
Bank Mergers and Acquisitions in India:**A Case Study of Bank of Punjab and Centurion Bank Merger****(Dr. Manjit Singh Saggi*)****ABSTRACT**

Finance is the life giving blood to every organisation and individual to achieve his or her economic objectives. Banks and financial institutions provide them the necessary financial help. So, an efficient, well-structured and organized banking sector is a pre-requisite for the overall development of an economy. In the developing economies like India is, banking and finance assume a special importance and a definite role to play. Indian banking has passed through many stages. The Financial sector reforms initiated by the Indian Government during the early 1990s and the factors like globalisation and liberalisation of the world economy, Indian banking has started to reshape itself. Various high level committees set-up by various regulatory bodies in India have also strongly recommended that Indian banks should be consolidated so that there are a few but financially, technologically and operationally strong banks. Recently, RBI has approved the merger of Bank of Punjab with Centurion Bank, which will be renamed as 'Centurion Bank of Punjab Ltd.' effective from October 1, 2005. Both are new generation private sector Indian banks having specialization in one or another area. The combination of these two banks is going to generate many synergies. In this paper, an attempt has been made to highlight some of the areas where the possible synergies are expected to generate.

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INTRODUCTION

Indian banking has passed through various phases. After getting independence, Indian banking saw the nationalization, when the Indian banks got nationalised in a phased manner during 1950s and 1980s. Again, during the early 1990s, Indian banking got liberalized as a part of financial sector reforms initiated during this period because of the poor financial position of the Indian economy and the poor performance of the Indian financial sector. Factors like the GATT and WTO norms resulted world economy into globalised and liberalised economy. Indian economy also turned globalised and liberalised. Various high-powered Committees including Narashiman Committee were also set-up during this period to suggest some measures to improve the performance of the Indian financial system. They suggested that instead of many but weak banks, there should be a few but strong, viable and efficient banks in the country. During the early 1990s, private sector banks were allowed to operate. With this, there was a mushroom growth of private sector banks. But most of them were small as per assets base, branch network, services provided, customer base etc. Their exposure was high towards sensitive areas like bullion markets and capital markets. As a whole, Indian banking was less competitive, low profitable and less efficient. But the factors like globalization and liberalization, Indian banking is heading towards consolidation in a big way. Many mergers have already taken place in the Indian banking. Nedungadi bank was amalgamated with Punjab National Bank, Benares State Bank with Bank of Baroda, ICICI with ICICI Bank Ltd., HDFC with HDFC Bank Ltd., and Global Trust Bank with Oriental Bank of Commerce. Recently, RBI has approved the proposal of the merger of Centurion Bank with Bank of Punjab Ltd., which will be effective from October 1, 2005. The combined entity will be called as 'Centurion Bank of Punjab Ltd.'. On the other hand, discussions are going on for the possible mega merger of 7 subsidiaries of State Bank of India with State Bank of India and merger of Federal Bank with Lord Krishna Bank. These are the clear indications that Indian banking is again passing through another phase called 'Consolidation Phase'. With such combinations, the merged entities are becoming more competitive, efficient in providing diversified products and services, strong in geographical coverage, large balance sheets, adequate capital, up-graded technology and higher profitability through their synergies.

MERGERS AND ACQUISITIONS IN INDIAN BANKING

Within this reforms period many mergers and acquisitions have taken place in the Indian banking. In Indian context, majority of mergers and acquisitions among banks have been taking place on the recommendations of RBI just as a corrective measure over the weak and poorly performing banks. These decisions are less market driven. Most of the mergers have taken place between private sector banks and mergers among public sector banks are very low. In most of the cases, public sector banks came to the rescue of erring and poorly performing private sector banks on the recommendations of RBI as a corrective measure. Indian banking is also lacking national policy on bank mergers and acquisitions. There are many other unresolved issues like proper due diligence procedure, fair valuation techniques, role of regulatory authorities, human resource issues etc., which are not properly addressed in the Indian context.

HISTORY OF CENTURION BANK AND BANK OF PUNJAB

Centurion Bank was established in the year 1994. It was one of the leading new generation private sector banks. The bank was promoted by the erstwhile TCFC and Keppel Tatlee Bank of Singapore. Later on, the TCFC was amalgamated with the Centurion Bank. International Finance Corporation and Asian Development Bank are the equity participants of the Bank. Recently, the Bank has been recapitalised by a group of international investors. Majority of the Bank's share capital is held by Bank Muscat, Keppel Corporation and Sabre Capital Worldwide. Right from its inception, the Bank ever focused on the retail banking business. The erstwhile 20th Century Finance Company, which was mainly dealing with the two wheelers and commercial vehicles finance which was taken over by Centurion Bank. Thereafter, Centurion Bank established leadership position in the business of financing two wheelers and commercial vehicles. In July 2001, the Bank achieved a milestone, when in terms of number of vehicles financed, the Bank crossed the mark of 2,00,000 vehicles. In 2001, there were rumours in the market about the merger between Centurion Bank and HDFC, which was later on dismissed by the Bank authorities. But now, the Bank is regarded as one of the strongest new generation private sector banks. Majority of Centurion Bank's shareholders belong to foreign banks and investment companies. Major shareholders of Centurion Bank include Bank of Muscat, Deutsche Bank Trust Company (GDR Depository), Kephinance Investment Mauritius, Kappel Corporation and Sabre Capital Worldwide.

Bank of Punjab came into existence in the year 1995. It opened its first branch at Chandigarh, in April 1995. Bank of Punjab was founded by Dr. Inderjit Singh, Dr. Inderjit Singh, an eminent personality and noble laureat, was born in Musakhell (now in Pakistan) on 22nd November 1911. Dr. Inderjit Singh was a renowned name in the Indian banking area. He started his banking carrier in 1932 with Central Bank of India. Thereafter, he became the Chief Executive of Punjab and Sind Bank in January 1960 and served this bank for 22 years and retired in 1982. Therefore, Dr. Inderjit Singh was well conversant and experienced in Indian banking industry. During the early 1990s, Indian economy started liberalising and so was the Indian banking. During the 1990s, Reserve Bank of India granted permission to Dr. Inderjit Singh to set-up a bank in the private sector. It resulted into setting-up of a private sector bank by Dr. Inderjit Singh, named 'Bank of Punjab Ltd.' Dr. Inderjit Singh served this bank for just 4 and half years till October 1998, when he died. He has, to his credit, 66 years long experience in Indian Banking. He successfully established and lead two renowned institutions, Punjab and Sind Bank and Bank of Punjab. Being a north centric in India, Bank of Punjab heavily focused on the needs of agriculture, which is the main occupation of this region. Most of its branch network is spread in the northern region especially in the states of Punjab, Haryana, UT Chandigarh and Delhi. In this short span of 10 years, the bank rapidly increased its customer base, which stood at 0.80 millions as on 31st March, 2005. It also expanded its branch network rapidly. As on 31st March, Bank of Punjab had 139 branches all over India. Thereafter too, the Bank started opening further branches. It opened its 141st branch at Mahilpur in Punjab. Bank of Punjab has also deployed the latest IT technology and best banking techniques in its branches. As on 31st March 2005, the bank had a network of 225 ATMs, spread across the country. The basic philosophy of the bank, which it disclosed in its vision statement, is to be a financial supermarket and by which to add value to various shareholders. The bank has plans to have a total business volume of Rs. 160 billion, deposits at Rs. 100 billion and a strong presence in retail and corporate banking by 2005. The bank has achieved a milestone by setting up a state-of-the-art, Dr. Inderjit Singh Institute of Banking and Insurance Management at Gurgaon. The financial performance of the bank has ever been satisfactory. But during the last some years, the bank registered low profitability. For the year ended 31st March 2005, the bank has Rs. 19.48 crores as operating profits and Rs. 61.24 crores as net losses.

Bank of Punjab – Centurion Bank Merger

Bank of Punjab and Centurion Bank, both new generation private sector banks, had a very short span of life. Both the banks had glorious start and performed well. But few years later, the performance of both these banks started declining. Many reasons accounted for this like their small size and reach, entry of other banks, high pressures of globalization, liberalization etc. Sometimes ago, some international investors including FIIs came to the rescue of the Centurion Bank when the bank was recapitalized. During the year 2001, there were attempts to merge Centurion Bank with HDFC Bank or any other bank, but the same was refused by Centurion Bank Board. But finally, Bank of Punjab and Centurion Bank decided to consolidate by way of merger. In June 2005, the board of directors of both the banks approved the merger of the two banks. It was subject to all the requisite regulatory and statutory approvals. The share swap ratio was fixed at 4:9 which means that for every four shares of Bank of Punjab, its shareholders will receive nine shares of Centurion Bank. It was also proposed that Mr. Rana Talwar will be the Chairman of the bank. Mr. Shailendra Bhandari will act as the Managing Director and Mr. Tejbir Singh will be the whole-time Executive Director of this new bank. It was also decided that the new bank will be renamed as 'Centurion Bank of Punjab.' Finally, RBI gave its approval to merge these two banks in September 2005, effective from October 1, 2005. So, from 1st October 2005, Centurion Bank of Punjab came into existence in place of Bank of Punjab and Centurion Bank. Some of the key highlights of this merger are as follows:

- In June 2005, the board of directors of both the banks approved the merger of the two banks.
- RBI gave its approval to merge these two banks in September 2005, effective from October 1, 2005.
- Bank of Punjab be merged into Centurion Bank.
- New bank will be renamed as 'Centurion Bank of Punjab.'
- Shares swap ratio shall be 4:9.
- KPMG India Pvt. Ltd. and NM Raiji and Co. to be the independent valuers.
- Ambit Corporate Finance was the sole investment banker to the transaction.
- No cash transaction in the course but to settle through swap of shares.
- There will be no downsizing in the work-force via voluntary retirement scheme.

OBJECTIVE OF THE STUDY

The basic objective of the present study is to explore new insights into the various possible synergies resulted by the merger of Bank of Punjab Ltd. with Centurion Bank renamed as 'Centurion Bank of Punjab Ltd'. It is a case study, which is restricted to the merger of these two private sector banks. But in general the present study also aims at highlighting the Indian experience of bank mergers and acquisition.

THE ANALYSIS

The combination of Bank of Punjab with Centurion Bank has created many synergies. This merger has created operational, geographical, product-wise, financial, technological and many other forms of synergies. Both these banks specialise in one or another area. Bank of Punjab is mainly dealing with the agriculture sector financing and operating mainly in the northern parts of the country especially in Punjab, Chandigarh, Haryana and Delhi. But two wheelers and commercial vehicles finance is the area of concern for the Centurion Bank and had leadership position and its area of operations was concentrated in the southern parts of the country.

Therefore, the combined entity would have more than 240 branches and extension counters, 386 ATMs, more than 2 million satisfied customers, total business to the tune of Rs. 12,800 crores, upgradation in the rating, diversified areas to serve, geographical extension of operations, more and diversified products to offer, 16.1% capital adequacy ratio, 3.6% net NPAs, more than 3200 trained and efficient work-force, larger balance sheet of Rs. 2141 crores assets, huge base of Rs. 1785 crores as deposits and many more. These are the clear indications that with the help of these synergies the operations of the combined entity is going to be leveraged in a big way.

In this part of the paper, an analysis has been made so as to highlight the various synergies and opportunities created by this merger. Various forms of performance parameters i.e. financial as well as non-financial, have been properly explored to make an optimum analysis of the given situation. The analysis of merger between these two banks has highlighted many possible synergies, which are as follows:

1. Improvement in Rating

The combination of these two banks is also going to improve their rating and position in the Indian banking industry, in aggregate terms. After a month from the merger between these two private sector banks, Fitch, on November 2nd, 2005, has upgraded Centurion Bank of Punjab Limited's rating with regard to subordinated debt and certificates of deposit programme. Fitch has upgraded Centurion Bank of Punjab Limited's subordinated debt to National long-term 'A+(ind)' from its earlier 'A (ind)' rating. Fitch has also upgraded CBPL's certificates of deposit programme rating from National short-term 'F1(ind)' to National short-term 'F1+(ind)'. Further, Fitch has also assigned a support rating of 'S'. These improvements in the rating have come after the combination of these two banks, which clearly reflects that consolidation of these banks resulted into synergistic effects to the merged entity. Rating has been upgraded by Fitch mainly on account of improved capitalisation, written-off of non-performing loans, increase in retail deposit base and geographical expansion etc.

Upgradation of Centurion Bank of Punjab Rating by Fitch

Improvement in Subordinated
Debt Rating to National long-
term 'A+(ind)' from 'A(ind)'

Improvement in Certificates
of Deposit Programme to
National short-term 'F+(ind)'

from 'F1(ind)'

2. Improvement in Industry Position

The combination of Bank of Punjab with Centurion Bank has created another synergy in the form of improved market/industry position. After the merger, the merged entity is having larger balance sheet, more and diversified retail assets, large branch network, huge market capitalisation, improved capital adequacy, higher profitability etc. All these factors

resulted into higher and better position for the combined entity. By the market capitalisation Rs. 1815.38 crores as on 30th June, 2005, the merged bank would be ranked 5th largest private sector bank in India. Furthermore, Centurion Bank of Punjab would be ranked among the top ten private sector banks in the country by balance sheet size, by retail assets and deposits, and by physical network size. So, merger the combination of these banks has helped them to improve their position in the industry/market.

Improvement in Industry Position

By Market capitalisation the merged entity would be the 5th largest private sector bank in India	The merged entity would be one among the top ten private sector banks in the country by balance sheet size, by retail assets and deposits, and by physical network size.
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3. Financial Parameters

At the financial front too, the combined entity, is going to get the benefits of synergistic effects from the financial parameters. The financial parameters of Centurion Bank of Punjab have improved in a big way, which also resulted into improved rating of the bank and better position in the Indian banking industry. Some of the improved financial parameters of Centurion Bank of Punjab, resulted by combination are shown in the following Table 1:

Table 1: Financial Parameters Before and After Merger(Rs. in Crores as on 31st March 2005)

Sr. No.	Items	Bank of Punjab	Centurion Bank	Merged Entity Total
1.	Capital and Reserves	184.26	511.44	695.70
2.	Total Assets	4848.24	4490.29	9338.53
3.	Deposits	4306.62	3530.38	7837.00
4.	Advances	2416.99	2193.95	4610.94
5.	Business	6723.61	5724.33	12447.94
6.	Operating profit before Provisions and contingencies	19.48	23.16	42.64
7.	Interest margin	134.92	177.88	312.80
8.	Market capitalization (as on 30 th May, 2005)	315.00	1477.97	1792.97

Table 1 shows some key financial parameters as on 31st March 2005. It reflects the fact that there is all around improvement in these financial parameters post-merger. There is quantum jump in terms of reach, scale, deposits and customers base. The combined entity would have Rs. 1792.97 crores as market capitalisation as on 30th May 2005 which placed the merged entity at 5th place among the largest private sector banks in the country. Net worth at the combined entity stood at Rs. 695.70 crores, total assets were more than Rs. 9300 crores, deposits to the tune of Rs. 7837.00 crores, Rs. 4610.94 crores as advances etc. The combined entity shall have Rs. 12447.94 crores of business. So, there is all around improvement in these financial parameters. So, the merged entity shall be in a better position to compete with strong financial position.

4. Area of Operations

The segments served by these two banks are completely different. Bank of Punjab, being a bank operating mainly in the agriculture rich northern states of India, was serving the agriculture and the form sector. But Centurion Bank had maintained its leadership position in the two wheelers and commercial vehicles finance, especially after taking over these businesses from the erstwhile 20th Century Finance Company. With this merger, the combined entity has expanded its area of operations to serve two auspicious sectors. These two areas may be interlinked to reap the benefits of such combination.

5. Branch Expansion

With the merger of these two banks, there has been branch expansion with the merged entity. Branch position before and after the merger is shown in the following Table:

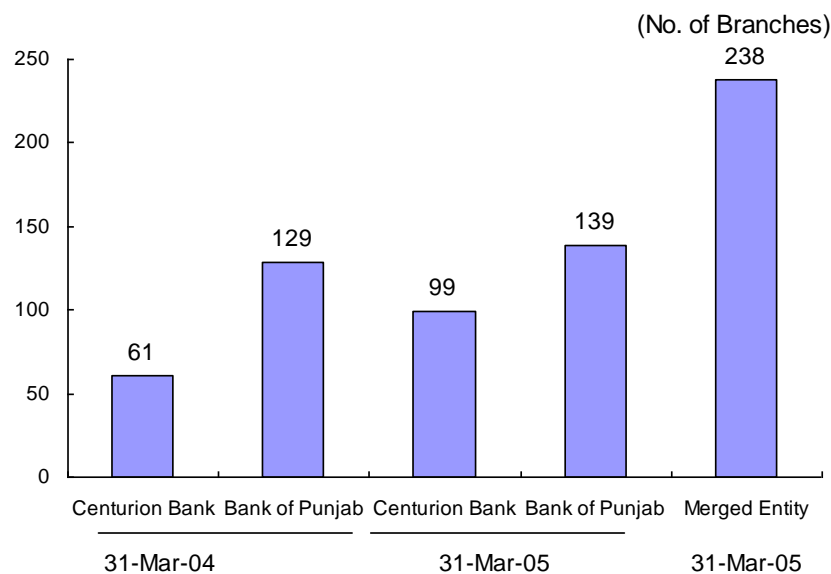


Table : Branch Status Before and After Merger

It is seen from the above Table that there was an increase in branches of both the banks. The rate of increase with Centurion Bank is more than Bank of Punjab but Bank of Punjab had large branch network as compared to the Centurion Bank. But there has been sharp expansion in the branch network post-merger. Now, Centurion Bank of Punjab has 238 branches as on 31st March 2005.

6. Stronger Nationwide Reach

Being a north centric bank, Bank of Punjab's area of operations was concentrated in the northern parts of the country especially in Punjab, Haryana, Delhi and Union Territory of Chandigarh. As on 31st March, 2005, Bank of Punjab had 139 branches, spread in 16 states. The following Table shows the spread of these branches in different states:

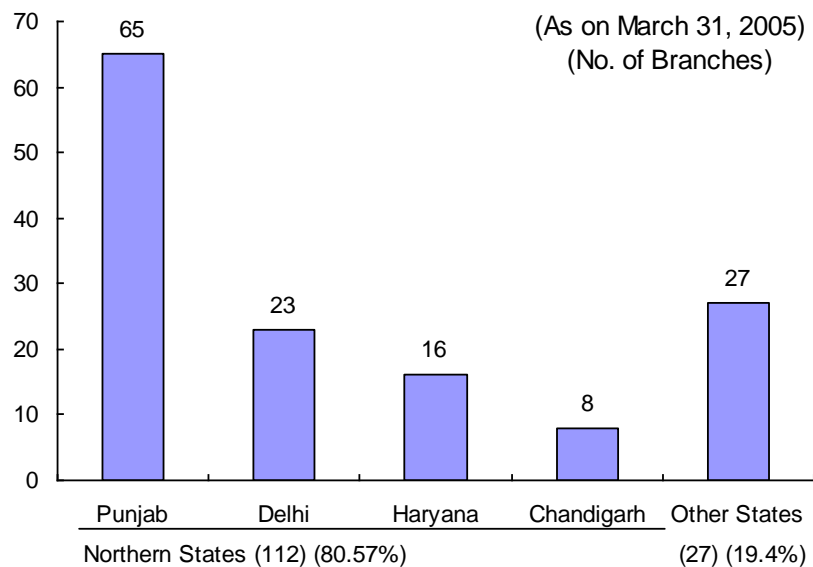


Table : Geographical Spread of Branches of Bank of Punjab

It clearly shows that Bank of Punjab had strong presence in the northern states. Out of the total of 139 branches as on 31st March, 2005, it had 112 branches in the northern states, out of which, Punjab with 65, Delhi with 23, Haryana with 16, UT Chandigarh 8 and with rest of the states only 27 branches respectively. More than 4/5th or 80% of Bank of Punjab branches were situated in the northern parts of the country and only 20% of the branches in the rest of the parts.

On the other hand, branches of Centurion Bank are mainly present in the southern and western parts of the country. As on 31st March, 2005, Centurion Bank had strong presence in these parts, which is shown by the following Table :

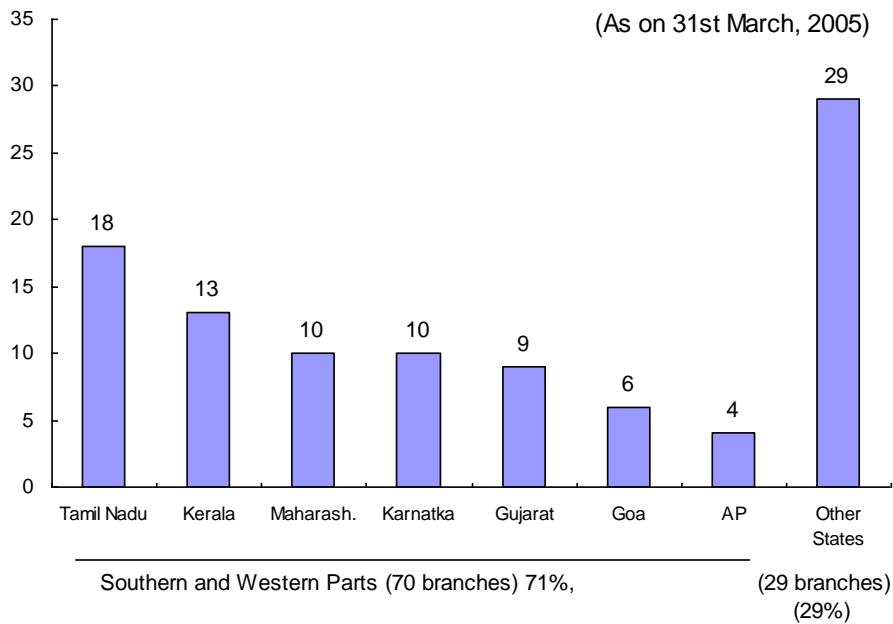


Table : Geographical Spread of Branches of Centurion Bank

It is seen from the above Table that Centurion Bank has strong presence in the southern and western parts of the country. As on March 31, 2005, it had 71% of branches (i.e. 70 branches) located in southern and western parts and only 29% of branches (i.e. 29 branches), located in other parts of the country. In Tamil Nadu, Kerala, Maharashtra, Karnataka, Gujarat, Goa and Andhra Pradesh, Centurion Bank had 18, 13, 10, 10, 9, 6 and 4 branches respectively. But with the combination of both these banks, their nationwide reach has become stronger. Post-merger, the geographical spread of branches with the merger entity as on 31st October 2005 is shown in the following Table, which is divided into three parts i.e. high presence, moderate presence and low presence, which is as follows :

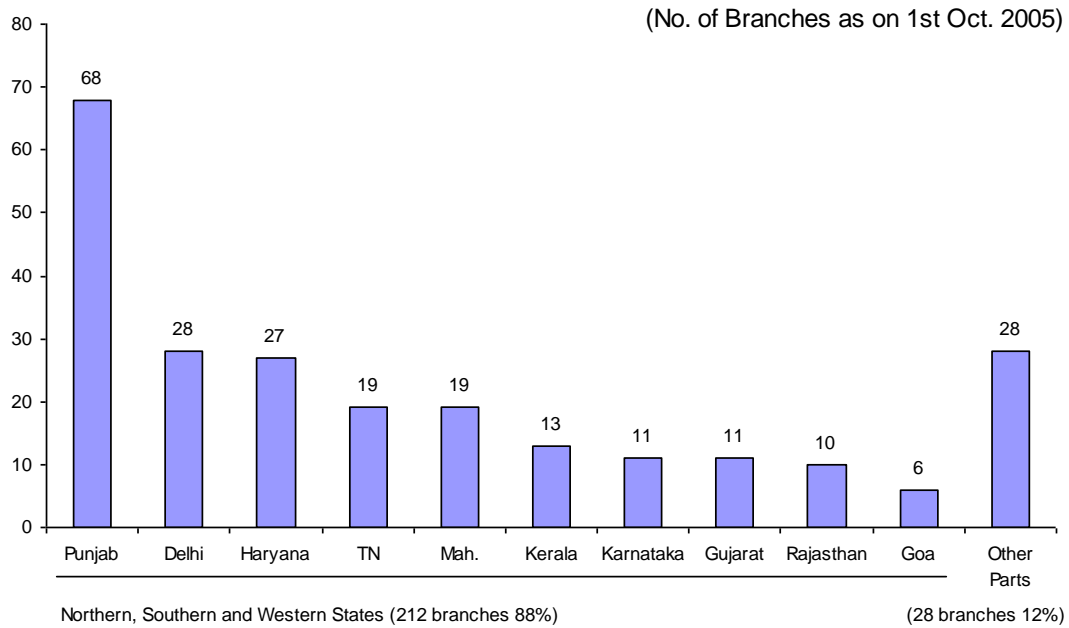


Table : High Presence of Branches Post Merger

This Table shows that the branch network of the combined entity is highly situated in the northern, southern and western parts of the country. Out of 240 branches as on 1st October, 2005, 88 percent of the total branches (i.e. 212 branches) are locating in these three parts of the country. In the rest parts of the country, the branch network of the Centurion Bank of Punjab is either moderate or not present at all where only 28 branches (i.e. 12%) are located. It reflects the fact that with this merger, the combined entity's nationwide reach has become stronger. Now, Centurion Bank at Punjab has strong presence in the northern, southern and western parts of the country.

7. Large Network of ATMs

Both the banks are new generation private sector banks. They have superior technology. Both the banks have fairly a good number of ATMs in the country. The merger of these banks has also expanded the ATM base of this merged entity. The following Table shows the ATM position of these two banks before and after merger.

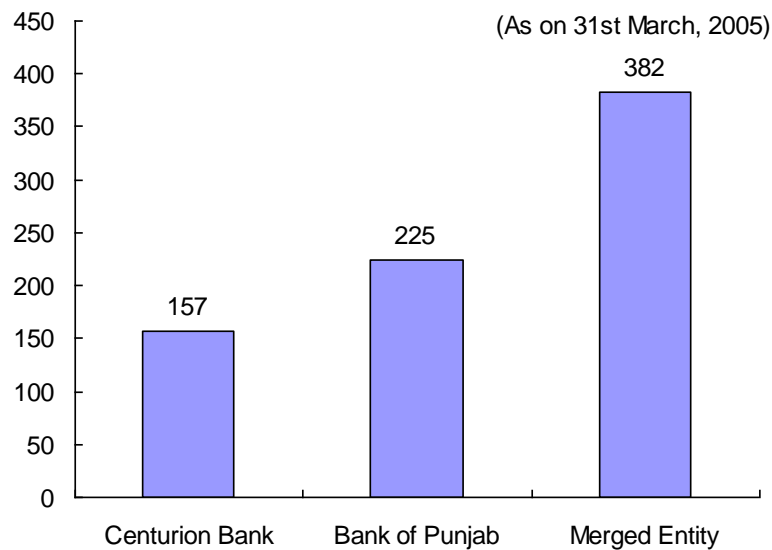


Table : ATMs Position Before and After Merger

The above Table clearly reflects that both the banks are going to be benefited in the form of ATMs expansion. As on March 31, 2005, Centurion Bank had 157 ATMs whereas Bank of Punjab had 225 ATMs. But the merged entity will have a large network of 382 ATMs. So, with this, the customers of both these banks shall have more freedom to access the ATMs post-merger.

8. Customers Base

The combination of these banks has also expanded the customers' base. As on March 31, 2005 Centurion Bank had a large base of 1.4 million satisfied customers. Whereas, Bank of Punjab was having 0.8 million customers. The following Table shows the position of customers with the banks before the merger and the customers' base with the merged entity after the merger.

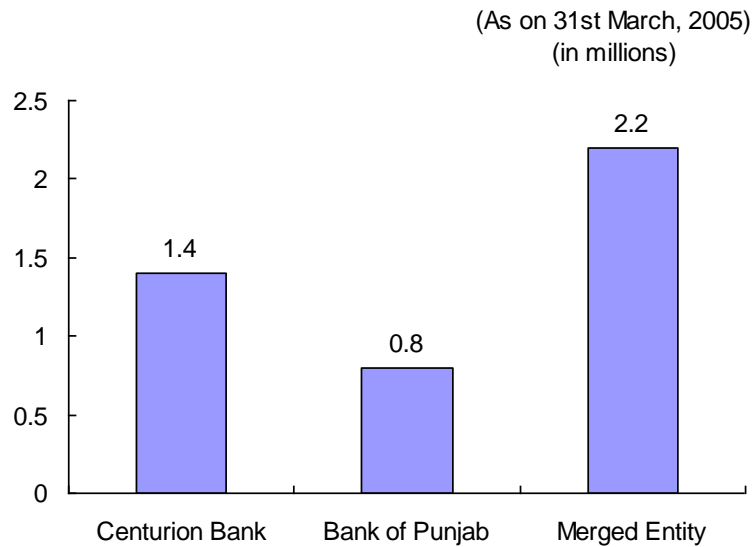


Table : Customers Position Before and After Merger

The above Table shows that the customers' base as on 31st March, 2005, is 2.2 million post-merger. With this merger, the synergy of large customers' base will be available with the merged entity to serve. With large customers' base, the merged entity shall have the opportunities to increase profits by doing more business with these customers and to offer more products.

9. Vast Talent of Work-Force

Both Centurion Bank and Bank of Punjab are new generation private sector banks. Centurion Bank was established in the year 1994 whereas, Bank of Punjab came into existence in 1995. Both the banks have young and talented work-force. The merger of these banks are going to generate the synergies of combining such professional work-force. The following Table shows the vast work-force with these banks before and after merger :

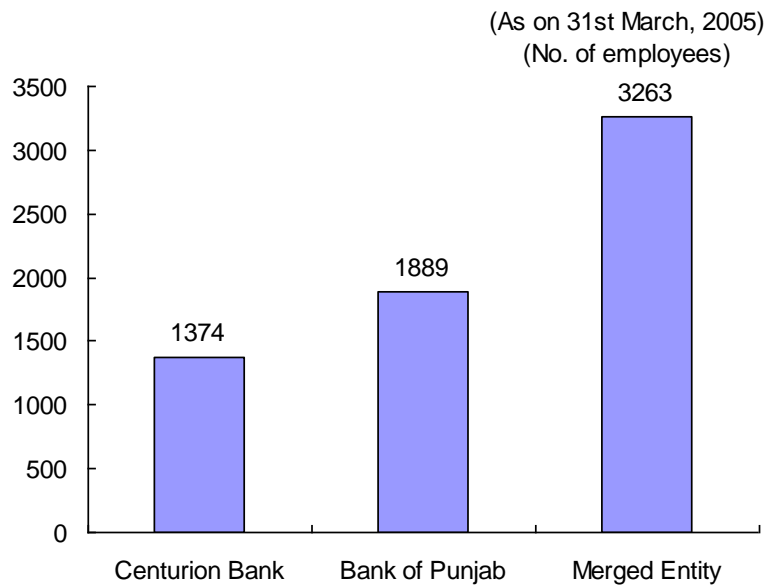


Table : Workforce Position Before and After Merger

As on March 31, 2005, Centurion Bank had 1374 employees and with Bank of Punjab, 1889 employees. The merged entity will have 3263 employees post-merger. The combined entity shall have the benefits of such large base of work-force because the workforce is young, talented, professional and conversant with the latest banking techniques. Another synergy generated in this case is that of the non-unionised state of work-force. There is absence of any union in these banks. It will again benefit the combined entity in a way that unions hinder the development of an organisation in most of the cases.

10. NPA Status

There were huge differences in the net NPA position of both the banks. As on 31st March 2005, Centurion Bank had quite satisfactory position as compared to Bank of Punjab. Net NPAs were 2.4% with Centurion Bank and 4.6% with Bank of Punjab as on 31st March 2005. The following table shows the Net NPAs position :

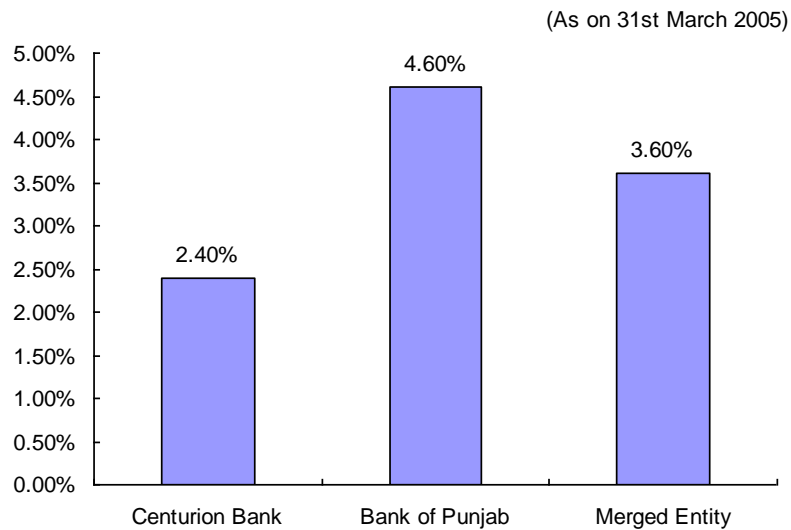


Table : Net NPAs Position Before and After Merger

It shows that post-merger, the net NPA position stood at 3.6% as on 31st March, 2005. Here Centurion Bank had advantageous position as compared to Bank of Punjab. So, the merger has declined the net NPA position of Bank of Punjab. This merger has created synergy in this regard too. It is in a way that Centurion Bank has successfully declined its net NPAs from 7.5% on 31st March, 2003 to 2.4% as on 31st March 2005. Centurion Bank has also announced that it will initiate aggressive campaign to control over the net NPA situation after the merger. If these NPAs are realised successfully then these will generate additional funds to the entity therefore providing another synergy.

11. Capital Adequacy Position

Again, in case of the capital adequacy position with these two banks, Centurion Bank had quite a favourable position as compared to the Bank of Punjab. Centurion Bank is maintaining capital adequacy ratio higher as compared to what is statutorily required. It had maintained 60% capital adequacy ratio as on 31st March 1996. Thereafter it started declining and as on 31st March 2003, capital adequacy ratio was just 1.95%. After that, it started increasing, capital adequacy ratio before and after merger is shown in the following Table :

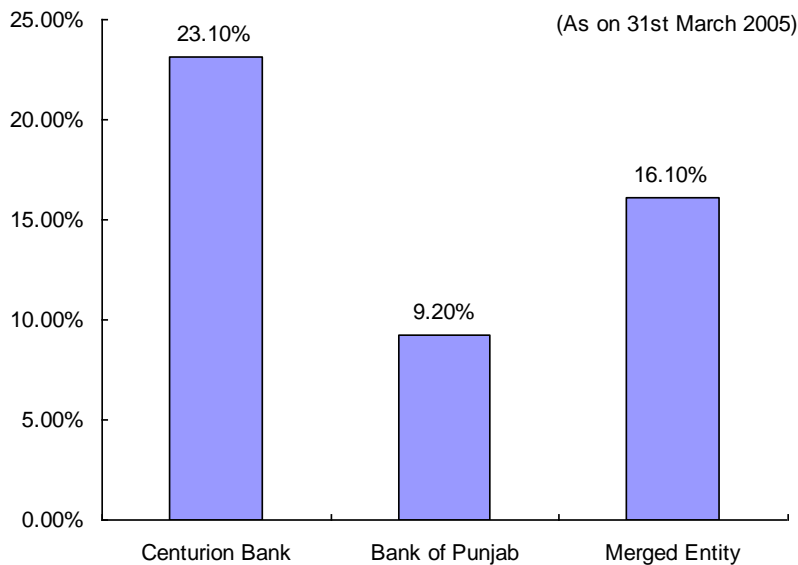


Table : Capital Adequacy Before and After Merger

As on 31st March, 2005, capital adequacy ratio of Centurion Bank was 23.1% and that of Bank of Punjab 9.2% with this merger, Bank of Punjab has got advantage. Now, the merged entity's capital adequacy ratio stands at 16.1% as on 31st March, 2005.

Conclusion

So, the combination of these two banks has created many synergies. Consolidation of Indian banking has become the need of the hour. Instead of weak, small in reach and scale, less profitable, there should be large, diversified, technically and operationally strong banks if Indian banking wants global recognition, internationally competitive and presence in this new global economic setup. But Indian conditions must also be taken proper care of while doing so and some untouched issues must be properly addressed. So, the merger between Bank of Punjab and Centurion Bank has rightly demonstrated that consolidation of Indian banking is the need of the hour. This combination has generated many synergies for both the banks. To conclude, it can be said that this merger is a step in the right direction. This merger has created opportunities in the original terms, which needs appreciation.

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