EFFECTS OF MERGERS AND ACQUISITIONS IN BANKING SECTOR IN INDIA

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Abstract: *This research paper examines the concept of Mergers and Acquisitions in the Indian Banking industry and what are its possible effects on the industry as a whole. It aims to understand that how mergers and acquisitions can benefit the industry in terms of economies of scale, better profits, operational capabilities and in acquiring better resources. It is clear from the research that Indian banks hold prominent position in the industry and if the synergies are created, it can target overseas market too to hold organic growth for the Indian banking industry. The research follows mixed method of research and collects data from secondary sources. It is concluded that to gain competitive advantage in the global business industry, the national players have to work together to combat the healthy competition in the market.*

Key Words: *merger, acquisitions, amalgamation, banking industry, exploratory research.*

1. INTRODUCTION:

Banks are the financial institutions which are authorised either by State or central government to deal in money by accepting deposits from public or by providing loans and credits to general public. In recent times, the integration of banking system of India created a significant role for the mergers and acquisitions of banks in the country (Gupta and Banerjee, 2017). Mergers and acquisitions are done with the purpose of gaining synergies and to have positive impact on the baking industry of the country. This research paper is about the mergers are acquisitions which are basically the strategies which are used to scale up the banking organisations and to support the economy by having a well regulated banking system. Mergers and acquisitions of banks are done with the motive of achieving economies of scale and to gain more profitability (Gupta, 2015).

1.1 Background of Mergers and acquisitions in Indian Banking Industry:

The banking sector of India set its foot in the year 1770 with the first bank named as Indian bank. Some more banks came into existence which used to function under the charter of East India Company. All the banks then merged into a single bank known as Imperial bank in the year 1921 which was later on nationalised and named as State Bank of India. This was done to increase the efficiency of the banks and to restructure the whole industry with the motive of better delivery of services to the national population (Mittal, 2016). To make the Indian banks comparable with the global banks, the Narsimham committee was emerged in 1991 which further suggested the mergers of banks and financial institutions of the country to have force multiplier effect. One of the best examples of this can be the acquisition of Bank of Europe by ICICI bank in 2006 to have a good catch of the geographical area (Kumar, 2013).

2. OBJECTIVE:

The main objective of this research paper is to gain knowledge about the history of mergers and acquisitions done in India and what are its effects on the banking sector of India.

3. REVIEW OF LITERATURE:

The banking system of India runs for the purpose of providing the financial services to the customers which includes accepting deposits, lending loans and credits and processing other financial transactions

According to Kalra, Gupta and Bagga (2013), the banking sector of India can be divided into two eras which are pre liberalisation era and post liberalisation era. The government of India has liberalised the economy and experienced the positive effects of the mergers and acquisitions of banking and financial institutions which not only improved the financial performance of the Indian banks but also helped in the better delivery of services to the customers. The issue of the mergers and acquisitions of Indian banks has been studied at good level in the literature where different authors have different opinions on the effects of this reconstruction on the banking sector (Kotnal, 2016).

The most known and successful mergers even done in the Indian banking history are the merger of Centurion Bank of India and HDFC (2008), INGVysya Bank with Kotak Mahindra bank (2014), Bank of Rajasthan with ICICI bank (2010) and many more (Dutta & Dawn, 2012).

3.1 Effects of Mergers and Acquisitions in Indian Banking sector

Mergers can be known as the unification of two players in the market to make it one entity. Acquisition is when one player acquires other player and the purchaser gets the right to run the sold out company. There are certain effects which mergers and acquisitions have on Indian Banking sector which are explained below:

Increased accounting profits: According to Tamragundi & Devarajappa (2016), the mergers and acquisitions bring more accounting profits for the banks.

Reduction in operating expenses: It helps in reducing the operating expenses and increasing revenue of the banks. This was found by comparing the pre and post-merger financial ratios of the banks. But financial ratios can be misleading for analysing the performance because no input prices are considered in this.

Brings competitive edge for the banks in the industry: As per Jayadev & Sensarma (2015), the mergers done in US has reportedly shown better management rating and competitive position in the industry. The mergers are expected to create values but the recent study on Malaysian banks shown that the mergers which are done forcefully have destroyed the wealth of the acquired banks.

Promote synergies and creates value for the whole industry: In the words of Dutta & Dawn (2012), Mergers and acquisitions in banking sector can also several positive effects for the industry. Mergers are generally done to promote synergies and to create value for the industry. It increases efficiency of the financial players and gives them an option to use available resources like technology. It creates economies of scale and brings diversification which ultimately increases revenue of the merged bank. It helps in generating better flow of funds among the banks which also reduces the working capital requirements.

Negative effects of mergers and acquisitions on the banking industry of India: The potential candidates of mergers and acquisitions are generally analysed by the stock market analysts and the shareholders of the institutions but it might not bring positive results for the banks and economy as a whole. The mergers might have negative impact on the popularity and operations of the banks which are in the process of integration. As per Kotnal (2016), the mergers in Indian banking system might have some issues like does it really improve the operational performance and efficiency of the banks?

Data analysis

In India, most of the banks which are weak and loss making are being merged with the strong banks in order to avoid any financial crunch so that the customers do not have to suffer. This shows that the main motive behind mergers of banks in India is to protect the weak banks and improve the financial position of the banks. The past mergers of the banks have shown that mergers are acquisitions build more strength for the organisations and increase their capabilities.

This can better be explained with the help of an example.

The merger of HDFC bank with Centurion Bank of Punjab in 2008 is considered as one of the largest mergers of the financial sectors of India. The shareholders of the Centurion Bank of Punjab got 1 share of HDFC for every 29 shares of Centurion Bank of Punjab and after the acquisition took place, HDFC became the second largest private sector bank of India (Rani, Yadav and Jain, 2015). It helped HDFC in increasing its network of branches and ATM's along with its net worth and profit. It provided an opportunity to HDFC to expand its geographical reach and to access more customers. The challenge was to make a cultural fit between two nations. But the merger was not untouched from the challenges. The major drawback of this deal was that there was a conflict regarding the decisions of rates of interest of both the banks for their customers. Because of this, HDFC came into pressure for some period of time (Du and Boateng, 2015).

WILL THE NUMBERS ADD UP?

A look at the figures behind the merger.

PARAMETERS	HDFC BANK	Centurion Bank of Punjab
Revenues	8,464	1,673
Operating Profit	2,811	269
Net Profit	1,143	121
Capital	319	156
EPS	Rs 36.6 per share	Rs 0.82 per share
Deposits	68,297	14,863
Balance Sheet Size	91,235	18,482
Net NPAs	0.43%	1.31%
Return On Assets	1.25%	0.66%
Return On Capital Employed	19.46%	10.60%
Capital Adequacy	13.08%	11.05%

All figures are in Rs crore except where indicated and are for March, '07

Source: BT Research

Figure 1: The numbers behind the merger of HDFC and Centurion bank of Punjab
Source: (Adhikary, 2008)

The above table shows that the figures of different parameters like revenues, capital, return on assets and more of both the banks will add up to form a major entity in the market.

As a whole, Indian Banking system is strengthened when the strategies like mergers and acquisitions take place. After 2009, when the proposal was made for the entrance of Foreign Banks up to 74%, huge risk was posed to the operations and success of Indian banks in India and abroad. This gave an opportunity to the foreign banks to enter onto Indian market with better capital investment, technology, practices and human resources (Rao-Nicholson, Salaber and Cao, 2016). The easy targets for the foreign banks can be the private banks of India which are operating at small scale and are new in the industry. But this will provide growth to the Indian Banking sector as a whole and will help Indian banks in keeping pace with the global technologies and practices. The major players of the industry will be able to focus more on their operations and customer service which will attract more users of banks and the overall capital flow will be regularised in a better manner. It creates competitive environment which will make Indian Banking industry more dynamic and successful in terms of network, technology, resources, man power, customers and practices. It will also help Indian banks to reach foreign markets which will bring foreign capital into the nation (Shirasu, 2017).

The below table shows that lot of banks have been merged or acquired by other banks in order to improve the current position of the banking industry of India.

M&As SINCE 2000

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**

Figure 2: Mergers and acquisitions since 2000
Source: IBPSEXAMADDA (2018)

4. RESEARCH METHODOLOGY:

The research has been conducted by collecting and analysing the information from varied sources of secondary information. These sources include various websites, reports, journal articles, books or newspaper articles. This is an exploratory research where the data is collected for analysing the effects of mergers and acquisitions in the Indian banking industry. The research follows mixed method of research where both the quantitative and qualitative data has been used for the purpose of fulfilling the objectives of the research.

4.1 Research Limitations

The research is limited to secondary data which does not cover the actual and present views of the stakeholders of the industry regarding the mergers and acquisitions of the banks. This only includes the data which has already been used and analysed by someone else.

4.2 Ethical consideration

The data has been collected after taking valid permissions from the libraries and from all the genuine sources. All the data used is referenced which shows that the data is not altered and taken from the genuine sources.

5. FINDINGS AND DISCUSSIONS:

It is found from the data collected and analysis that the impact of the mergers and acquisitions helped banks to seek new opportunities which promote them to face the competition from the global players. These strategies helped the country in facing the capital crisis. It is found that the takeovers and acquisitions are very common in the banking industry. It is done to save the country from financial distress and to have confidence in the growing entities of the country. Amalgamation is done between Regional Rural Banks and national banks, financial institutions and national banks, Non-Banking financial companies and banks in order to bring a change in the Indian Banking scenario. The Mergers and Acquisitions which took place after the year 2000 happened to create synergies and also proved to be successful in creating the value for the economy. But with this, some risks are associated like the big sized banks may not always be better. It may not prove to be an asset for the economy. It also brings distress in the organisation as the working culture and systems of two different organisations merge which creates havoc among the employees of the bank. So, it’s a challenge to create a successful merger of banks which proves to be an asset for the economy.

6. CONCLUSION:

It can be concluded that Mergers and acquisitions plays a very important role in the growth of banking sector in India. The small and medium sized banks which are weak in terms of finance, sources and management are often acquired by the larger banks which help in creating synergies and create value for the economy. The research is done by throwing a light on the background of Indian Banking sector and how mergers and acquisitions which took place in past created value for both the contributors and for the economy. After the national reforms of 1991, the shift has been experienced in the Indian Banking Industry and the strategies like these helps local banks to compete with the foreign players at global level. It does not only provides better services to people but also helps in the free flow of capital in the economy which further generates employment, infrastructure and ultimately growth for the Indian economy.

6. Recommendations for future research:

The banking sector is one of the most promising and prominent industries of India which attracts foreign investors and generates capital for the nation. By going through the research, it can be suggested that the Indian government with the contribution of RBI should liberalise the policies of mergers and acquisitions so that more integration can be promoted and the weaker banks can be saved by the ones which are healthy and have capability to lead the financial flow of the country. It is a significant strategy which not only helps banks in expanding their operations but also increases the profitability.

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