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PROJECT REPORT

ON

“MERGERS AND ACQUISITION IN INDIAN BANKING SECTOR”

BY

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Submitted to

SCHOOL OF BUSINESS

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In partial fulfilment of the requirements for the award of the degree of

BACHLOR OF BUSINESS ADMINISTRATION

Under the guidance of

ANAM KHAN

CERTIFICATE

This is to certify that **ZEESHAN NAUSHAD&ZAHEDUL KHARI**, is a bonafide student of Bachlor of Business Administration course of the Institute 2019-22. The project report on "**MERGERS AND ACQUISITION IN INDIAN BANKING SECTOR**" is prepared by them under the guidance of **ANAM KHAN**, in partial fulfilment of requirements for the award ofthe degree of Bachlor of Business Administration of Galgotias university.

Signature of Internal Guide **Signature of HOD** **Signature of principal**

Name of the Examiners with affiliation Signature with date

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PROJECT WORK CERTIFICATE

This is to inform that **MR ZEESHAN NAUSHAD &ZAHEDUL KHARI** has successfully completed freelance project work under the guidance of **MS ANAM KHAN**

We found her extremely inquisitive and hard working. She has demonstrated active interest in learning and was also willing to put in her best efforts. Her performance on task assigned was highly appreciated.

Her association with me was very fruitful and I wish them best luck for their career ahead.

Sincerely,

Ms Anam KHAN

DECLARATION

I, ZEESHAN NAUSHAD hereby declare that the project report on "**MERGERS AND ACQUISITIONOF INDIAN BANKING SECTOR**" prepared by me and zahedul khari under the guidance of **Ms Anam KHAN**, faculty of BBA Department, Galgotias university.

I also declare that this project report is towards the partial fulfilment of the university regulations for the award of the degree of Master of Business Administration by Visvesvaraya Technological University, Belgaum.

I have undergone an industry project for a period of Twelve weeks. I further declare that this report is based on the original study undertaken by me and has not been submitted for the award of a degree/diploma from any other University / Institution.

Signature of Student

Place:

Date:

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I am thankful to my internal guide Ms Anam KHAN, for his constant support and inspiration throughout the project and invaluable suggestions, guidance and also for providing valuable information.

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ZEESHAN NAUSHAD

ZAHEDUL KHARI

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1. EXECUTIVE SUMMARY

The project aims to understand the various **"Mergers and Acquisitions in Indian Banking Sector"** A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. In the recent times, there have been numerous reports in the media on the Indian Banking Industry Reports have been on a variety of topics. The topics have been ranging from issues such as user friendliness of Indian banks, preparedness of banks to meet the fast approaching Basel II deadline, increasing foray of Indian banks in the overseas markets targeting inorganic growth.

Mergers and Acquisitions is the only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking to strategic acquisitions within India and abroad. In order to attain the economies of scale and also to combat the unhealthy competition within the sector besides emerging as a competitive force to reckon with in the International economy. Consolidation of Indian banking sector through mergers and acquisitions on commercial considerations and business strategies – is the essential pre-requisite. Today, the banking industry is counted among the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and therefore, it has become the most preferred banking destinations for international investors". In the last two decade, there have been paradigm shift in Indian banking industries. The Indian banking sector is growing at an astonishing pace. A relatively new dimension in the Indian banking industry is accelerated through mergers and acquisitions. It will enable banks to achieve world class status and throw greater value to the stakeholders.

Chapter 1 – Theoritical background of the study

MERGER

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. Merger is the fusion of two or more existing companies. All assets, liabilities and the stock of one company stand transferred to

Transferee Company in consideration of payment in the form of:

- Equity shares in the transferee company,
- Debentures in the transferee company,
- Cash, or

A mix of the above modes.

TYPES OF MERGERS

Merger or acquisition depends upon the purpose of the offeror company it wants to achieve. Based on the offerors‟ objectives profile, combinations could be vertical, horizontal, circular and conglomeratic as precisely described below with reference to the purpose in view of the offeror company.

(A) Vertical combination:

A company would like to takeover another company or seek its merger with that company to expand espousing backward integration to assimilate the resources of supply and forward integration towards market outlets. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production.
The following main benefits accrue from the vertical combination to the acquirer company i.e.

1. It gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;

2. Has control over products specifications.

(B) <u>Horizontal combination:</u>

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising costs, increase in market segments and exercise better control on market.

(C) <u>Circular combination:</u>

Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

(D) <u>Conglomerate combination:</u>

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries. The basic purpose of such amalgamations remains utilization of financial resources and enlarges debt capacity through re-organizing their financial structure so as to service the shareholders by increased leveraging and EPS, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company"s total portfolio of diverse products and production processes.

ACQUISITION

Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.

Methods of Acquisition:

An acquisition may be affected by:-

- Agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power;
- Purchase of shares in open market;
- To make takeover offer to the general body of shareholders;
- Purchase of new shares by private treaty;
- Acquisition of share capital through the following forms of considerations viz. Means of cash, issuance of loan capital, or insurance of share capital.

Chapter 3 – Research Methodology

OBJECTIVES

- To study the purpose of mergers and acquisitions in the Banking sector
- To study the benefits of mergers and acquisitions.
- To understand Bank merger/amalgamation under various Acts
- To study the changes in the Indian Banking Scenario.
- To study the Procedure of Bank Mergers and Acquisitions
- To study the motives behind consolidation in the Banking sector.
- To study the risk involved in merger and acquisition.
- To study the HR issues during merger and acquisition.
- To understand the challenges and opportunities in the Indian Banking Sector.
- To study the major Banks involved in Mergers and Acquisitions.
- Case Study on the Merger of ICICI Bank and Bank of Rajasthan.

DATA COLLECTION

The analysis is purely based on the secondary data.

Secondary Research based on:
1. Business Magazines
2. Internet Sources
3. Finance books

PURPOSES OF MERGERS AND ACQUISITIONS

The purpose for an offeror company for acquiring another company shall be reflected in the corporate objectives. It has to decide the specific objectives to be achieved through acquisition. The basic purpose of merger or business combination is to achieve faster growth of the corporate business. Faster growth may be had through product improvement and competitive position. Other possible purposes for acquisition are short listed below: -

(1) Procurement of supplies:

1. To safeguard the source of supplies of raw materials or intermediary product;

2. To obtain economies of purchase in the form of discount, savings in transportation costs, overhead costs in buying department, etc.;

3. To share the benefits of suppliers‟ economies by standardizing the materials.

(2) Revamping production facilities:

1. To achieve economies of scale by amalgamating production facilities through more intensive utilization of plant and resources;

2. To standardize product specifications, improvement of quality of product, expanding

3. Market and aiming at consumers satisfaction through strengthening after sale Services;

4. To obtain improved production technology and know-how from the offered company

5. To reduce cost, improve quality and produce competitive products to retain and Improve market share.

(3) Market expansion and strategy:

1. To eliminate competition and protect existing market;

2. To obtain a new market outlets in possession of the offeree;
3. To obtain new product for diversification or substitution of existing products and to enhance the product range;

4. Strengthening retain outlets and sale the goods to rationalize distribution; 5. To reduce advertising cost and improve public image of the offeree company;

6. Strategic control of patents and copyrights.

(4) Financial strength:

1. To improve liquidity and have direct access to cash resource;

2. To dispose of surplus and outdated assets for cash out of combined enterprise;

3. To enhance gearing capacity, borrow on better strength and the greater assets backing;
4. To avail tax benefits;
5. To improve EPS (Earning Per Share).

(5) <u>General gains:</u>

1. To improve its own image and attract superior managerial talents to manage its affairs;
2. To offer better satisfaction to consumers or users of the product.

(6) <u>Own developmental plans:</u>

The purpose of acquisition is backed by the offeror company‟s own developmental plans. A company thinks in terms of acquiring the other company only when it has arrived at its own development plan to expand its operation having examined its own internal strength where it might not have any problem of taxation, accounting, valuation, etc. But might feel resource constraints with limitations of funds and lack of skill managerial personnel‟s. It has to aim at suitable combination where it could have opportunities to supplement its funds by issuance of securities, secure additional financial facilities, eliminate competition and strengthen its market position.

(7) <u>Strategic purpose:</u>

The Acquirer Company view the merger to achieve strategic objectives through alternative type of combinations which may be horizontal, vertical, product expansion, market extensional or other specified unrelated objectives depending upon the corporate strategies. Thus, various types of combinations distinct with each other in nature are adopted to pursue this objective like vertical or horizontal combination.

(8) Corporate friendliness:

Although it is rare but it is true that business houses exhibit degrees of cooperative spirit despite competitiveness in providing rescues to each other from hostile takeovers and cultivate situations of collaborations sharing goodwill of each other to achieve performance heights through business combinations. The corporate aim at circular combinations by pursuing this objective.

(9) Desired level of integration:

Mergers and acquisition are pursued to obtain the desired level of integration between the two combining business houses. Such integration could be operational or financial. This gives birth to conglomerate combinations. The purpose and the requirements of the offeror company go a long way in selecting a suitable partner for merger or acquisition in business combinations.

BENEFITS OF MERGERS AND ACQUISITIONS

1. **GROWTH 0R DIVERSIFICATION**: - Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfill the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period of time by merging with an existing firm. In addition such a strategy is often less costly than the alternative of developing the necessary production capability and capacity. If a firm that wants to expand operations in existing or new product area can find a suitable going concern. It may avoid many of risks associated with a design; manufacture the sale of

addition or new products. Moreover when a firm expands or extends its product line by acquiring another firm, it also removes a potential competitor.

2. **SYNERGISM**: - The nature of synergism is very simple. Synergism exists when ever the value of the combination is greater than the sum of the values of its parts. In other words, synergism is "2+2=5". But identifying synergy on evaluating it may be difficult, infact sometimes its implementations may be very subtle. As broadly defined to include any incremental value resulting from business combination, synergism in the basic economic justification of merger. The incremental value may derive from increase in either operational or financial efficiency.

- **Operating Synergism:** - Operating synergism may result from economies of scale, some degree of monopoly power or increased managerial efficiency. The value may be achieved by increasing the sales volume in relation to assts employed increasing profit margins or decreasing operating risks. Although operating synergy usually is the result of either vertical/horizontal integration some synergistic also may result from conglomerate growth. In addition, some times a firm may acquire another to obtain patents, copyrights, technical proficiency, marketing skills, specific fixes assets, customer relationship or managerial personnel. Operating synergism occurs when these assets, which are intangible, may be combined with the existing assets and organization of the acquiring firm to produce an incremental value. Although that value may be difficult to appraise it may be the primary motive behind the acquisition.
    - **Financial synergism-**Among these are incremental values resulting from complementary internal funds flows more efficient use of financial leverage, increase external financial capability and income tax advantages.

a) Complementary internal funds flows

Seasonal or cyclical fluctuations in funds flows sometimes may be reduced or eliminated by merger. If so, financial synergism results in reduction of working capital requirements of the combination compared to those of the firms standing alone.

b) More efficient use of Financial Leverage

Financial synergy may result from more efficient use of financial leverage. The acquisition firm may have little debt and wish to use the high debt of the acquired firm to lever earning of the combination or the acquiring firm may borrow to finance and acquisition for cash of a low debt firm thus providing additional leverage to the combination. The financial leverage advantage must be weighed against the increased financial risk.

c) Increased External Financial Capabilities

Many mergers, particular those of relatively small firms into large ones, occur when the acquired firm simply cannot finance its operation. Typical of this is the situations are the small growing firm with expending financial requirements. The firm has exhausted its bank credit and has virtually no access to long term debt or equity markets. Sometimes the small firm has encountered operating difficulty, and the bank has served notice that its loan will not be renewed? In this type of situation a large firms with sufficient cash and credit to finance the requirements of smaller one probably can obtain a good buy bee. Making a merger proposal to the small firm. The only alternative the small firm may have is to try to interest 2 or more large firms in proposing merger to introduce, competition into those bidding for acquisition. The smaller firm"s situations might not be so bleak. It may not be threatened by non renewable of maturing loan. But its management may recognize that continued growth to capitalize on its market will require financing be on its means. Although its bargaining position will be better, the financial synergy of acquiring firm"s strong financial capability may provide the impetus for the merger. Sometimes the acquired firm possesses the financing capability. The acquisition of a cash rich firm whose operations have matured may provide additional financing to facilitate growth of the acquiring firm. In some cases, the acquiring may be able to recover all or parts of the cost of acquiring the cash rich firm when the merger is consummated and the cash then belongs to it.

d) The Income Tax Advantages

In some cases, income tax consideration may provide the financial synergy motivating a merger, e.g. assume that a firm A has earnings before taxes of about rupees ten crores per year and firm B now break even, has a loss carry forward of rupees twenty crores accumulated from profitable operations of previous years. The merger of A and B will allow the surviving corporation to utility the loss carries forward, thereby eliminating income taxes in future periods.

- **Counter Synergism-**Certain factors may oppose the synergistic effect contemplating from a merger. Often another layer of overhead cost and bureaucracy is added. Do the advantages outweigh disadvantages? Sometimes the acquiring firm agrees to long term employments contracts with managers of the acquiring firm. Such often are beneficial but they may be the opposite. Personality or policy conflicts may develop that either hamstring operations or acquire buying out such contracts to remove personal position of authority. Particularly in conglomerate merger, management of acquiring firm simply may not have sufficient knowledge of the business to control the acquired firm adequately. Attempts to maintain control may induce resentment by personnel of acquired firm. The resulting reduction of the efficiency may eliminate expected operating synergy or even reduce the post merger profitability of the acquired firm. The list of possible counter synergism factors could goon endlessly; the point is that the mergers do not always produce that expected results. Negative factors and the risks related to them also must be considered in appraising a prospective merger

Other motives For Merger

Merger may be motivated by two other factors that should not be classified under synergism. These are the opportunities for acquiring firm to obtain assets at bargain price and the desire of shareholders of the acquired firm to increase the liquidity of their holdings.

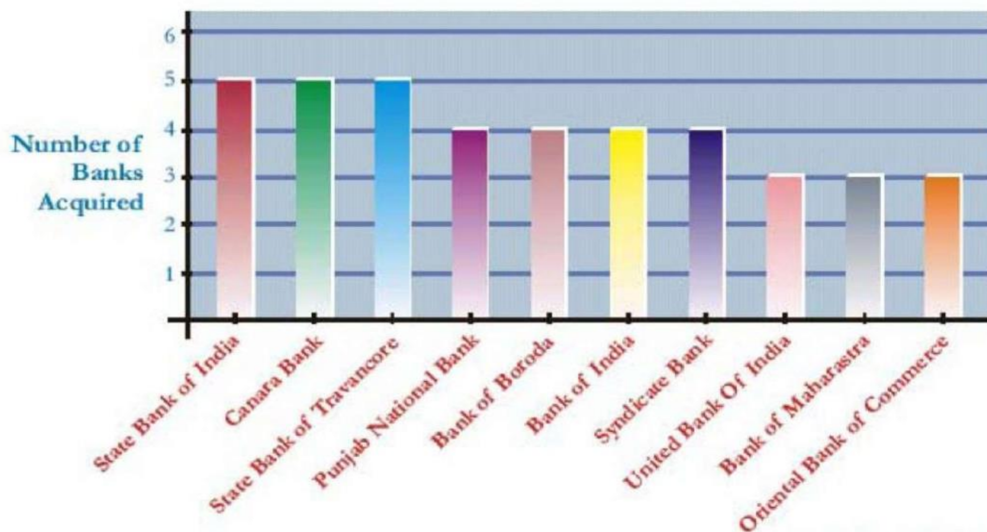
1. **Purchase of Assets at Bargain Prices**

Mergers may be explained by opportunity to acquire assets, particularly land mineral rights, plant and equipment, at lower cost than would be incurred if they were purchased or constructed at the current market prices. If the market price of many socks have been considerably below the replacement cost of the assets they represent, expanding firm considering construction plants, developing mines or buying equipments often have found that the desired assets could be obtained where by heaper by acquiring a firm that already owned and operated that asset. Risk could be reduced because the assets were already in place and an organization of people knew how to operate them and market their products. Many of the mergers can be financed by cash tender offers to the acquired firm‟s shareholders at price substantially above the current market. Even so, the assets can be acquired for less than their current casts of construction. The basic factor underlying this apparently is that inflation in construction costs not fully rejected in stock prices because of high interest rates and limited optimism by stock investors regarding future economic conditions.

2. **Increased Managerial Skills or Technology**

Occasionally a firm will have good potential that is finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner‟s wealth.

3. **Acquiring new technology** –To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.



<u>BANK MERGER/AMALGAMATION UNDER VARIOUS ACTS</u>

The relevant provisions regarding merger, amalgamation and acquisition of banks under various acts are discussed in brief as under:

Mergers- banking Regulation act 1949

Amalgamations of banking companies under B R Act fall under categories are voluntary amalgamation and compulsory amalgamation.

Section 44A Voluntary Amalgamation of Banking Companies.

Section 44A of the Banking Regulation act 1949 provides for the procedure to be followed in case of voluntary mergers of banking companies. Under these provisions a banking company may be amalgamated with another banking company by approval of shareholders of each banking company by resolution passed by majority of two third in value of shareholders of each of the said companies. The bank to obtain Reserve Bank‟s sanction for the approval of the scheme of amalgamation. However, as per the observations of JPC the role of RBI is limited. The reserve bank generally encourages amalgamation when it is satisfied that the scheme is in the interest of depositors of the amalgamating banks.

A careful reading of the provisions of section 44A on banking regulation act 1949 shows that the high court is not given the powers to grant its approval to the schemes of merger of banking companies and Reserve bank is given such powers.

Further, reserve bank is empowered to determine the Markey value of shares of minority shareholders who have voted against the scheme of amalgamation. Since nationalized banks are not Baking Companies and SBI is governed by a separate statue, the provisions of section 44A on voluntary amalgamation are not applicable in the case of amalgamation of two public sector banks or for the merger of a nationalized bank/SBI with a banking company or vice versa. These mergers have to be attempted in terms of the provisions in the respective statute under which they are constituted. Moreover, the section does not envisage approval of RBI for the merger of any other financial entity such as NBFC with a banking company voluntarily. Therefore a baking company can be amalgamated with another banking company only under section 44A of the BR act.

Sector 45- Compulsory Amalgamation of banks

Under section 45(4) of the banking regulation act, reserve bank may prepare a scheme of amalgamation of a banking company with other institution (the transferee bank) under sub- section (15) of section 45. Banking institution means any banking company and includes SBI and subsidiary banks or a corresponding new bank. A compulsory amalgamation is a pressed into action where the financial position of the bank has become week and urgent measures are required to be taken to safeguard the depositor‟s interest. Section 45 of the Banking regulation Act, 1949 provides for a bank to be reconstructed or amalgamated compulsorily‟

i.e. without the consent of its members or creditors, with any other banking institutions as defined in sub section(15) thereof. Action under there provision of this section is taken by reserve bank in consultation with the central government in the case of banks, which are weak, unsound or improperly managed. Under the provisions, RBI can apply to the central government for suspension of business by a

banking company and prepare a scheme of reconstitution or amalgamation in order to safeguard the interests of the depositors.

Under compulsory amalgamation, reserve bank has the power to amalgamate a banking company with any other banking company, nationalized bank, SBI and subsidiary of SBI. Whereas under voluntary amalgamation, a banking company can be amalgamated with banking company can be amalgamated with another banking company only. Meaning thereby, a banking company can not be merged with a nationalized bank or any other financial entity.

Companies Act

Section 394 of the companies act, 1956 is the main section that deals with the reconstruction and amalgamation of the companies. Under section 44A of the banking Regulation Act, 1949 two banking companies can be amalgamated voluntarily. In case of an amalgamated of any company such as a non banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies act and such schemes can be approved by the high courts and such cases do not require specific approval of the RBI. Under section 396 of the act, central government may amalgamate two or more companies in public interest.

State Bank of India Act, 1955

Section 35 of the State Bank of India Act, 1955 confers power on SBI to enter into negotiation for acquiring business including assets and liabilities of any banking institution with the sanction of the central government and if so directed by the government in consultation with the RBI. The terms and conditions of acquisition by central board of the SBI and the concerned banking institution and the reserve bank of India is required to be submitted to the central government for its sanction. The central government is empowered to sanction any scheme of acquisition and such schemes of acquisition become effective from the date specified in order of sanction.

As per sub-section (13) of section 38 of the SBI act, banking institution is defined as under "banking institution" includes any individual or any association of individuals (whether incorporated or not or whether a department of government or a separate institution), carrying on the business of banking.

SBI may, therefore, acquire business of any other banking institution. Any individual or any association of individuals carrying on banking business. The scope provided for acquisition under the SBI act is very wide which includes any individual or any association of individuals carrying on banking business. That means the individual or body of individuals carrying on banking business. That means the individual or body of individuals carrying on banking business may also include urban cooperative banks on NBFC. However it may be observed that there is no specific mention of a corresponding new bank or a banking company in the definition of banking institution under section 38(13) of the SBI act.

It is not clear whether under the provisions of section 35, SBI can acquire a corresponding new bank or a RRB or its own subsidiary for that matter. Such a power mat have to be presumed by interpreting the definition of banking institution in widest possible terms to include any person doing business of banking. It can also be argued that if State Bank of India is given a power to acquire the business of any individual doing banking business it should be permissible to acquire any corporate doing banking business subject to compliance with law which is applicable to such corporate. But in our view, it is not advisable to rely on such interpretations in the matter of acquisition of business of banking being conducted by any company or other corporate. Any such acquisition affects right to property and rights of many other stakeholders in the organization to be acquired. The powers for acquisition are therefore required to be very clearly and specifically provided by statue so that any possibility of challenge to the action of acquisition by any stakeholder are minimized and such stakeholders are aware of their rights by virtue of clear statutory provisions.

Nationalised banks may be amalgamated with any other nationalized bank or with another banking institution. i.e. banking company or SBI or a subsidiary. A nationalized bank can not be amalgamated with NBFC.

Under the provisions of section 9 it is permissible for the central government to merge a corresponding new bank with a banking company or vice versa. If a corresponding new bank becomes a transferor bank and is merged with a banking company being the transferee bank, a question arises as to the applicability of the provisions of the companies act in respect to the merger. The provisions of sec. 9 do not specifically exclude the applicability of the companies act to any scheme of amalgamation of a company. Further section 394(4) (b) of the companies act provides that a transferee company does not include any company other than company within the meaning of companies act. But a transferor company includes any body corporate whether the company is within the meaning of companies act or not. The effect of this provision is that provision contained in the companies act relating to amalgamation and mergers apply in cases where any corporation is to be merged with a company. Therefore if under section 9(2)(c) of nationalization act a corresponding new bank is to merged with a banking company(transferee company), it will be necessary to comply with the provisions of the companies act. It will be necessary that shareholder of the transferee banking company ¾ the in value present and voting should approve the scheme of amalgamation. Section 44A of the Banking Regulation Act which empowers RBI to approve amalgamation of any two banking companies requires approval of shareholders of each company 2/3rd in value. But since section44A does not apply if a Banking company is to be merged with a corresponding new bank, approval of 3/4th in value of shareholders will apply to such merger in compliance with the companies act.

Amalgamation of co-operative banks with Other Entities

Co-operative banks are under the regulation and supervision of reserve bank of India under the provision of banking regulation act 1949(as applicable to cooperative banks). However constitution, composition and administration of the cooperative

societies are under supervision of registrar of co-operative societies of respective states (in case of Maharashtra State, cooperative societies are governed by the positions of Maharashtra co operative societies act, 1961)

Amalgamation of cooperative banks

Under section 18A of the Maharashtra State cooperative societies act 1961(MCS Act) registrar of cooperatives societies is empowered to amalgamate two or more cooperative banks in public interest or in order to secure the proper management of one or more cooperative banks. On amalgamation, a new entity comes into being.

Under sector 110A of the MCS act without the sanction of requisition of reserve bank of India no scheme of amalgamation or reconstruction of banks is permitted. Therefore a cooperative bank can be amalgamated with any other entity.

AMALGAMATION OF MULTISTATE COOPERATIVE BANKS WITH OTHER ENTITIES

Voluntary Amalgamation

Section 17 of multi state cooperative society"s act 2002 provides for voluntary amalgamation by the members of two or more multistage cooperative societies and forming a new multi state cooperative society. It also provides for transfer of its assets and liabilities in whole or in part to any other multi state cooperative society or any cooperative society being a society under the state legislature. Voluntary amalgamation of multi state cooperative societies will come in force when all the members and the creditors give their assent. The resolution has been approved by the central registrar.

Compulsory Amalgamation

Under section 18 of multi state cooperative societies act 2002 central registrar with the previous approval of the reserve bank, in writing during the period of moratorium made under section 45(2) of BR act (AACS) may prepare a scheme for

amalgamation of multi state cooperative bank with other multi state cooperative bank and with a cooperative bank is permissible.

Amalgamation of Regional Rural Banks with other Entities

Under section 23A of regional rural banks act 1976 central government after consultation with The National Banks (NABARD) the concerned state government and sponsored banks in public interest an amalgamate two or ore regional rural banks by notification in official gazette. Therefore, regional rural banks can be amalgamated with regional rural banks only.

Amalgamation of Financial Institution with other entities Public financial institution is defined under section 4A of the companies‟ act 1956. Section 4A of the said act specific the public financial institution. Is governed by the provisions of respective acts of the institution?

Amalgamation of non-Banking financial Companies (NBFC's) with other entities

NBFCs are basically companies registered under companies‟ act 1956. Therefore, provisions of companies act in respect of amalgamation of companies are applicable to NBFCs.

Voluntary amalgamation

Section 394 of the companies‟ act 1956 provides for voluntary amalgamation of a company with any two or more companies with the permission of tribunal. Voluntary amalgamation under section 44A of banking regulation act is available for merger of two" banking companies". In the case of an amalgamation of any other company such as a non banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies act such cases do not require specific approval .

Compulsory Amalgamation

Under section 396 of the companies‟ act 1956, central government in public interest can amalgamate 2 or more companies. Therefore, NBFCs can be amalgamated with NBFCs only.

CHANGES IN INDIAN BANKING SCENARIO

Like all business entities, banks want to safeguard against risks, as well as exploit available opportunities indicated by existing and expected trends. M&As in the banking sector have been on the rise in the recent past, both globally and in India. In this backdrop of emerging global and Indian trends in the banking sector, this article illuminates the key issues surrounding M&As in this sector with the focus on India. It seeks to explain the motives behind some M&As that have occurred in India post-2000, analyse the benefits and costs to both parties involved and the consequences for the merged entity. A look at the future of the Indian banking sector, and some key recommendations for banks, follow from this analysis.

The International banking scenario has shown major turmoil in the past few years in terms of mergers and acquisitions. Deregulation has been the main driver, through three major routes - dismantling of interest rate controls, removal of barriers between banks and other financial intermediaries, and lowering of entry barriers. It has lead to disintermediation, investors demanding higher returns, price competition, reduced margins, falling spreads and competition across geographies forcing banks to look for new ways to boost revenues. Consolidation has been a significant strategic tool for this and has become a worldwide phenomenon, driven by apparent advantages of scale-economies, geographical diversification, lower costs through

branch and staff rationalization, cross-border expansion and market share concentration. The new Basel II norms have also led banks to consider M&As.

M&As that have happened post-2000 in India to understand the intent (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.

Chapter 4 – Data Analysis and Interpretation

The Indian Banking Sector

The history of Indian banking can be divided into three main phases :

- Phase I (1786- 1969) - Initial phase of banking in India when many small banks were set up
- Phase II (1969- 1991) - Nationalisation, regularisation and growth Phase
- III (1991 onwards) - Liberalisation and its aftermath

With the reforms in Phase III 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.

PROCEDURE OF BANK MERGERS AND AQUISITIONS

- The procedure for merger either voluntary or otherwise is outlined in the respective state statutes/ the Banking regulation Act. The Registrars, being the authorities vested with the responsibility of administering the Acts, will be ensuring that the due process prescribed in the Statutes has been complied with before they seek the approval of the RBI. They would also be ensuring compliance with the statutory procedures for notifying the amalgamation after obtaining the sanction of the RBI.

- Before deciding on the merger, the authorized officials of the acquiring bank and the merging bank sit together and discuss the procedural modalities and financial terms. After the conclusion of the discussions, a scheme is prepared incorporating therein the all the details of both the banks and the area terms and conditions. Once the scheme is finalized, it is tabled in the meeting of Board of directors of respective banks. The board discusses the scheme threadbare and accords its approval if the proposal is found to be financially viable and beneficial in long run.

- After the Board approval of the merger proposal, an extra ordinary general meeting of the shareholders of the respective banks is convened to discuss the proposal and seek their approval.

- After the board approval of the merger proposal, a registered valuer is appointed to valuate both the banks. The valuer valuates the banks on the basis of its share capital, market capital, assets and liabilities, its reach and anticipated growth and sends its report to the respective banks.

- Once the valuation is accepted by the respective banks, they send the proposal along with all relevant documents such as Board approval, shareholders approval, valuation report etc to Reserve Bank of India and other regulatory bodies such Security & exchange board of India (SEBI) for their approval.

- After obtaining approvals from all the concerned institutions, authorized officials of both the banks sit together and discuss and finalize share allocation proportion by the acquiring bank to the shareholders of the merging bank (SWAP ratio)
- After completion of the above procedures, a merger and acquisition agreement is signed by the bank.

RBI Guidelines on Mergers & Acquisitions of Banks

- With a view to facilitating consolidation and emergence of strong entities and providing an avenue for non disruptive exit of weak/unviable entities in the banking sector, it has been decided to frame guidelines to encourage merger/amalgamation in the sector.
- Although the Banking Regulation Act, 1949 (AACS) does not empower Reserve Bank to formulate a scheme with regard to merger and amalgamation of banks, the State Governments have incorporated in their respective Acts a provision for obtaining prior sanction in writing, of RBI for an order, inter alia, for sanctioning a scheme of amalgamation or reconstruction.

➢ The request for merger can emanate from banks registered under the same State Act or from banks registered under the Multi State Co-operative Societies Act (Central Act) for takeover of a bank/s registered under State Act. While the State Acts specifically provide for merger of co-operative societies registered under them, the position with regard to take over of a co-operative bank registered under the State Act by a co-operative bank registered under the CENTRAL ➢ Although there are no specific provisions in the State Acts or the Central Act for the merger of a co-operative society under the State Acts with that under the Central Act, it is felt that, if all concerned including administrators of the concerned Acts are agreeable to order merger/ amalgamation, RBI may consider proposals on merits leaving the question of compliance with relevant statutes to the administrators of the Acts. In other words, Reserve Bank will confine its examination only to financial aspects and to the interests of depositors as well as the stability of the financial system while considering such proposals.

Information & Documents to be furnished by BY THE ACQUIRER OF BANKS

1. Draft scheme of amalgamation as approved by the Board of Directors of the acquirer bank.

2. Copies of the reports of the valuers appointed for the determination of realizable value of assets **(net of amount payable to creditors having precedence over depositors) of the** acquired bank.
3. Information which is considered relevant for the consideration of the scheme of merger including in particular:-

A. Annual reports of each of the Banks for each of the three completed financial years immediately preceding the proposed date for merger.

B. Financial results, if any, published by each of the Banks for any period subsequent to the financial statements prepared for the financial year immediately preceding the proposed date of merger.

C. Pro-forma combined balance sheet of the acquiring bank as it will appear consequent on the merger.

D. Computation based on such pro-forma balance sheet of the following:-

I. Tier I Capital

II. Tier II Capital

III. Risk-weighted Assets

IV. Gross and Net npas

V. Ratio of Tier I Capital to Risk-weighted Assets

VI. Ratio of Tier II Capital to Risk-weighted Assets

VII. Ratio of Total Capital to Risk-weighted Assets

VIII. Tier I Capital to Total Assets

IX. Gross and Net npas to Advances

X. Cash Reserve Ratio

XI. Statutory Liquidity Ratio

4. Information certified by the values as is considered relevant to understand the net realizable value of assets of the acquired bank including in particular:- **A.** The method of valuation used by the values

B. The information and documents on which the values have relied and the extent of the verification, if any, made by the values to test the accuracy of such information

C. If the values have relied upon projected information, the names and designations of the persons who have provided such information and the extent of verification, if any, made by the values in relation to such information

D. Details of the projected information on which the values have relied

E. Detailed computation of the realizable value of assets of the acquired bank.

5. Such other information and explanations as the Reserve Bank may require.

MOTIVES BEHIND CONSOLIDATION IN BANKING SECTOR

Based on the cases, we can narrow down the motives behind M&As to the following :

- ***Growth* -** Organic growth takes time and dynamic firms prefer acquisitions to grow quickly in size and geographical reach.
- ***Synergy*** - The merged entity, in most cases, has better ability in terms of both revenue enhancement and cost reduction.
- ***Managerial efficiency* -** Acquirer can better manage the resources of the target whose value, in turn, rises after the acquisition.

- ***Strategic motives*** **-** Two banks with complementary business interests can strengthen their positions in the market through merger.
- ***Market entry*** **-** Cash rich firms use the acquisition route to buyout an established player in a new market and then build upon the existing platform.
- ***Tax shields and financial safeguards*** **-** Tax concessions act as a catalyst for a strong bank to acquire distressed banks that have accumulated losses and unclaimed depreciation benefits in their books.
- ***Regulatory intervention*** **-** To protect depositors, and prevent the destabilisation of the financial services sector, the RBI steps in to force the merger of a distressed bank.

RISKS IN BANK MERGERS AND ACQUISITIONS

1) When two banks merge into one then there is an inevitable increase in the size of the organization. Big size may not always be better. The size may get too widely and go beyond the control of the management. The increased size may become a drug rather than an asset.
2) Consolidation does not lead to instant results and there is an incubation period before the results arrive. Mergers and acquisitions are sometimes followed by losses and tough intervening periods before the eventual profits pour in. Patience, forbearance and resilience are required in ample measure to make any merger a success story. All may not be up to the plan, which explains why there are high rate of failures in mergers.

3) Consolidation mainly comes due to the decision taken at the top. It is a topheavy decision and willingness of the rank and file of both entities may not be forthcoming. This leads to problems of industrial relations, deprivation, depression and demotivation among the employees. Such a work force can never churn out good results. Therefore, personal management at the highest order with humane touch alone can pave the way.
4) The structure, systems and the procedures followed in two banks may be vastly different, for example, a PSU bank or an old generation bank and that of a technologically superior foreign bank. The erstwhile structures, systems and procedures may not be conducive in the new milieu. A thorough overhauling and systems analysis has to be done to assimilate both the organizations. This is a time consuming process and requires lot of cautions approaches to reduce the frictions.
5) There is a problem of valuation associated with all mergers. The shareholder of existing entities has to be given new shares. Till now a foolproof valuation system for transfer and compensation is yet to emerge.
6) Further, there is also a problem of brand projection. This becomes more complicated when existing brands themselves have a good appeal. Question arises whether the earlier brands should continue to be projected or should they be submerged in favour of a new comprehensive identity. Goodwill is often towards a brand and its sub-merger is usually not taken kindly.

CHALLENGES AND OPPORTUNITIES IN INDIAN BANKING SECTOR

In a few years from now there would be greater presence of international players in Indian financial system and some of the Indian banks would become global players in the coming years. Also competition is not only on foreign turf but also in the domestic field. The new mantra for Indian banks is to go global in search of new markets, customers and profits. But to do so the Indian banking industry will have to meet certain challenges. Some of them are –

- ❖ **FOREIGN BANKS –** India is experiencing greater presence of foreign banks over time. As a result number of issues will arise like how will smaller national banks compete in India with them, and will they themselves need to generate a larger international presence? Second, overlaps and potential conflicts between home country regulators of foreign banks and host country regulators: how will these be addressed and resolved in the years to come? It has been seen in recent years that even relatively strong regulatory action taken by regulators against such global banks has had negligible market or reputational impact on them in terms of their stock price or similar metrics. Thus, there is loss of regulatory effectiveness as a result of the presence of such financial conglomerates. Hence there is inevitable tension between the benefits that such global conglomerates bring and some regulatory and market structure and competition issues that may arise.
- ❖ **GREATER CAPITAL MARKET OPENNESS** - An important feature of the Indian financial reform process has been the calibrated opening of the capital account along with current account convertibility. It has to be seen that the volatility of capital inflows does not result in unacceptable disruption in exchange rate determination with inevitable real sector consequences, and in domestic monetary conditions. The vulnerability of financial intermediaries can be addressed through prudential regulations and their supervision; risk management of non-financial entities. This will require market development,Enhancement of regulatory capacity in these areas, as well as human resource development in both financial intermediaries and non-financial entities.
- ❖ **TECHNOLOGY IS THE KEY** – IT is central to banking. Foreign banks and the new private sector banks have embraced technology right from their inception and continue to do so even now. Although public sector banks have crossed the 70%level of computerization, the direction is to achieve 100%. Networking in banks has also been receiving focused attention in recent times. Most recently the trend observed in the banking industry is the sharing of ATMs by banks. This is one area where perhaps India needs to do

significant „catching up". It is wise for Indian banks to exploit this globally state-of-art expertise, domestically available, to their fullest advantage.

- **CONSOLIDATION** – We are slowly but surely moving from a regime of "large number of small banks" to "small number of large banks." The new era is one of consolidation around identified core competencies i.e., mergers and acquisitions. Successful merger of HDFC Bank and Times Bank; Stanchart and ANZ Grindlays; Centurion Bank and Bank of Punjab have demonstrated this trend. Old private sector banks, many of which are not able to cushion their NPA"s, expand their business and induct technology due to limited capital base should be thinking seriously about mergers and acquisitions.
- **PUBLIC SECTOR BANKS** - It is the public sector banks that have the large and widespread reach, and hence have the potential for contributing effectively to achieve financial inclusion. But it is also they who face the most difficult challenges in human resource development. They will have to invest very heavily in skill enhancement at all levels: at the top level for new strategic goal setting; at the middle level for implementing these goals; and at the cutting edge lower levels for delivering the new service modes. Given the current age composition of employees in these banks, they will also face new recruitment challenges in the face of adverse compensation structures in comparison with the freer private sector.
- **Basel II** – As of 2006, RBI has made it mandatory for Scheduled banks to follow Basel II norms. Basel II is extremely data intensive and requires good quality data for better results. Data versioning conflicts and data integrity problems have just one resolution, namely banks need to streamline their operations and adopt enterprise wide IT architectures. Banks need to look towards ensuring a risk culture, which penetrates throughout the organization.
- **COST MANAGEMENT** – Cost containment is a key to sustainability of bank profits as well as their long-term viability. In India, however, in 2003, operating costs as proportion of total assets of scheduled commercial banks stood at 2.24%, which is quite high as compared to in other economies. The tasks ahead are thus clear and within reach.

- **RECOVERY MANAGEMENT** – This is a key to the stability of the banking sector. Indian banks have done a remarkable job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment. Recovery management is also linked to the banks‟ interest margins. Cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks. Improving recovery management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes.
- **REACH AND INNOVATION** - Higher sustained growth is contributing to enhanced demand for financial savings opportunities. In rural areas in particular, there also appears to be increasing diversification of productive opportunities. Also industrial expansion has accelerated; merchandise trade growth is high; and there are vast demands for infrastructure investment, from the public sector, private sector and through public private partnerships. Thus, the banking system has to extend itself and innovate. Banks will have to innovate and look for new delivery mechanisms and provide better access to the currently under-served. Innovative channels for credit delivery for serving new rural credit needs will have to be found. The budding expansion of non-agriculture service enterprises in rural areas will have to be financed. Greater efforts will need to be made on information technology for record keeping, service delivery, and reduction in transactions costs, risk assessment and risk management. Banks will have to invest in new skills through new recruitment and through intensive training of existing personnel.
- **RISK MANAGEMENT** – Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Sound risk management practices would be an important pillar for staying ahead of the competition.

  Banks can, on their part, formulate „early warning indicators‟ suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

- **GOVERNANCE** – The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. The objective should be to continuously strive for excellence. Improvement in policy-framework, regulatory regime, market perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda – to serve our society‟s needs and realities while being in harmony with the global perspective.

HR ISSUES IN MERGERS & ACQUISITIONS

People issues like staffing decision, organizational design, etc., are most sensitive issues in case of M&A negotiations, but it has been found that these issues are often being overlooked.

- Before the new organization is formed, goals are established, efficiencies projected and opportunities appraised as staff, technology, products, services and know-how are combined.
- But what happens to the employees of the two companies? How will they adjust to the new corporate environment? Will some choose to leave?
- When a merger is announced, company employees become concerned about job security and rumors start flying creating an atmosphere of confusion, and uncertainty about change.
- Roles, behaviors and attitudes of managers affect employees' adjustment to M&A.
- Multiple waves of anxiety and culture clashes are most common causes of merger failure.

- HR plays an important role in anticipating and reducing the impact of these cultural clashes.
- Lack of communication leads to suspicion, demoralization, loss of key personnel and business even before the contract has been signed.
- Gaining emotional and intellectual buy-in from the staff is not easy, and so the employees need to know why merger is happening so that they can work out options for themselves.
- Major stress on the accompany merger activity are: -

  * Power status and prestige changes

  * Loss of identity

  * Uncertainty
- Unequal compensation may become issue of contention among new co-workers.

MAJOR BANKS INVOLVED IN MERGERS AND ACQUISITIONS

Date of merger	Acquirer bank	Target bank	Assets of target bank as % of acquiring bank's assets	Number of branches of target bank
August 2010	ICICI Bank	Bank of Rajasthan	0.05	463
February 2008	HDFC Bank	Centurion Bank of Punjab	20	394
	Centurion Bank of Punjab	Lord Krishna Bank	11	110

August 2007	ICICI Bank	Sangli Bank	0.5	190
April 2007	Indian Overseas Bank	Bharat Overseas Bank	6	102
March 2007	IDBI	United Western Bank	8	230
October 2006	Federal Bank	Ganesh Bank of Kurundwad	1	32
September 2006	Centurion Bank	Bank of Punjab	106	136
October 2005	Oriental Bank of Commerce	Global Trust Bank	17	104
August 2004	Punjab National Bank	Nedungadi Bank	2	173
February 2003	ICICI Bank	Bank of Madura	36	350
March 2001	HDFC Bank	Times Bank	75	39
February 2000				

KEY M&A DEALS 2000 ONWARDS

The cases chosen for the purpose of this study were selected based on their prominence and recency (all post-2000) to ensure that the motives driving the deals will remain relevant in the current context.

❖ **HDFC Bank Acquires Centurion Bank of Punjab (May '08)** ✓
HDFC bank is merged with Centurion Bank of punjab

✓ New entity is named as "HDFC bank itself".

- ✓ The merger will strengthen HDFC Bank's distribution network in the northern and the southern regions.
- ✓ **HDFC Bank Board** on 25th February 2008 approved the acquisition of Centurion Bank of Punjab (CBoP) for Rs 9,510 crore

- **Intent**

For HDFC Bank, this merger provided an opportunity to add scale, geography (northern and southern states) and management bandwidth. In addition, there was a potential of business synergy and cultural fit between the two organizations.

For CBoP, HDFC bank would exploit its underutilized branch network that had the requisite expertise in retail liabilities, transaction banking and third party distribution. The combined entity would improve productivity levels of CBoP branches by leveraging HDFC Bank's brand name.

- **Benefits**

The deal created an entity with an asset size of Rs 1,09,718 crore (7th largest in India), providing massive scale economies and improved distribution with 1,148 branches and 2,358 ATMs (the largest in terms of branches in the private sector). CBoP's strong SME relationships complemented HDFC Bank's bias towards highrated corporate entities.
There were significant cross-selling opportunities in the short-term. CBoP management had relevant experience with larger banks (as evident in the Centurion Bank and BoP integration earlier) managing business of the size commensurate with HDFC Bank.

- **Drawbacks**

The merged entity will not lend home loans given the conflict of interest with parent HDFC and may even sell down CBoP's home-loan book to it. The retail portfolio of the merged entity will have more by way of unsecured and twowheeler loans, which have come under pressure recently.

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

- **Intent**

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. 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, 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.

- **Benefits**

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.

- **Drawbacks**

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

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

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.

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.

- **Benefits**

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.

- **Drawbacks**

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.

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

- **Intent**

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 muchneeded 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.

- **Benefits**

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.

- **Drawbacks**

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.

CASE STUDY ON THE MERGER OF ICICI BANK AND BANK OF RAJASTHAN

ICICI BANK is India"s second largest bank with total assets of Rs.3,634.00 billion (US$81 billion) at March 31,2010 and profit after tax Rs. 40.25 billion (US$ 896 million) for the year ended March 31,2010.

The Banks has a network of 2035 branches and about 5,518 ATMs in India and presense in 18 countries. ICICI Bank offers a wide range of banking products and financial services to corporate and retail custumers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life and non-life insurances, venture capital and asset management.

BANK OF RAJASTHAN, with its stronghold in the state of Rajasthan, has a nationwide presence, serving its customers with a mission of "together we prosper" engaging actively in Commercial Banking, Merchant Banking, Consumer Banking, Deposit and Money Placement services, Trust and Custodial services, International Banking, Priority Sector Banking.

At March 31,2009, Bank of Rajasthan had 463 Branches and 111 ATMs, total assets of Rs. 172.24 billion, deposits of Rs.151.87 billion and advances of Rs. 77.81 billion. It made a net profit of Rs. 1.18 billion in the year ended March 31,2009 and a net loss rs.0.10 billion in the nine months ended December 31,2009.

WHY BANK OF RAJASTHAN

- ICICI Bank Ltd, India"s largest Private sector bank, said it agreed to acquire smaller rival Bank of Rajasthan Ltd to strengthen its presence in northern and western India.

- Deal would substantially enhance its branch network and it would combine Bank of Rajasthan branch franchise with its strong capital base.
- The deal, which will give ICICI a sizeable presence in the northwestern desert of Rajasthan, values the small bank at 2.9 times its book value, compared with an Indian Banking sector average of 1.84.
- ICICI Bank may be killing two birds with one stone through its proposed merger of the Bank of Rajasthan. Besides getting 468 branches, India‟s largest private sector bank will also get control of 58 branches of a regional rural bank sponsored by BoR

NEGATIVES

- The negatives for ICICI Bank are the potential risks arising from BoR‟s nonperforming loans and that BoR is trading at expensive valuations.
- As on FY-10 the net worth of BoR was approximately Rs.760 crore and that of ICICI Bank Rs. 5,17,000 crore. For December 2009 quarter, BoR reported loss of Rs. 44 crore on an income of Rs. 373 crore.

	ICICI Bank	**Bank of Rajasthan**
Largest Mcap(Rs.crore)	**99,125**	**1,471**
Branches	**2,009**	**458***
ATM	**5,219**	**111***
no. of Employees	**34,596***	**4,075***
Gross NPA (%)	**5.06**	**2.8***
Capital Adequacy(%)	**19.41**	**11.3#**
Loan Book(Rs.crore)	**1,81,200**	**8,100#**
Low-cost deposists(%)		

	41.7	**27.4***
Business/Employees(Rs. Crore)	**1,154***	**532***

***As of March 2009;**
 # As of december 2009;
All the other figures are as of March 31,2010

ICICI Bank is offering to pay 188.42 rupees per share, in an all-share deal, for Bank of Rajasthan, a premium of 89 percent to the small lender, valuing the business at $668 million. The Bank of Rajasthan approved the deal, which will be subject to regulatory agreement.

INFORMATION

- The boards of both banks, have granted in-principle approval for acquisition in May 2010.
- The productivity of ICICI Bank is high compared to Bank of Rajasthan. ICICI recorded a business per branch of 3 billion rupees compared with 47 million rupees of BoR for fiscal 2009.
- But the non-performing assets(NPAs) record for BoR is better than ICICI Bank. For the Quarter ended Dec 09, BoR recorded 1.05 percent of advances as NPA‟s which is far better than 2.1 percent recorded by ICICI Bank.

TYPE OF ACQUISITION

This is a horizontal Acquisition in related functional area in same industry (banking) in order to acquire assets of a non-performing company and turn it around by better management; achieving inorganic growth for self by access to 3 million customers of BoR and 463 branches.

PROCESS OF ACQUISITION

- Haribhakti & Co. was appointed jointly by both the banks to assess the valuation.
- Swap ratio of 25:118(25 shares of ICICI for 118 for Bank of Rajasthan) i.e. one ICICI Bank share for 4.72 BoR shares.
- Post – Acquisition, ICICI Bank‟s Branch network would go up to 2,463 from 2000
- The NPAs record for Bank of Rajasthan is better than ICICI Bank. For the quarter ended Dec 09, Bank of Rajasthan recorded 1.05 % of advances as NPA‟s which is far better than 2.1% recorded by ICICI Bank.
- The deal, entered into after the due diligence by Deloitte, was found satisfactory in maintenance of accounts and no carry of bad loans.

FUTURE OF MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR

In 2009, further opening up of the Indian banking sector is forecast to occur due to the changing regulatory environment (proposal for upto 74% ownership by Foreign banks in Indian banks). This will be an opportunity for foreign banks to enter the Indian market as with their huge capital reserves, cutting-edge technology, best international practices and skilled personnel they have a clear competitive advantage over Indian banks. Likely targets of takeover bids will be Yes Bank, Bank of Rajasthan, and IndusInd Bank. However, excessive valuations may act as a deterrent, especially in the post-sub-prime era.

Persistent growth in Indian corporate sector and other segments provide further motives for M&As. Banks need to keep pace with the growing industrial and agricultural sectors to serve them effectively. A bigger player can afford to invest in required technology. Consolidation with global players can give the benefit of global opportunities in funds' mobilisation, credit disbursal, investments and rendering of financial services. Consolidation can also lower intermediation cost and increase reach to underserved segments.

The Narasimhan Committee (II) recommendations are also an important indicator of the future shape of the sector. There would be a movement towards a 3-tier structure in the Indian banking industry: 2-3 large international banks; 8-10 national banks; and a few large local area banks. In addition, M&As in the future are likely to be more market-driven, instead of government-driven.

Chapter 5 – Summary of findings, Suggestions and Conclusion

Based on the trends in the banking sector and the insights from the cases highlighted in this study, one can list some steps for the future which banks should consider, both in terms of consolidation and general business. Firstly, banks can work towards a synergy-based merger plan that could take shape latest by 2009 end with

minimisation of technology-related expenditure as a goal. There is also a need to note that merger or large size is just a facilitator, but no guarantee for improved profitability on a sustained basis. Hence, the thrust should be on improving risk management capabilities, corporate governance and strategic business planning. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short, time to market is critical and first mover advantage could be a decisive factor in deciding who wins in future. Post-M&A, the resulting larger size should not affect agility. The aim should be to create a nimble giant, rather than a clumsy dinosaur. At the same time, lack of size should not be taken to imply irrelevance as specialized players can still seek to provide niche and boutique services.

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APPENDICES-

1. You are a customer for which bank?
   a) SBI
   b) HDFC
   c) Others, please specify _________

2. How many years you are associated with your bank?
   a) Less than 1 year
   b) 1-5 years
   c) More than 5 years

3. What type of account you are holding in your bank?
   a) Savings bank account
   b) Fixed deposit account
   c) Recurring deposit account
   d) Current account

4. Are you aware of Deposit schemes that your bank provides?
   a) Yes
   b) No

5. Which features do you like most in deposit schemes of your bank?
   a) Less paper Work
   b) Attractive Interest Rates
   c) Simple and fast Processing
   d) Ease of transactions

6. Has the loyalty program helped you to stay loyal to your bank?
   a) Yes
   b) No

7. In your opinion what was the reaction of customer regarding service efficiency after the bank computerization
   a) Positive
   b) Negative
   c) Can't Say

8. Do you think your bank offers competitive interest rate on your deposits?
   a) Yes
   b) No

9. If yes, then for what time period do you like to invest?
   a) Less than 6 months
   b) 6 months to 1 year
   c) 1 year to 3 years
   d) 3 years to 5 years

10. Are you assessed to TAX?
    a) Yes
    b) No

11. What do you feel about the overall service quality of bank?
    a) Excellent
    b) Very Bad
    c) Good
    d) Bad

12. Would you recommend this bank to your friends, relatives and associates?
    a) Yes
    b) No