14th International Conference on Science, Technology and Management (ICSTM-19)
Guru Gobind Singh Polytechnic, Nashik, Maharashtra (India)
2nd March 2019, www.conferenceworld.in
ISBN: 978-93-87793-74-3

MERGER & ACQUISITION OF BANKING SECTOR IN INDIA- A CONCEPTUAL REVIEW

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ABSTRACT

M&A is a phenomenon which is easy to think but hard to implement. In India the concept of M&A was initiated by government bodies. Some well now financial organizations also took the necessary initiatives to restructured. Especially in banking sector Merger and acquisition encourages banks to increase their profits. Merger and acquisition play prominent role in banking industry, it increases performance levels of the banks. One of the principle objectives of merger and acquisition in banking sector is to reap the benefits of economic scale. Merger and acquisition is the only way for gaining competitive advantage domestically and internationally. Merger and acquisition not only creates a path for banks to get a new brand name, new structure, product offerings, also it helps in creating new opportunities to banks in competition. The process of merger and acquisition is not a new development in the banking industry. The main aim of merger and acquisition in Indian banking industry is to increase the performance levels of banks, their position before and after merger acquisition and finding out the reasons behind the merger and acquisition. This study seeks to examine the extent to which banking sector performance differs between pre and post-merger and acquisition periods. the immediate effects of merger and acquisition have also been diverse across the various sectors of Indian Economy. This paper deals with types of merger and acquisition, reasons for failures, aim of mergers, difference between merger and acquisition, impact of merger and acquisition, experience of merger and acquisition and purpose of merger and acquisition, benefits of merger and acquisition and limitation of merger and acquisition.

Keywords: M&A, Banking Sectors, Indian economy, Post-Merger, Economic Scale.

I. INTRODUCTION: The abbreviation of merger is as:

M=MIXING, E=ENTITIES, R=RESOURCE, G=GROWTH, E=ENRICHMENT, R=RENOVATION. Acquisition means when one company take overs another and completely establishes its self as the new owner. while Sec-590 of the Nigerian companies and Allied matter Act 1990 defines merger as "any amalgamation of the under taken or more bodies corporates. Merger & Acquisition are the principles tool of corporates restructuring in India. merger& acquisition are formal business transaction and with involves to the purchase of one company to another company. Acquisition is the purchase of shares or asset of another company mergers is help to generate improved performance of the company it is main activity of the merger.

ISBN: 978-93-87793-74-3

Merger & acquisition are play very important role into the todays world. The main aim of the merger and acquisition is achieving growth of organization in internal and external. the banking industry play significant role in economic growth and development of company and country. The main objective of the firm to improve the efficiency of the Indian banks and to promote diversified and competitive financial system.merger and acquisition refers to the financing and strategic decision these involves to the buying and selling combining companies.

Merger: Merger means combination of two or more companies and to create new entity or formation of new company.

Acquisition: In simple word acquisition means purchase of shares or assets one company to another company. The main objective of merger and acquisition increase wealth maximization companies performance and provide different opportunities to companies.Merger and acquisition are involved in followingactivities:

- By purchasing assets
- By purchasing common shares
- By exchange of shares for assets
- By exchange of share for share

II. REVIEW OF LITERATURE

K. Subhashree, M. Kannappan(2018) M&A are important process of banking industry to make financial gains. the main aim of the M&A to improve the economic of scale. A merger means combination of two companies to one company. On the other hand, equalisation is take over. M&A bank not only get a brand name, new structured product offerings but additionally give opportunities true cross cell the new account acquired. The company to follow the procedures explained in companies Act-2013 when a company acquired M&A depends upon the planning and strategies whether they will profitable and in losses.

MahammadRizwanUllahet. all (2016) In this study one of the principal object of M&A is to reap up the benefits of economic scale especially banking sector around the globe. The current as analysed five mergers cases in banking industry of Pakistan. Different variable likes change in growth of capital, deposits, advantages & investment pattern. Where taken to investigate effect of pre and post-merger. M&A has been used to increase the revenues and to minimize the cost.

Lawrence uchennaet.all, (2016) The study seeks to examine to extent to which banking sector performance differs between pre&post M&A periods. M&A are common strategies adopted in the implementation of consolidation programs. Bank asset ratio's shows significant positive difference programs between the pre &post M&A. There is no significant difference in the profit performance of banking sector (as measures of by return on asset) between the pre&post M&A periods.

Gurbaksh Singh, Sunil gupta (2015),In their studyinterpreted the financial performance of banking sector pre and post-merger their activities consolidated by stronger financial institutors. Further analysed the impact of the M&A on productivity and profitability of consolidation in banking sector and examined the strength and weakness of the performance of the banks both public and private sector banks. The banking industry is

ISBN: 978-93-87793-74-3

the one of most important factor for health of the economy. The consolidation in banking sector is important in terms of M&A for improving the Indian banking industry.

Jayadev, Rudrasensarma (2015), In their study analysed some critical issue of consolidation in Indian banking with particular emphasis on the views of two important stakeholders, shareholders-viz and managers. they strongly support the view that Indian financial system requires very large banks to observed various risk emanation from operating in domestic and global environment.in the past of reform periodalmostall the public sector banks have improved their performance in terms of profitability low, NPA`s and raised fresh equity from the capital market and good premium.

Parveenkumari (2014) M&A play a significant role in the Indian banking sector. It is increasing the banks performance as well as gain profits. M&A means a complete combination of support two corporations involving in business is called business merger. acquisition means take over in India the banking sector face many problems such as outdated technology, weak financial structure, technique obsolescence and lack of product innovation.

KanchanJatkar (2012), Analysed some critical issue of consolidation in Indian banking with particular emphasis view of two important stakeholder viz, shareholders and manages .in their study, conducted an event study analysis of bank stock returns. Financial inclusion and need for large investment banks are the primary factor for future consolidation in banking sector in india.in this paper the banks should be follow some steps for their future, there is also a need to that merger or large size is just facilitator, but no guaranty for improved profitability on sustain basis. The trust should be on improving the risk capabilities, corporate guidance and strategic business planning.

ChiragAggarwalet. all (2010) The study aims to understand the behaviour of various M&A in Indians banking sector. One of the principal objective behind the M&A in the banking sector is to reap the benefits of economics scale. M&A is the only way gaining competitive advantage domestically and internationally.

Dr.Anupammitra(2010), M&A have become most widely used business strategy. the present this paper is to explore various reasons of merger in Indian banking industry. It is also compare pre and post-merger financial performance merged banks with help of financial parameters like: grossprofitratio,netprofit ratio, operating profit ratio. M&A banking sector the banks can be achieved significant growth in their operation,minimize their expenses.Merger is useful tool for growth owned expansion Indian banking industry. It is helpful for survival of weak banks by merging into large banks.

III. CONCEPT

MERGER : Merger is defined as combination of two or more companies into a single company a merger is also known as amalgamation. All assets and liabilities and stock of one company stand transferred to transferee.Merger is financial tool that is used for enhancing long term profitability by expending their operations.merger is helpful for improving the operation of company. The combining of two or more companies, generally by proposing the stockholder one company securities in the acquiring company in exchange per the surrender of their stock.EX: Company A+ Company B = Company C.

ISBN: 978-93-87793-74-3

SOURCE:https://www.google.com

TYPES OF MERGER: Merger or acquisition depends upon the purpose of the offer company it wants to achieve based on the offers objective profiles. The following are some of the types of mergers as follows.

- Horizontal merger
- Vertical merger
- Circular merger
- Conglomerate merger

1. **Horizontal merger:**When two or more concern`s dealing in same product or service join together. itis known as horizontal merger. The goal of horizontal merger is to create a new, large organization with more market share. because the merging company's business operation`s may be smaller.The main purpose of searching the merger to obtain of economic scale in production by eliminating duplication of facilities. EX: The formation of Brook Bond with Lipton Ltd.
2. **Vertical merger:**This types of merger involves customer and a company or supplier and a company merging. a vertical merger of firms engaged it different stages of production or distribution of the same product and service. In this case two or more company`s dealing in the same product but it different stages may joint to carry out the hole process itself. The following main benefit`s acquire from the vertical merger to the acquire company.

- It gains to strong position because of impact market of intermediary product`s scare city of resources and purchased products.
- Control product specification.

EX: Pixar and Disney.

3. **Circular merger:**Company`s producing distinct product seek amalgamation to share common distribution and reach facilities to obtain economic by elimination of cost or duplication and promoting market and enlargement. the acquiring to company obtain benefits in the form of economic of resource sharing and diversification.
4. **Conglomerate merger:**Itis amalgamation of two company`s concern`s dealing in totally different activities join hands, it will be a case of conglomerate merger. the concerns are neither horizontal and not vertically related to each other. The manufacturing company may merge with insurance company. The basic purpose of such amalgamation remains utilization of the financial resources. EX: Tata-Sky.

ISBN: 978-93-87793-74-3

IV. AIM OF MERGER:

- To develop company performance and optimal utilization of existing resource`s.
- Provide an opportunity to fully leverage strong asset, capabilities and infrastructure.
- Provide an opportunity to leverage skills and experienced manpower available with both the transferor companies to the optimal potential.
- provide a large and growth oriented company per the people on the same sell be in large public interest.

ACQUISITION: An acquisition may be an Act of acquiring effective control by one company over asset or management of another company without any combination of companies. Companies may remain independent, separate but there may be change in control of companies. An acquisition is an also known as take –over or a buyout, is the buying of one company to another. Acquisition or take overs occur between bidding and the target company. Acquisition in generally sense is acquiring the ownership in the property.

SOURCE:https://www.google.com

TYPES OF ACQUISITION: There are different types of acquisition.

- Friendly take over
- Hostile take over
- Reverse take over

1. **Friendly takeover:**Also commonly referred to as 'negotiated take over', a friendly takeover involves an acquisition of the target company through negotiations between the existing promoters and prospective investors. This kind of takeover`s is re-sorted to further some common objective of both parties.
2. **Hostile takeover:**A hostile takeover can happen by way of any of the following action`s: If the board rejects the offer, but the bidder continues to pursue it or the bidder makes the offer without informing the board earlier.

EX: HP Taking over COMPAQ.

3. **Reverse takeover:**A reverse takeover is a type of takeover where a private company acquires a public company. This usually done at the instigation of the larger, private company purpose being for the private company to effectively float itself while avoiding some of expenses.

PROCESS OF THE TAKEOVER:M&A has following these are process is indicating they are:

- Approval of board of directors
- Information to the stock exchange
- Shareholders and creditors meeting
- Transfer of assets or liabilities

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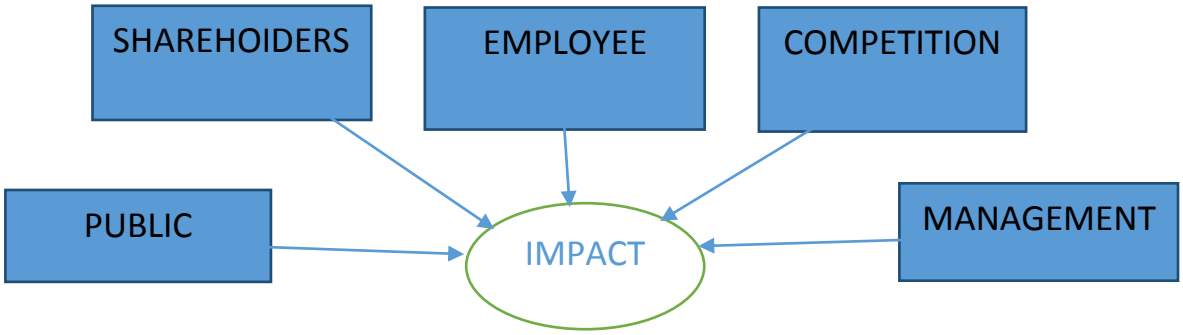
- Payment by cash and securities

IMPACT OF MERGER AND ACQUISITION:



source: Authors own compilation

WHY MERGER AND ACQUISITION FAILS?

- Cultural difference
- No guiding principles
- No ground rules
- No detailed investigating
- Poor stakeholders outreach

EXPERINCES IN MERGER AND ACQUISITION:

- Learn from mistakes of others
- Define your objective clearly
- Complete strategy to achieve goal
- SWOT analysis for the merged business
- Acquire expertise to interpret changes

PURPOSE OF MERGER AND ACQUISITION: The basic purpose merger or business combination is to achieve faster growth of the corporate business.

1. **Procurement of suppliers:**

- To safeguard the source of supplies of raw material
- To obtain economics of purchase in the form of discount, savings in transportation cost…….

2. **Revamping production facilities:**

- To achieve economic of scale by amalgamating production facility through the more intensive utilization of plant and resources.
- To reduce cost, improve quality and produce competitive product & to retain and improve market share.
- To obtain improve production technology.

a. Market expansion and strategy:

- To eliminate competition and protect existing market
- To reduce the advertising cost & improve public image of the offeree company

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- To obtain new product for diversification or substitution of existing product

b. Financial strength:

- To improve liquidity and have direct access to cash resources
- To avail tax benefits
- To improve EPS (earning per share)

c. General gains:

- To improveits own image and attract superior managerial talents to manage it`s affairs
- To offer better satisfaction to customers or users of the product

IV. BENEFITS OF MERGER AND ACQUISITION

1. **Growth or diversification:**Companies that desire rapid growth in size or market share or diversification in the range of their product`s. The firms may achieve same object in a short period of time by merging with existing firms. it may avoid many of risks associated with a design: manufacturer the sale of addition or new product.
2. **SYNERGISM:** The nature of synergism is very simple in other words; synergism is "2+2=5". but identifying synergism an evaluating it may be difficult, impact sometimes it`s implementation may be very subtle.

a. **Operating synergism:**Operating synergism may result from economics of scale, some degrees of monopoly or increased managerial efficiency. The operating synergism occur when these assets which are intangible, may be combined with existing asset and organisation of the acquiring firm to produce an incremental value.

b. **Financial synergism:**Among these are incremental values resulting from complimentary internal funds, flows more efficient of financial leverage, increase external financial capability and income tax advantage.

VI. LIMITATION OF MERGER AND ACQUISITION:

- Number of merge case analysed by various studies is much less and have taken only merger and acquisition
- It is noticed that none of the studies dealt comprehensively on trend of merger and acquisition`s for the post 1991 period
- From the survey of Indian merger and acquisition`s literature, it is mainly found that a part from growth and expansion, efficiency gains &market power are the two important motives for merger and acquisition

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VII. MERGER AND ACQUISITION BANKING SECTOR IN INDIA FROM 2010-2017

S.NO	NAME OF THE BANK ACQUIRED	NAME OF THE BANKS GOT MERGED	YEAR OF MERGING
1.	SBI	Bharatiyamahila bank (BMB)	2017
2.	SBI	State bank Travancore (SBT)	2017
3.	SBI	State bank of Bikaner and Jaipur (SBBJ)	2017
4.	SBI	State bank of Hyderabad (SBH)	2017
5.	SBI	State bank of Mysore (SBM)	2017
6.	SBI	State bank of Patiala (SBP)	2017
7.	Kotak Mahindra bank	ING Vyasa bank	2014
8.	ICICI bank	Bank of Rajasthan Ltd	2010

Source:source:source:https://www.affairsclould.com

RESEARCH METHODOLOGY: This paper is conceptual in nature. data collection was achieved by online websites and the data is filtered to improve the quality of paper. The interpretations are made by the authors with the help of guide.

VII. OBJECTIVES

- To study about purpose and procedure of merger and acquisition in India
- To know about the merger`s between Indian banks
- To know the present trends of merger and acquisition
- To find out the impact of merger and acquisitionon Indian bank`s

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VIII. PROCEDURE & PURPOSE OF MERGER AND ACQUISITION:

Procedure of merger: The companies Act 2013 provides fast-track procedure for merger. The procedure is as under.

1. Both the transferee shall convene the board meeting separately & pass the following resolutions.

- Approving the scheme
- Fixing date, time & place for shareholder meeting and creditor meeting

2. Before convening the meeting of members and creditors both the transferor and transferee company shall file with the ROC of their registered office has situated a declaration of solvency
3. A notice of meeting of members should be given at least 21 days before meeting by both the transferor and transferee. the notice of meeting shall be containing the following

- Details of compromise & arrangement
- Declaration of insolvency
- copy of scheme

4. The transferee company shall within seven days of the conclusion of meeting of members file a result of a meeting of members with the regional directors, registrars of companies and official liquidator.

Procedure of acquisition:

1. Researching target companies: Before acquiring any company a detailed research about the company is necessary which will avoid the company in the feature.

2. Initialcontact: After the research have been completed the acquiring company should contact the target company so that many issues can be clarified which would take place in the future. Contact can be made through the following ways.

a. Discrete contact:

In this type direct contact is made with the owner of target company. This process can take several days or month.

b. Joint venture:

It is one of the best method to enter into a joint venture agreement with the target company. This agreement will give a detailed information about the company activity and operational detailed.

3.Letter of intent: As soon has the acquire company and the target company sign the non-discloser agreement the target company will transfer all the document, historical background and detail information to the acquire company based on which the acquire company can take the decision to whether proceed to deal or not.

IX. PRESENT TRENDS OF MERGER AND ACQUISITIONIN INDIA:

- Regulatory changes and economic reforms have been major reasons for bringing significance changes in merger and acquisition sense of India.
- The major reasons for increasing consolidations in India are the industry specific advantages, cost reduction. these factors have skewed the merger activity in India towards horizontal or vertical merger and acquisition.

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X. SUGGESSIONS

- Since merger and acquisition have not found to be contributing significantly to profitability liquidity and solvency or operational efficiency the acquires need to assess whether paying substantial purchase consideration for these transactions is economically variable for the firm in the long run.
- The acquires need to identify appropriate target that has complementary fit with the acquires own organisational structure, product portfolio & work culture.
- Acquires need to find out if they are over paying for their acquisitions as it is one of the most important reasons for failure of merger and acquisition in creating shareholder value.
- The mismatch between market valuation & fair valuation of firm once discovered can result in substantial losses toinvestor.

XI. CONCULSION

Merger and acquisition are played important role in banking sector. M&A improves the performance of banks. The banking is one of the most important indicators of the health of an economy. Banking sector is very important terms of M&A for the growing in banking industry. It is helpful to achieved through the cost reduction and increasing revenue. M&A of banking sector of has vital role and global phenomenon in the world wide. The impact of merger`s change in profitability i; e returns on capital employed, return on net worth, operating profit margin. The M&A process is accepted in India by the companies Act -2013and for the company to get merge with another company.it is important for the company to follow the procedure explained with the same company as Act-2013. when the company acquire M&A it depends upon it planning and strategy, whether they will profitable or losses.

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