A Study on Merger and Acquisition in Banking Industries

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ABSTRACT:

Mergers and acquisitions are the important process in the banking industry to make financial gains enormously. Main aim of merger and acquisition in the banking sectors is to improve the economies of scale. A merger means combination of two companies into one company. During the merging process one company survives and the other company loses their corporate existence. On the other hand acquisition means takeover. Mergers and acquisitions are these days common choices for business survival and development. They imply the difference of enterprises to new conditions being one in every of them, the mixing of the enterprises concerned within the deal. That integration is achieved through strategic actions in structure processes and structures, in addition as through the management of the subjective conditions that support human performance. one in every of these conditions is that the individual and team identities. The identity plays a vital mediating role within the adaptation and integration as a result of the mutual acknowledgment of the self and therefore the different in any social interaction has the facility to influence the social interaction. Mergers and acquisition bank not only gets new brand name, new structures, product offerings but additionally give opportunities to cross sell the new accounts acquired. The process of mergers and acquisition is not new in the banking industry. This paper deals with the mergers and acquisitions, types of merger, legal framework, approval of Reserve Bank of India and historical perspectives of banks M& A, impact of mergers and acquisition in banking industry.

Keywords: (acquisition, banking, economic, merger and takeover)

I. INTRODUCTION

Merger can be defined as a method of unification of two players into single entity. Merger is also a way of mixing two business entities below the common possession. Bank merger is a happening once previously distinct banks are consolidated into one institution. A merger happens once an independent bank loses its charter and becomes a neighbourhood of an existing bank with one headquarter and a unified branch network. The word acquisition, conjointly called a takeover or a acquisition, is that the shopping for of one company (the 'target') by another. a sale is also friendly or hostile. The method of mergers and acquisitions was importance in today's world. In India, the idea of mergers and acquisitions was first initiated by the govt bodies and few accepted financial firms, organizations conjointly took the specified initiatives to restructure the company sector of India by process of the mergers and acquisitions policies. The industry could be a vital space throughout that merger and acquisitions do build immense monetary gains.[1]As a result of changes within the expectation of the company customer, banks are currently forced to rethink their business and devise new ways. Mergers and acquisitions activity can be defined as a process of restructuring in that they result in few entity reformations with the aim to provide valid or profit growth value of the company. The trends of merger and acquisition which have been changed in India over years.

[1]http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in_India.pdf

II. AIM OF THE STUDY

- To study about the purpose and procedures in merger and acquisition.
- To know about the merger between HDFC and Centurion Bank if Punjab.

III. RESEARCH METHODOLOGY

The present research is conclusive, descriptive. The study was conducted on secondary source of data books, articles, journals, e-sources and the relevant case laws.

IV. TYPES OF MERGERS

A vertical merger is completed with an aim to mix two corporations that are within the same worth chain of manufacturing identical sensible and repair, however the sole distinction is that the stage of production at that they're operational. as an example, if a clothing store takes over a textile mill, this might be termed as vertical merger, since the business is same, i.e. clothing, however the stage of production is different: one firm is works in territory sector, whereas the opposite works in secondary sector. These varieties of merger are typically undertaken to secure provider of essential merchandise, and avoid disruption in provide, since within the case of our example, the haberdashery store would be rest assured that garments are going to be provided by the textile mill. it's conjointly done to limit provide to competitors, therefore a bigger market share, revenues and profits. Vertical mergers conjointly supply price saving and a better margin of profit, since manufacturer's share is eliminated.

- **Horizontal combination**

Horizontal mergers happen when an organization merges or takes over another company that gives constant or similar product lines and services to the ultimate shoppers, which suggests that it's within the same trade and at constant stage of production. Companies, during this case, are typically direct competitors. for instance, if an organization manufacturing cell phones merges with another company within the trade that produces cell phones, this might be termed as horizontal merger. The advantage of this type of merger is that it eliminates competition that helps the corporate to extend its market share, revenues and profits. Moreover, it additionally offers economies of scale thanks to increase in size as price decline because of higher production volume. These sorts of merger additionally encourage value potency, since redundant and wasteful activities are aloof from the operations i.e. varied body departments or departments such as advertising, getting and selling.[2]

[2]http://www.igidr.ac.in/conf/money1/MERGERS%20AND%20ACQUISITIONS%20IN%20INDIA.pdf

- **Circular combination**

Firms manufacturing distinct product for merger to share equal distribution and to analysis facilities to urge political economy by eliminating the costs of duplication and promoting market enlargement. The deed company obtains benefits at intervals the sort of political economy of resources sharing and diversification.[3]

- **Conglomerate combination**

Its merger of 2 companies engaged in unrelated industries like Hyundai and HDFC. The essential purpose of such merger remains utilization monetary resources and enlarges debt capability through reorganising their money structure so on service the shareholders by raised investment, lowering value of capital and thereby raising gift price of the outstanding shares. Mergers enhance the steadiness of the non inheritable company and build balance at intervals the company's total portfolio of diverse product and production processes.[4]

V. ACQUISITION

Acquisitions normally sense is acquiring the possession within the property. In the context of business combos, an acquisition is that the purchase by one company of a interest within the share capital of another existing company.[5]

Methods of Acquisition:

An acquisition is also affected by:-

- Agreement with the persons holding majority interest within the company management like members of the board or major shareholders commanding majority of vote power;
- Purchase of shares in open market;
- to make takeover provide to the final body of shareholders;
- Purchase of recent shares by personal treaty;
- Acquisition of share capital through the subsequent sorts of concerns viz. means that of money, issue of loan capital, or insurance of share capital.

VI. CHANGES IN BANKING SCENARIOS

Like all business entities, banks need to safeguard against risks, as well as exploit obtainable opportunities indicated by existing and expected trends. M&A's in the banking sector are on the increase within the recent

[3]https://www.researchgate.net/publication/228241213_Merger_Acquisition_in_India_An_Analytical_Study
[4]Desai Nithish, Merger and Acquisition in India, http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in india.pdf
[5] http://www.ejbe.org/EJBE2012Vol05No09p079VYAS-NARAYANAN-RAMANATHAN.pdf

past, each globally and in India. During this background of emerging world and Indian trends within the banking sector, this article illuminates the key problems encompassing M&As during this sector with the focus on India. It seeks to clarify the motives behind some M&As that have occurred in India post-2000, analyse the advantages and costs to each parties concerned and the consequences for the integrated entity. A look at the future of the Indian banking sector, and a few key recommendations for banks, follow from this analysis.[6]

The International banking situation has shown major turmoil within the past few years in terms of mergers and acquisitions. Deregulating has been the most driver, through three major routes - dismantlement of interest rate controls, barriers that has been leads to disintermediation, investors hard-to-please high returns, price cutting war, reduced margins, falling spreads and competition across geographies forcing banks to appear for brand new ways.[7]Consolidation has been a serious strategic tool for this and has become a worldwide development, driven by apparent edges of scale-economies, geographical diversification, and lower costs through branch and workers rationalisation, cross-border enlargement and market share concentration. The new metropolis II norms have additionally diode banks to ponder M&As. M&As that have happened post-2000 in India to grasp the intent (of the targets and to boot the acquirers), succeeding synergies (both operational and financial), modalities of the deal, harmony of the strategy with the vision and goals of the involved banks, and to boot the long haul implications of the merger. The article additionally analyses rising future trends and recommends steps that banks have to be compelled to think about, given the forecasted situation.[8]

VII. PURPOSE OF MERGERS AND ACQUISITION

The basic purpose of merging the company is to achieve faster growth in the corporate world. Faster growth of the company may be shelf through product improvement and other purpose for acquisition are given below:

- **Procurement of supplies**

The company by the way of merging and acquisition can safeguard the sources of supplies of raw materials and to obtain economies of purchase in the form of discount, saving cost of transportation costs, overhead costs in buying department etc.. The companies get merged to achieve this purpose.[9]

- **Revamping production faculties**
  - To achieve the economies of scale by amalgamating production facilities is more intensive utilisation of plant and resources.

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[6] http://www.rainmaker.co.in/IntroductoryProgrammes/IntroductionMergersAcquisitions.pdf
[7] https://www.pwc.in/assets/pdfs/trs/mergers-and-acquisitions-tax/mergers-and-acquisitions-the-evolving-indian-landscape.pdf
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- To obtain improved production technology and knowhow from the offered company.

- **Market expansion and strategy**

  - To eliminate competition and protect existing market.
  - To reduce the cost of advertising and to improve the public image of the offered.

- **Financial strength**

  - To improve the liquidity and have direct access to the cash resources.
  - To utilise the tax benefits.
  - To dispose of surplus and outdated assets for cash out of combined companies.

- **General gain**

The company is said to improve its own image and attract superior managerial talents to manage its affairs by the way of merger and acquisition. The most general purpose of merging is to offer better satisfaction of product to the consumers or uses of the product.

- **Strategic purpose**

The company view the merger to achieve strategic objectives through different types of combinations which may be horizontal, vertical, product expansions other specific unrelated objectives depending upon the corporate strategies. Thus, these types of combination distinct from each other in their nature and are adopted to pursue the objectives.[10]

- **Corporate friendliness**

Although it's rare but it's true that business homes exhibit degrees of cooperative spirit despite fight in providing rescue to each completely different from hostile takeovers and cultivate things of collaboration sharing goodwill of each various to realize performance heights through business combination. The corporate aim at circular combos by following this objective.

VIII. PROCEDURE OF BANKS MERGER AND ACQUISITION

- The procedure for merger either voluntary or otherwise is printed within the several state statues/ the banking rules act. The registrars, being the authorities United Nations agency are unconditional with the

[10] http://ijbed.org/admin/content/pdf/i-5_c-58.pdf

responsibility of administering the provisions, are going to be guaranteeing that the due process of law prescribed within the statutes been complied with before they look for the approval of the run. [11]

- While choosing the merger, the approved officers of the exploit bank and therefore the merging bank sit on and it discuss concerning the procedural modalities and financial terms. Once the discussion was finished, à theme was ready to include all the small print of each the banks and therefore the space terms and conditions. Once the theme was finalised, it's been tabled among the meeting of board of administrators of banks. The board discusses concerning the theme and accords its confirmation if the proposal was found to be financially viable and useful in end of the day.
- After the board approval of the merger proposal, an additional normal general meeting of the shareholders of the several banks is convented to debate the proposal and look for their approval.[12]
- After the board approval of the merger proposal, a registered appraiser is appointed to evaluate each the banks. The appraiser valuates the banks on the premise of its share capital, market capital, assets and liabilities, its reach and anticipated growth and seeks their approval.
- Once the valuation is accepted by the several banks, they send the proposal beside all relevant documents like board approval, shareholders approval, valuation report etc to reserve Bank of India and alternative restrictive bodies such security and exchange board of India for his or her approval.[13]
- At last when getting approvals from all the establishments, approved officers of each the banks then they sit along to debate and settle share allocation proportion by the exploit bank to the shareholders of the merging bank.[14]
- After finishing higher than procedures then it'll sign by the banks.

IX. PROVISIONS RELATING TO MERGER AND AMALGAMATION OF BANKS

Mergers-banking Regulation Act, 1949

- Section 44A of this act talks about the procedures for voluntary mergers of banking companies.
- Section 45 of this act talks about the compulsory amalgamation of banks.

Companies Act

- Selection 230 and 232 of the Companies Act, 2013 relates with the mergers and amalgamation.

State Bank of India, 1955

[11] http://mujournal.mewaruniversity.in/JIR2/12.pdf
[12] http://www.iosrjournals.org/iosr-jbm/papers/Vol18-issue6/Version-1/J1806017986.pdf
[13] https://mpra.ub.uni-muenchen.de/63410/1/MPRA_paper_63410.pdf
[14] http://www.icaiknowledgegateway.org/littledms/folder1/chapter-13-merger-acquisitions-restructuring.pdf

- Section 35states acquisition of business of other banks by State Bank of India.

HDFC Bank Acquires Centurion Bank if Punjab may 2008

HDFC Bank is merged with centurion bank of Punjab. After merging this two banks it's named as HDFC bank itself. The will strengthen HDFC Banks distribution network in the northern and the southern regions. For HDFC, this merger provided an chance to add scale, geography and management bandwidth. In addition there was a potential of business synergy and cultural fit between two organization For warrior bank of geographical region, HDFC bank would exploit its below utilized branch network that had the requisite experience in retail liabilities, dealings banking and third party distribution. The combined entity would improve productivity levels of centurion bank of Punjab branches by leveraging HDFCs bias towards high rated corporate entities. The deal created an entity which provided massive scale economies and improved distribution with branches and ATMs. There are significant crossing dealing in short term. But there we certain drawbacks in this merged entity that it will not lend home loans given the conflict of interest with parent HDFC and May eve-sell down Centurion bank of geographical region consumer credit book thereto. The retail portfolio of the united entity can have additional by manner of unsecured and 2 Wheeler loans. Which have come under pressure recently?

X. CONCLUSION

The concept of merger and acquisition between two or more companies can turn out to be a successful merger and acquisition. The merging and the acquisition process is accepted in India by the Companies Act, 2013 and for the company to get merge with another company, it is important, for the company to follow the procedure explained in the same Companies Act, 2013. When the company acquire merger and acquisition it depends upon its planning and strategies whether they will profitable or in losses. India has many cases through which they proved its not lagging in this aspect of merger and acquisition from worldwide. The concept of merger and acquisition can also be a risky process which has to be adopted, as it may bring various problems to the company in terms of the management, it working, etc.,

XI. REFERENCES

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