Mergers & Acquisitions in the Indian Banking Sector – An Analysis of Post 2000 Mergers and Their After Effects

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Abstract

The research paper targets to apprehend the strategic and monetary implications of numerous Mergers & acquisitions within the Indian banking sector. Globally mergers and acquisitions have emerge as a primary manner of company restructuring and the monetary offerings enterprise has also witnessed merger waves leading to the emergence of very huge banks and monetary institutions. It drives the company to create synergy and value creation via manner of diversification and improved control. A huge wide variety of global and domestic banks all around the global are engaged in merger and acquisition activities.

One of the foremost objectives behind the mergers and acquisitions in the banking area is to achieve the advantages of economies of scale, surviving inside the diversities of Indian banking enterprise wherein now days financial inclusion vide NBFCs is gaining a lot of prominence. The large names want not handiest to continue to exist profitably but additionally to add to their net worth and market shares.

For this reason the research paper will try to cover the post 2000 analysis of M&A tendencies in Indian banking industry their advantages for each of the merged & acquiring entities and the post effects to the merged banks.

Keywords

Strategy, Banking, Financial Services, India, Mergers, Acquisitions.

Introduction

Similar to the Indian culture the Indian banking industry also nurtures a wide range of diversity. The diversity of Indian Banking system –MNBs, PSBs, private sector – old and new, Regional Rural Banks (RRBs), Local Area Banks (LABs), Rural Cooperative Banks, Urban Cooperative Banks (UCBs), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD) and Micro Units

Development and Refinance Agency (MUDRA), the proposed Payment Banks, the small savings banks is a challenge for reforms. We have the outliers – the microfinance institutions (MFIs) and the NBFCs.

Bank mergers and acquisitions are very normal, particularly amid a monetary emergency, for example, the one as of late couple of years back in the years of 2007 witnessed by the world. Subsequently the International keeping money situation has indicated real turmoil in the previous couple of years as far as mergers and acquisitions. When taken care of appropriately, this kind of activity inside the managing the banking industry can be advantageous but since this is such a genuine change, various variables should first be considered. Remember that bank mergers and acquisitions are seen with both national and universal organizations with the essential objective being to support the economy. Again, when done right, bank mergers and acquisitions can help banks develop while additionally decrease expenses. This activity accompanies a not insignificant rundown of advantages that likewise incorporates diminishing rivalry. Obviously, when one bank assumes control over another bank, the bank being acquired is dispensed with. One part of bank mergers and acquisitions not quite the same as different commercial enterprises that go this course is a kind of level merger is made. The reason is that the substances being blended are the same kind of business or required with the same sort of business activities. Deregulation has been the principle driver, through three noteworthy courses - destroying of loan fee controls, evacuation of hindrances amongst banks and other money related middle people, and bringing down of section boundaries. It has lead to disintermediation, financial specialists requesting higher returns, value rivalry, decreased edges, falling spreads and rivalry crosswise over topographies constraining banks to search for better approaches to help incomes. Combination has been a critical key apparatus for this and has turned into an overall wonder, driven by evident points of interest of scale-economies, land broadening, lower costs through branch and staff legitimization, cross-fringe extension and piece of the pie fixation. The new Basel II standards have likewise driven banks to consider M&As.

This paper analyses some M&As that have happened post-2000 in India to understand the objectives (of the targets and the acquirers), resulting synergies (both operational and financial), modalities of the deal, congruence of the process with the vision and goals of the involved banks, and the long term implications of the merger. The article also analyses emerging future trends and recommends steps that banks should consider, given the forecasted scenario.

Review of Literature

Mergers and Acquisition in Banking Sector: Jagriti Kumara (School of Economics, University of Madras, (2013). "Mergers are those forms of business transactions where there is a combination of two or more corporate entities, and in the process of combining of two entities one or more such corporate entities lose their corporate existence because they merge with the surviving entity. Acquisitions are those forms of business transactions where the shares or control of a company is taken over by persons who, prior to the change in the shareholding or control, did not possess such shareholding or control. The Competition Commission of India (CCI) has drawn the Reserve Bank of India's (RBI's) attention to distortions in banking due to a limited presence of the private sector, high entry barriers for foreign banks and cartelization of sorts among banks in setting interest rates".

"Government policy can be the one of the major forces in banking consolidation. In 1997, as a result of the Asian financial crisis, the governments of the region have promoted consolidation of the banking system on the ground that this would contribute to the stabilization on the banking system of the region "(Berger et al. 1999).

Motives for mergers and acquisitions in the Indian banking sector - a note on opportunities and imperatives - Jay Mehta & Ram Kakani: Paper talks about various motivations for mergers and acquisitions in the Indian Banking sector. The reasons include: Fragmented nature of the Indian banking sector resulting in poor global competitive presence and position.

Objectives of the Study

1. To broadly analyze the intent, benefits and drawbacks for the prominent mergers and acquisitions deals in the industry post 2000.
2. To compare and analyze the pre-merger and post-merger financial statements of the acquirer banks for different years to check whether the synergistic gains are visible in acquirer bank's financial statements or not.

Research Methodology

The research paper was formulated by reviewing the secondary data, all the analysis done were on the basis of bank annual reports, shareholders disclosure.

Majorly the data was collected from the newspapers of economic and financial inclinations been published in India.

The data cited from published research papers has also been included in the study.

Broad Analysis of Mergers & Acquisitions Post 2000

With the advent of the liberalization phase in the Indian banking sector, as it stands today, is mature in supply, product range and reach, with banks having clean, strong and transparent balance sheets. The major growth drivers are increase in retail credit demand, proliferation of ATMs and debit-cards, decreasing NPAs due to Securitisation, improved macroeconomic conditions, diversification, interest rate spreads, and regulatory and policy changes (e.g. amendments to the Banking Regulation Act).
Certain trends like growing competition, product innovation and branding, focus on strengthening risk management systems, emphasis on technology have emerged in the recent past. In addition, the impact of the Basel II norms is going to be expensive for Indian banks, with the need for additional capital requirement and costly database creation and maintenance processes. Larger banks would have a relative advantage with the incorporation of the norms.

M&As SINCE 2000

Year	M&A
2000	**Times Bank** with HDFC Bank
2001	ICICI with ICICI Bank **Bank of Madura** with ICICI Bank
2002	Benares State Bank with **Bank of Baroda** ING bought stake in **Vysya Bank** and ING Vysya Bank formed
2003	**Nedungadi Bank** with Punjab National Bank
2004	Global Trust Bank with **Oriental Bank of Commerce**
2005	**Bank of Punjab** with Centurion Bank and the formation of Centurion Bank of Punjab **IDBI Bank with IDBI**
2007	**Lord Krishna Bank** with Centurion Bank of Punjab
2008	Centurion Bank of Punjab with **HDFC Bank**
2010	Bank of Rajasthan with **ICICI Bank**
2014	ING Vysya Bank with **Kotak Mahindra Bank**

Mergers & Acquisitions at a Glance in Indian Banking Industry: IBPS Data

Standard Chartered Acquires ANZ Grindlays Bank (November '00)

Purpose

Standard Chartered needed to gain by the high development figure for the Indian economy. It went for turning into the world's driving developing markets bank and it believed that procuring Grindlays would give it a settled decent footing in India and add quality to its administration assets. For ANZ, the arrangement gave prompt comes back to its shareholders and permitted it to concentrate on the Australian business sector. Grindlays had been a poor entertainer and the Securities Scam association had made ANZ willing to twist up

Advantages

Standard Chartered became the largest foreign bank in India with over 56 branches and more than 36% share in the credit card market. It also leveraged the infrastructure of ANZ Grindlays to service its overseas clients[2].
For ANZ, the deal, at a premium of US $700 million over book value, funded its share buy-back in Australia (a defence against possible hostile takeover). The merger also greatly reduced the risk profile of ANZ by reducing its exposure to default prone markets[3].

Downsides

The post-merger organisational restructuring evoked widespread criticism due to unfair treatment of former Grindlays employees[4]. There were also rumours of the resulting organisation becoming too large an entity to manage efficiently, especially in the fast changing financial sector.

ICICI Bank Ltd. Acquires Bank of Madura (March '01)

Purpose

ICICI Bank Ltd wanted to spread its network, without acquiring RBI's permission for branch expansion. BoM was a plausible target since its cash management business was among the top five in terms of volumes. In addition, there was a possibility of reorienting its asset profile to enable better spreads and create a more robust micro-credit system post merger[8].
BoM wanted a (financially and technologically) strong private sector bank to add shareholder value, enhance career opportunities for its employees and provide first rate, technology-based, modern banking services to its customers.

Advantages

The branch network of the merged entity increased from 97 to 378, including 97 branches in the rural sector[9]. The Net Interest Margin increased from 2.46% to 3.55 %. The Core fee income of ICICI almost doubled from Rs 87 crores to Rs 171 crores. IBL gained an additional 1.2 million customer accounts, besides making an entry into the small and medium segment. It possessed the largest customer base in the country, thus enabling the ICICI group to cross-sell different products and services.

Downsides

Since BoM had comparatively more NPAs than IBL, the Capital Adequacy Ratio of the merged entity was lower (from 19% to about 17%). The two banks also had a cultural misfit with BoM having a trade-union system and IBL workers being young and upwardly mobile, unlike those for BoM. There were technological issues as well as IBL used Banks 2000 software, which was very different from BoM's ISBS software. With the manual interpretations and procedures and the lack of awareness of the technology utilisation in BoM, there were hindrances in the merged entity.

Bank of Baroda Acquires South Gujarat Local Area Bank Ltd. (June '04)

Purpose

According to the RBI, South Gujarat Local Area Bank had suffered net losses in consecutive years and witnessed a significant decline in its capital and reserves[5]. To tackle this, RBI first passed a moratorium under Section 45 of the Banking Regulation Act 1949 and then, after extending the moratorium for the maximum permissible limit of six months[6], decided that all seven branches of SGLAB function as branches of Bank of Baroda. The final decision about the merger was of the Government of India in consultation with the RBI. Bank of Baroda was against the merger, and protested against the forced deal[7].

Advantages

The clients of SGLAB were effectively transferred to Bank of Baroda, deriving the advantage of dealing with a more secure and bigger bank. SGLAB did not benefit much, except that it was able to merge with a bigger bank and able to retain its branches and customers, albeit under a different name. Since BoB was a large entity (total assets of Rs. 793.2 billion at the time of merger), addition of a small liability did not affect it much. Albeit minor, it obtained seven more branches and the existing customers of SGLAB. This further strengthened its position in rural Gujarat.

Downsides

There was no widespread criticism or any apparent drawback of the merger since the financials involved were not very high.

Oriental Bank of Commerce Acquires Global Trust Bank Ltd. (August '04)

Purposes

For Oriental Bank of Commerce there was an apparent synergy post-merger as the weakness of Global Trust Bank had been bad assets and the strength of OBC lay in recovery[10]. In addition, GTB being a south-based bank would give OBC the much-needed edge in the region apart from tax relief because of the merger. GTB had no choice as the merger was forced on it, by an RBI ruling, following its bankruptcy.

Advantages

OBC gained from the 104 branches and 276 ATMs of GTB, a workforce of 1400 employees and one million customers. Both banks also had a common IT platform. The merger also filled up OBC's lacunae - computerisation and high-end technology. OBC's presence in southern states increased along with the modern infrastructure of GTB.

Downside

The merger resulted in a low CAR for OBC, which was detrimental to solvency. The bank also had a lower business growth (5% vis-a-vis 15% of peers). A capital adequacy ratio of less than 11 per cent could also constrain dividend declaration, given the applicable RBI regulations.

HDFC Bank Acquires Centurion Bank of Punjab (May '08)

Purpose

For HDFC Bank, this merger gave a chance to include scale, topography (northern and southern states) and administration data transfer capacity. What's more, there was a capability of business collaboration and social fit between the two associations.

For CBoP, HDFC bank would exploit its underutilized branch organize that had the imperative skill in retail liabilities, exchange managing an account and outsider conveyance. The joined substance would enhance profitability levels of CBoP branches by utilizing HDFC Bank's image name.

Advantages

The deal made the bank to emerge as an entity with an asset size of Rs 1,09,718 crore (seventh biggest in India), giving huge scale economies and enhanced conveyance with 1,148 branches and 2,358 ATMs (the biggest as

far as branches in the private division). CBoP's solid SME connections supplemented HDFC Bank's predisposition towards high-evaluated corporate substances.

There were huge cross-undercutting opportunities in the term. CBoP management had applicable involvement with bigger banks (as clear in the Centurion Bank and BoP combination prior) overseeing business of the size proportionate with HDFC Bank.

Downsides

The merged entity won't loan home credits given the irreconcilable circumstance with parent HDFC and may even offer down CBoP's home-advance book to it. The retail arrangement of the combined substance will have more by method for unsecured and bike advances, which have gone under weight as of late.

ICICI Bank Acquires Bank of Rajasthan (AUG '10)

Purpose

For ICICI Bank, this merger provided an enhancement in size and distribution reach, in addition the brand name has a strong presence in northern part of India with a branch network of 466 branches out of which 280 in Rajasthan which was a big opportunity to tap also the Rurals of Rajasthan.

Advantages

The deal benefitted the acquirer by providing some big numbers i.e., the bank's asset base and the number of customer stands at Rs 1,73,000 millions and 3 million respectively as on 31st March 2010. The total business amounted to Rs 2,33,918 million and the business per branch is Rs 47 Cr.

Downsides

The BoR reported a net loss of Rs 102.13 Cr against a profit of Rs 117.71 crore for the merged entity. Including both the banks are dissimilar in most of the key parameters, hence the acquiring firm has to struggle immensely on this intrinsic issue.

Kotak Mahindra Bank Acquires Ing Vysya Bank (Aprl'15)

Purpose

The opportunities and synergies that this merger will create will place kotak and its incoming stakeholders from Ing Vysya on a new trajectory of excellence.

Advantages

The merger is expected to result in issuance of approximately 15.2 percent of the equity share capital of the merged Kotak Bank. The combined bank will have 1,214 branches with a wide spread pan India network, getting both breadth & depth given the strong geographic complementarily between Kotak & Ing Vysya.

Downsides

In its first earnings report after this merger Kotak Mahindra bank reported a 26% fall in consolidated net profit at Rs 517 Cr in the June quarter.

On a standalone basis the net profit plunged to Rs 190 Cr in quarter under review from Rs 429 Cr in the same period a year ago.

Reasons to Seek Mergers & Acquisitions (By Both Merged & Acquiring Entity)

- Growth perspective – The natural and gradual process of growth takes time and in the era of competition the dynamic firms prefer acquisitions to grow quickly in terms of size and geographical reach.
- Synergy of 1+1=11 - The merged entity, in most of the cases, has a comparatively better ability in terms of both revenue enhancement and cost reduction.
- Managerial efficiency - Acquirer mostly owns a better understanding of managing the resources of the target whose value, in turn, rises after the acquisition.
- Strategic implications – Two different banks in terms of strategic alliance with complementary business interests can strengthen their positions in the market through merger.
- Market section - Cash rich firms utilize the securing course to buyout a set up player in another business sector and after that expand upon the current stage.
- Tax shields and financial safeguards - Tax concessions go about as an impetus for a solid bank to obtain bothered banks that have amassed misfortunes and unclaimed devaluation advantages in their books.
- Regulatory intercession - To secure investors, and keep the de-adjustment of the money related administrations division, the RBI ventures into power the merger of an upset bank.

Requirement in the Current Scenario to Solidify the Indian Banks

The Financial Sector Reforms that were activated in the year 1991 and there have enormously changed the Indian Banking situation. The managed economy has changed into a deregulated yet enhanced, because of danger taking, market environment. Indian banks have as of late been taking long walks towards –

- Solidifications of various firms by arrangements of mergers and acquisitions.
- All inclusive managing an account approaches.
- Improvement and also acknowledgment of new and progressed mechanical methodologies.
- Globalization of the operations.
- Top bank mergers demonstrate that there has been potential change after merger of banks. Here are some reasons that legitimize the requirement for union of banks in India.

As we are moving in a relentless pace towards worldwide managing an account, the requirement for an extensive number of banks emerges to be an absolute necessity. These will be required to play a significant and imperative part in the economy which will rise thus. Likewise, these must have a firm base to withstand rivalry and satisfy the rising desires.

Bank mergers regularly incorporate improvement in innovative methodologies; deregulation of utilitarian, land and in addition the item related confinements; development of new open doors; and combining the keeping money markets crosswise over fringes. Government arrangements with respect to impetuses too may pace up top bank mergers. Real profit by the merger of banks is fuse of quality to withstand the weight that develops on account of the opposition at the worldwide level. Additionally, the capacity of the bank towards acknowledgment of innovation is improved. Other than this, HR increment and in this manner there is a tweaking of the abilities and experience.

A noteworthy perception from the past involvement with mergers of banks is that combination between unequal elements results in more prominent increases than that among equivalents. Additionally, in the event that a merger is trailed by suitable innovative advances in the firm furthermore broadening in the scope of items and strategies, the managing an account industry overall gets tremendous increases. A character one of a kind to the banks in India is their showcase of comparative execution qualities

regardless of the distinctions in their size, proprietorship, approaches and encounter. This pattern in the general public has likewise exceptionally powered the extension for bank mergers.

Findings & conclusions

Chief Findings With Respect to Mergers and Acquisitions When All is Said in Done.

- **Straightforwardness** – Banks must demand making the complete procedure straightforward for their shareholders. Banks ought to make an effort not to converge at the stake of the estimation of shareholders. Shareholders claim the sum they put resources into the bank and subsequently, they have all rights to have important points of interest, for example, the budgetary conditions, subtle elements of merger, and so on concerning the merger that is to happen.
- Now and again, the commission may raise a protest to merger of banks in order to shield the premiums of the country. This nature of confinement has been seen basically where cross fringe bank mergers are concerned. This is because of the way that union of keep money with a remote substance which has a solid hold may dispense with the nearby banks and consequently make undesirable issues.
- Commissions have for the most part not been seen limiting any merger in view of the stores held by the bank or its aggregate number of branches. Be that as it may, there might be sure circumstances in which they may if the merger can possibly raise rivalry related issues, and so on.
- At the point when to enormous elements experience a merger then in endeavour to diminish the potential angry impacts on the opposition because of low pieces of the overall industry of the bank in a specific region, the commission may tell the blending firms to diminish the shares and stores they hold.
- Mergers in any zone if making issues, they can be balanced by divestment.

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