

Mergers and Acquisitions in Indian Banking Sector

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Abstract

Mergers and Acquisitions persuade banks to increase global reach and improved synergy and agree to banks to acquire the strained assets of weaker banks. A complete combination of two disconnect corporations pertaining to in a business is referred as business merger. Acquisitions on the other hand are take-over. In this case one company really buys an additional company. Through Mergers and Acquisitions banks not only get conventional brand names, new geographies, balancing product offerings but also opportunities to cross sell to new accounts acquired. The process of Mergers and Acquisitions is not a new to the Indian Banking. The main objective of this paper is to assess the impact of Mergers and Acquisitions in Indian Banking Industry, their arrangement before and after Mergers & Acquisitions and judgment out the reasons behind these Mergers & Acquisitions. For the study secondary data is used which has been taken from articles from magazines, newspapers, books and Websites.

Keywords:

Indian Banking Sector, Mergers, Acquisitions, Strategy, Synergy, Growth

Introduction

Mergers and Acquisitions Mergers and acquisitions movement can be defined as a type of reorganization in that they outcome in some entity reorganization with the aim to present growth or positive value. The acronym of merger is as: M= Mixing ,E= Entities,R= Resources for

, G= Growth, E =Enrichment and R= Renovation From a legal point of view, a Merger is a legal consolidation of two companies into one body, whereas and Acquisition occurs when one company takes over another and completely establishes itself as the new owner (in which case the target company still exists as an sovereign legal entity controlled by the acquirer).

Mergers and Acquisition play a decisive economic role of moving resources from zones of under-utilization to zones of better utilization. Unsuccessfully run companies are more prone to being taken over by the powerful and managers have an incentive to ensure that their company is governed properly and resources are used to produce maximum value.

Banking Sector in India

Indian banking industry is governed by the Banking Regulation Act of India, (1949) and is closely monitored by the Reserve Bank of India (RBI). RBI manages the country's money supply and foreign exchange and also serves as a bank for the Government of India and for the country's commercial banks. The largest bank, and the oldest still in existence, is the State Bank of India

, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935.

Mergers and Acquisitions in Indian Banking Sector

Mergers and acquisitions in the banking sector is a common incident across the world. The most important objective behind this move is to accomplish growth at the strategic level in terms of size and client base. This, in turn, increases the credit-creation capacity of the merged bank immensely. Small banks fearing belligerent getting hold of a large bank occasionally enter into a merger to amplify their market share and look after themselves from the possible acquisition.

Banks also prefer mergers and acquisitions to reap the benefits of economies of scale through lessening of costs and maximization of both economic and non-economic benefits. The process of merger and acquisition is not a new phenomenon in case of Indian banking. Grind lays Bank merged with Standard Chartered Bank, Times Bank with HDFC Bank, Bank of Madura with ICICI Bank, Nedungadi Bank Ltd. with Punjab National Bank and Global Trust Bank merged with Oriental Bank of Commerce. As the entire Indian banking industry is witnessing a archetype shift in systems, processes, strategies, it would necessitate creation of new competencies and capabilities on an on-going basis for which an environment of unremitting learning would have to be created so as to enhance knowledge and skills.

Mergers and Acquisitions in few banking organizations are covered here:

1. Merger of ICICI Bank with Bank of Madura in 2001:

ICICI one of the largest financial institution was formed in 1955 at the initiative of the World Bank, the Government of India and legislative body of Indian Industry. In 1990's, ICICI distorted its business from a expansion financial institution offering only venture finance to a diversified financial services group offering a wide assortment of products and services both directly and through a number of subsidiaries and affiliates like

2. Merger of Centurion Bank with Bank of Punjab in 2005

Bank of Punjab (BOP) and Centurion Bank (CB) have been merged to form Centurion Bank of

Punjab (CBP). RBI has permitted merger of Centurion Bank and Bank of Punjab successful from October 1, 2005. The merger is at a exchange ratio 9:4 and the collective bank is called Centurion Bank of Punjab

3.Merger of IDBI bank and United Western Bank ltd. In 2006:

The Reserve Bank of India told IDBI acquire the concerned United Western Bank, which the central bank had put under cessation by the RBI on September2, 2006. Since IDBI is satisfactorily capitalized, it will not have to force money into United Western Bank, which has a net worth of Rs 70 crore (Rs 700 million). However, IDBI had pay United Western Bank shareholders Rs 150.55 crore (Rs 1.5 billion) at Rs 28 a share, which works out to a 31 per cent premium over United Western Bank's closing price of Rs 21.45 onthe Bombay Stock Exchange.

4.Merger of HSBC, Canara bank and Oriental Bank of Commerce in 2009:

Canara HSBC Oriental Bank of Commerce Life Insurance Co Ltd has informed that it has got the license to function in India. Three banking majors have connected hands to offer services in Insurance sector. Two major in Public Sector banks, Canara Bank and OBC, have attached hands with global banking and investment services major HSBC to offer pioneering insurance products to Indian consumers.

Conclusion

Mergers and Acquisitions played a very significant function in Banking Sector. The small and medium size banks are operational under danger from the economic environment which is full of problems for them, viz, insufficiency of resources, obsolete technology, on-systemized management pattern, vacillating marketing efforts, weak financial structure, technique obsolescence and lack of product innovations. Their redeployment through merger could offer re-establishment of those in viable banks of optimum size with global occurrence. Merger and acquisition in Indian banking so far has been to present the safeguard and prevarication weak bank against their failure. The merger trendy in India has yet to catch fire with merchant bankers and financial consultants acquiring skills in grinding the banks to absorb unviable banks and put them again on flourishing operations. All the merged entities after mergers and acquisitions are endlessly growing rather than before the merger. There is amplify in no. of branches and ATMs as well as in set down amount, their net profit and worth.

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