recently, both internationally and in India. This is against the backdrop of new banking trends in India and throughout the globe. Analyse the pros and downsides for each party and the integrated company in mergers and acquisitions (M&A) that have taken place in India from the year 2000. The seeming edges of scale-economies, geographical diversification, reduced costs via branch and worker rationalisation, cross-border expansion, and market share concentration have spurred consolidation, which has become a global development and a major strategic instrument.

Mergers and acquisitions (M&As) that have taken place in India since the year 2000 should be understood in order to grasp the following: the intentions of the acquirers and the targets, the operational and financial synergies that will follow, the deal's modalities, how well the strategy aligns with the banks' vision and goals, and the merger's long-term consequences. The State Bank of India was formed in 1955 from the merger of three banks that were part of the Imperial Bank of India before to India's independence in 1921. One of the most notable mergers in the banking industry in recent years was the combination of ICICI Ltd. and its banking arm, ICICI Bank Ltd. The consolidation of IDBI and its banking subsidiary, IDBI Bank Ltd., as well as Global Trust Bank and Oriental Bank of Commerce.

Why You Should Consider a Merger or Acquisition

Gaining a competitive advantage via more rapid expansion is the primary motivation for the merger. Below are some of the stated goals of the purchase, which might lead to the company's growth: Supply Chain Management Through mergers and acquisitions, companies may secure their raw material supply chains and take advantage of purchasing economies such as price reductions, reduced transportation expenses, and reduced buying department overhead, among other benefits. This goal is accomplished by the merger of the firms.

Redesigning Manufacturing -More intense use of equipment and resources is necessary to attain economies of scale via the amalgamation of industrial units. In order to acquire the provided company's superior manufacturing technology and expertise. Growth in the Market and Approach - In order to safeguard the current market and eradicate competitors. Boost the offered public perception while cutting advertising costs. Economic Security - In order to increase liquidity and get immediate access to financial resources.To take advantage of the tax breaks.Getting money out of merged businesses by selling off unused or obsolete assets.Overall Benefit - It is believed that the merger and acquisition would help the firm boost its reputation and bring in top-tier managers to oversee its operations. Merging companies often work towards a same goal: providing customers with a superior product.

Long-Term Objective

Companies strive to accomplish their long-term goals via mergers and acquisitions, which may take many forms (horizontal, vertical, product growth, etc.) and are strategy dependent. This is why the goals need the use of combinations that are fundamentally different from one another. Bank Merger and Acquisition Process - The banking regulations act and several state legislations outline the process for mergers, whether voluntary or not. Appropriate officials from both the merging bank and the existing bank meet to discuss the merger's financial and administrative details. After we wrapped up our conversation, we were ready to include the fine print of each bank's policies and the space terms and conditions into our theme. At the meeting of the bank's board of administrators, the topic was presented once it was finalised. After much deliberation, the board gives its stamp of approval to the idea if it is determined to be both practical and financially sound.

Following the merger proposal's board approval, the shareholders of the several banks will convene for an extra regular general meeting to discuss and vote on the matter. Following the merger proposal's board approval, a registered appraiser is designated to assess each bank. The appraiser requests clearance after valuing the banks based on their share capital, market capital, assets, liabilities, reach, and predicted growth. After the valuation is finished and approved by the various banks, they send the proposal along with the necessary documents to the Reserve Bank of India and other regulatory bodies for their approval. These documents include board approval, shareholder approval, the valuation report, and more.

Finally, after obtaining authorization from all the establishments and authorised executives of each bank, the exploit bank and the merging bank sit down together to discuss and decide on the share distribution percentage. The banks will sign it when the higher-up processes are complete.

COMPETITION ACT, 2002 & BANKING SECTOR

Financial services and banking are among the many industries that fall within the purview of the Competition Act. The Central Bank of India (CCI) has the authority to investigate bank agreements (both horizontal and vertical), abuse of dominance, and mergers between banks that exceed the restrictions imposed by the government.Since RBI is the regulatory body in charge, they may consult CCI for advice on any matter that they think might affect competition, such as agreements. Such anti-competitive conduct may be investigated by CCI using its suo moto authority. However, a competitive analysis is not necessary for a share subscription, financing facility, purchase, loan, or investment agreement. However, the relevant bank must notify CCI within 7 days after acquiring shares or control.

Bank mergers on the block

The announcement by India's Finance Minister Nirmala Sitharaman of the consolidation of ten public sector banks into four is a watershed moment that will alter the landscape of the country's banking system. Union Bank of India, Corporation Bank, Andhra Bank, Canara Bank, Canara Syndicate Bank, Allahabad Bank, Oriental Bank of Commerce (OBC), and United Bank of India (UBI) will all be merging as part of the amalgamation plan.The government's announcement of a capital injection into public sector banks (PSBs) of over 55,000 crore is another important development. You can see how much money each PSB got in the table below. With the merger of United Bank, Oriental Bank of Commerce, and Punjab National Bank, India's second-largest public sector bank would be formed, behind State Bank of India. As of now, SBI is the most prestigious public sector bank (PSB) in India. It will be the fourth biggest PSB after the merger of Syndicate Bank and Canara Bank. To become the fifth biggest PSB, Union Bank, Andhra Bank, and Corporation Bank are combining; to form the seventh largest, Indian Bank and Allahabad Bank are merging.

It is believed that the mergers would also increase the overall business or the size of the books. It is anticipated that the second biggest PSB would have a total business volume exceeding Rs 18 lakh billion. The anticipated business volume of the fourth biggest PSB, formed by the merger of Canara Bank and Syndicate Bank, is Rs 15.2 lakh crore. The merger of Union Bank, Andhra Bank, and Corporation Bank is anticipated to have a business volume of Rs 14.6 lakh crore, making it the seventh biggest PSB.

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

Section 44A of the Banking Regulation Act, 1949 addresses the amalgamation of two banking institutions. The mandatory merger of financial institutions is addressed under Section 45 of the Banking Regulation Act, 1949. (The Reserve Bank of India has the authority to request bankruptcy or suspension of a banking sector's operations from the Central Government and to devise a plan for their rehabilitation or merger.) The amalgamation and merger processes are addressed under Sections 230 and 232 of the Companies Act, 2013. Parts 391–394 of the Companies Act, 1956 regulate mergers between financial institutions and other types of businesses. The State Bank of India Act of 1955 specifies, under Section 35, that the bank may acquire the businesses of other banks.

Conclusion

An effective merger and acquisition is, in a word, the coming together of two or more enterprises under one roof. When a business in India decides to combine with another, it must adhere to the steps outlined in the Companies Act, 2013, which legalises mergers and acquisitions in the country. The success or failure of a company's merger and acquisition efforts is directly correlated to the quality of its planning and strategy. It is not falling behind in this area of global mergers and acquisitions, as shown by several case laws. Adopting the idea of a merger or acquisition is not without its risks; doing so might cause the firm to face challenges with its management, operations, and other areas. In any case, the idea is helping the economy in general, and the banking industry in particular, both at home and abroad.

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