Journal of Interdisciplinary and Multidisciplinary Research (JIMR)
E-ISSN:1936-6264| Impact Factor: 8.886| UGC CARE II
Vol. 19 Issue 02, February- 2024
Available online at: https://www.jimrjournal.com/

(An open access scholarly, peer-reviewed, interdisciplinary, monthly, and fully refereed journal.)

RECENT MERGERS IN BANKING SECTOR- AN INDIAN SCENARIO

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Abstract:

In recent years, the banking industry in India has seen substantial consolidation through mergers and acquisitions. This consolidation has been driven by regulatory reforms, technological developments, and the quest of operational savings. The intentions behind these mergers, as well as their ramifications and results, are investigated in this research. This article examines the ways in which mergers have transformed the banking environment by utilising case studies and analysis to investigate how these mergers have addressed concerns like as competition and financial stability. This study will help to a better understanding of the future trajectory of the Indian banking industry and the ramifications it will have for various stakeholders by giving insights into the dynamics of consolidation in the Indian banking sector. The banking industry holds a key position in every economy and is identified as one of the industries that is expanding at the quickest rate in India. When it comes to the global players, also known as international banks, the challenge is really difficult and rather significant. On the other hand, both public and private banks are engaged in a fierce competition with one another when it comes to reaching the target population that they are attempting to recruit. Concerns should be raised, on the other hand, regarding the fact that the growth of non-performing assets is occurring concurrently with the expansion of core business. Mergers in the banking industry lead to a reduction in the amount of nonperforming assets (NPA), which is the result of the situation. This merger, which took place on April 1, 2017, was the most recent and largest merger in the history of the banking sector. It was a combination between the State Bank of India and its partner banks.

keywords: *Recent, Mergers, Banking*

Introduction:,

A number of mergers and acquisitions have taken place in the banking industry in India during the past few years, which has resulted in a transformation of the landscape of financial institutions in the nation. These mergers have been brought about by a number of different circumstances, such as the desire of economies of scale, changes in regulatory policies, and technical improvements. The banking industry in India has traditionally been characterised by

a high number of small and medium-sized banks, which has resulted in inefficiencies and issues in terms of both competitiveness and financial stability. Mergers have been supported by regulatory authorities as a method of strengthening the industry and increasing its resilience to economic shocks. This is happening because regulatory authorities have recognised the need for consolidation and modernization. In order to offer an overview of the recent mergers that have taken place in the Indian banking industry, the purpose of this paper is to analyse the reasons that led to these mergers, the consequences that these mergers have for stakeholders, and the possible influence that these mergers might have on the broader banking landscape. The purpose of this study is to provide light on the developing dynamics of the banking industry in India and the implications for future consolidation attempts. This will be accomplished by reviewing case studies of major mergers and evaluating the consequences of such mergers.

Digital Transformation:

Indian banks have been expanding their investments in digital technology in order to improve the overall customer experience, streamline operations, and reach out to sectors of the population who are not currently being served. The implementation of mobile banking, digital payment methods, and online account management services are all included in this measure.

Fintech Partnerships:

In order to take advantage of the creative solutions that fintech startups provide and to enhance the products that they provide, several banks in India have started working together with these firms. As a result of these relationships, financial institutions are able to enter new industries and provide consumers with more individualised services.

Asset Reconstruction:

In an effort to clean up their balance sheets and enhance the quality of their assets, several financial institutions have prioritised asset reconstruction and resolution. When it comes to dealing with non-performing assets (NPAs), this calls for the implementation of methods such as debt restructuring, asset sale, and recovery activities.

Regulatory Changes:

In order to improve governance and transparency, as well as to strengthen the banking industry, the Reserve Bank of India (RBI) has been undertaking a number of different regulatory changes. In order to address challenges such as capital sufficiency, risk management, and corporate governance norms, these changes are being implemented.

Expansion of Private Banks:

The number of private sector banks in the Indian market is continuing to grow, and they are doing so by luring clients with higher service quality, innovative products, and efficient operations. Some private banks have also been investigating the possibility of inorganic development through mergers and acquisitions from other financial institutions.

Mergers and Acquisitions in Banking Sector

The term "merger" describes the process by which two or more companies become one. In a merger, the current owners of both firms involved maintain a joint stake in the new organisation, which is the only difference between a merger and an acquisition or takeover. Acquisitions, on the other hand, involve one firm buying out another's shares in a substantial way, regardless of whether the target company is ready or not. Financial institutions, like any other kind of company, must safeguard themselves from threats while also capitalising on opportunities given by both existing and future trends. Recently, there has been an uptick in the amount of M&As in the banking sector, both globally and in India. It is vital to consider this history in light of emerging developments in the banking sector both globally and in India. Examine the effects on the combined company and the costs and advantages to all parties involved in the mergers and acquisitions that have happened in India from the year 2000. Consolidation has emerged as a major strategic tool on a global scale. This is being propelled by the allure of cross-border expansion, market share concentration, geographical diversity, cost reduction via branch and labour rationalisation, and scale economies. There has been a global upsurge in consolidation. Mergers and acquisitions (M&A) that have occurred in India since 2000 so that we can learn about the goal (of the targets and the acquirers), the strategy's congruence with the vision and objectives of the participating banks, the deal's modalities, and the merger's long-term effects.2. The Imperial Bank of India was one of three banks that merged prior to India's independence in 1921. In 19553, these organisations were merged into what is now known as the State Bank of India. Merging ICICI Ltd. and its banking subsidiary, ICICI bank Ltd., is one of the most noteworthy mergers that has happened in the financial sector recently. Not only has IDBI merged with its banking affiliate, IDBI Bank Ltd., but Global Trust Bank has merged with Oriental Bank of Commerce.

Purpose of Mergers and Acquisition

When it comes to the business sector, the primary objective of combining the firm is to obtain much quicker growth. It is possible that the expansion of the firm might be halted through the enhancement of products, and some additional reasons for purchase are listed below:

Procurement of Supplies The corporation can protect "the sources of supplies of raw materials by merging and acquiring other businesses". This allows the company to enjoy economies of purchase in the form of discounts, savings on transportation expenses, and reductions in administrative costs in the buying department, among other benefits. The corporations enter into a merger in order to accomplish this goal.

Revamping Production

- The consolidation of production facilities results in a more intense utilisation of plant and resources, which is necessary in order to obtain economies of scale.
- In order to get more advanced production technologies and expertise from the firm that is being given.

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Market Expansion and Strategy

In order to remove competition and safeguard the current market, as well as to lower the cost of advertising and enhance the public's perception of the product or service being being supplied.

Financial Strength

- To enhance the liquidity and to have direct access to the monetary resources that are available.
- To take advantage of the tax benefits.
- To generate cash out of merged firms by selling off assets that are no longer needed or that are obsolete.

General Gain

During the process of merger and acquisition, it is believed that the business would improve its own image and hire superior management qualities to handle its affairs. This would be accomplished by combining different companies. One of the most common objectives of mergers is to increase the degree of satisfaction that customers or users of the product have with the product and the characteristics that distinguish it from other products.

Strategic Purpose

The corporation makes an effort to accomplish its strategic goals by engaging in a variety of mergers and combinations. These may include horizontal, vertical, product expansions, and other particular objectives that are unconnected to one another, depending on the corporate plans that are in place. As a result, these various forms of combinations are unique from one another in their natural characteristics and are utilised in order to achieve the goals.

Procedure of Banks Merger and Acquisition

In the many pieces of state law as well as the Banking Regulation Act, it is stipulated that the procedure for mergers, regardless of whether they are willingly or otherwise, must be adhered to.

- While choosing the merger, the sanctioned officials of the merging bank and the exploit bank review the financial terms and procedural details. After the discussion ended, the theme was updated to include the fine print for each bank and, by extension, the conditions and terms related to the space. The matter was brought to the attention of the bank board of administrators for consideration at their meeting once it had been fine-tuned. After deliberation, the board votes to approve the proposal if it finds that it is financially viable and would have a positive impact.
- After the board of directors approves the merger plan, the shareholders of the participating banks get together for an additional general meeting to go over the deal and get their approval.

- A competent appraiser will be retained to assess both institutions after the board has green-lit the merger proposal. The assessor first obtains the banks' consent before calculating their worth based on factors such as their market capital, assets, liabilities, reach, and anticipated expansion.
- The proposal is given to the Reserve Bank of India and other potential regulatory organisations, including the Security and Exchange Board of India, for approval once the appraisal is finished and agreed by the individual institutions. Board approval, shareholder approval, the valuation report, and all other pertinent papers are included in this proposal.
- The sanctioned officials from both banks would meet to finalise the share distribution proportion from the exploit bank to the merging bank's shareholders after obtaining approval from the relevant entities.Banks will only sign documents when all necessary steps have been finished.

TYPES OF MERGERS

Vertical mergers, horizontal mergers, circular mergers, conglomerate mergers, and reverse mergers are some of the various forms of mergers.

Vertical Mergers

In the case of a vertical merger, the company expands either in the direction of the customer or in the other direction, towards the source of the raw materials. In order to do this, the final manufacturing process might make use of a product or intermediate material that belongs to either the buyer or the supplier. An organisation is said to have integrated its supply chain backwards when it merges with another firm or buys another company. On the other hand, when an organisation integrates its supply chain forwards, it is said to have integrated its demand chain.

Horizontal Mergers

When two companies that are in the same phase of production, operate in the same market, or cater to the same sort of consumer join into one, this form of merger is referred to as a horizontal merger. The combination of two firms that are in direct competition with one another is an example of a horizontal merger.

Conglomerate Mergers

The combination of two companies that are engaged in different fields of business is known as a conglomerate merger. These mergers are motivated by a variety of factors, including the utilisation of financial resources, the growth of debt-acquiring capacity, the diversification of corporate risks, the entry into new emerging sectors, and the utilisation of management synergies.

Reverse Merger

There are two distinct ways in which "reverse merger" might be understood. To begin, the most typical type of reverse merger involves the combination of a thriving organisation with a corporation that is either failing or losing money. When seen from a purely technical standpoint, it is classified as a "tax-friendly merger." In the second type of reverse merger, an unlisted business is combined with a publicly traded corporation to form a new entity. According to the official definition, it is considered to be a "listing friendly merger." In order to get access to tax advantages that are ordinarily inaccessible to a company that is experiencing a loss, such as set-off for loss, the major purpose for a reverse merger is to obtain entry. Furthermore, it eliminates the need for a specific licence under tax rules (Section 72A of the Income Tax Act of 1961 or a special statute for the rehabilitation of ailing industrial firms). This is a significant benefit. It is possible that other grounds for a reverse merger include cost reductions in areas such as stamp duty and public issue costs.

REVIEW OF LITERATURE

CMA Jai Bansal and Dr. Gurudatt Kakkar (2018): The researcher employed a variety of strategic considerations to perform a study titled "A research on the analysis of merger of SBI with its five associated banks and bharatiya mahila bank." The researcher came to the conclusion that the merger had beneficial effects on the profitability of the participating banks. In this study, the specifics of mergers and acquisitions are investigated, with a particular emphasis placed on the Indian banking sector. Due to the fact that there had been a few mergers in the Indian banking market, the trip to "international banks" was still a long way off.

Kotnal Jaya Shree (2016) A variety of various reasons for mergers in the Indian banking sector were explored in her paper, which was titled "The economic impact of merger and acquisitions on profitability of SBI." Each of these factors was discussed in detail. A number of financial criteria, including gross profit margin, net profit margin, operational profit margin, return on equity, and debt equity ratio, are utilised in order to investigate the financial performance of the merging institutions both prior to and during the merger. In order to ascertain the extent to which their financial performance shifted, this was carried out. Lastly, but certainly not least, it is argued that mergers and acquisitions are not capable of resolving the general growth and financial disease of banks, despite the fact that banks have been positively influenced.

S. Devarajappa (2012): The objective of the study was to identify the myriad of elements that have a role in the occurrence of mergers and acquisitions in India. On top of that, it concentrated on the performance of banks both before and after the merger, analysing it from the point of view of return on investment, return on capital employed, and return on equity.

Azeem Ahmed Khan (2011): For the purpose of this study, the authors focused their emphasis on providing an explanation of the multiple reasons that mergers and acquisitions take place in India. As a result of the findings of this study, it was revealed that mergers and acquisitions were advantageous to the process of delivering dividends to shareholders who owned shares in the firm.

Bhatnagar, R. G. (2001)According to the research, the public sector banks were plagued with non-performing assets (NPA) that tainted their balance sheets. In addition, at the same time, they were burdened with the burden of apparently interminable bureaucratic interventions from the past. Banks that are well managed, tremendously popular, and imaginative are giving the public sector banks a run for their money in an industry that is evolving into one that is getting more and more competitive. An response is offered by the author in the form of a merger and operations that are simplified through the use of this answer.

Berger and Humphrey (1994)According to the majority of study that analysed the financial ratios before and after a merger, it was found that there was no affect on the ratios of operational expenses and profits. This was the conclusion that was reached following the investigation. The statistics are conflicting for a number reasons, including the delay that happens between the end of the merger process and the realisation of the advantages of mergers; the selection of the sample; and the techniques that are utilised in the financing of mergers. These are the reasons why the data are inconsistent. To add insult to injury, when employed as indicators of success, financial ratios can be somewhat misleading due to the fact that they do not take into account the product mix or the costs of the inputs. When it comes to frontier X-efficiency enhancements, the third danger is that they will mistake scale efficiency with scope efficiency. Scope efficiency is employed in these advancements. Frontier X-efficiency approaches have been explicitly used in recent research in order to determine the X-efficiency gains that are connected with bank merger circumstances. This research was conducted in order to determine the X-efficiency gains. The vast majority of research projects carried out in the United States have arrived at the conclusion that there is a substantial possibility of achieving cost efficiency improvements through the consolidation of financial institutions. This is because there is a significant quantity of X-inefficiency in the company, which is the reason for this effect. The facts, on the other hand, show that the mergers that took place in the United States throughout the 1980s did not, on average, result in the realisation of such advantages.

Hearly et al. (2016)Fifty of the largest U.S. mergers had their post-merger cash flow performance studied, and the findings demonstrated that, in the five years after the mergers, the operating performance of the merged businesses outperformed their respective industries. The study found that the merged firms were able to sustain themselves in the long run despite the increase in post-merger cash flows because the sample companies kept their R&D and capital spending rates relative to their industries. It was also found in the study that industry-adjusted operating returns have been on the rise, but that this uptick might not be attributable to better operating margins but rather to higher asset turnover. The researchers advanced this as a possible explanation.

Anand Manoj and Singh Jagandeep (2018) According to the findings of an analysis, the effect that merger announcements have on the shareholder bank was examined. There have been four bank mergers in India alone in recent years: Times Bank and HDFC Bank, Bank of Madurai and ICICI Bank, ICICI Ltd and ICICI Bank, Global Trust Bank and Oriental Bank of Commerce, and Bank of Punjab and Centurion Bank. All of these mergers have taken

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place in recent years. India has been the location of each and every one of these mergers. The wealth of the bank's investors in the bank was significantly and favourably affected by the announcement that the bank would be merging with another financial institution. The results of the merger and acquisition agreement between European and American banks indicated the influence on both the acquiring and the target institutions, with the exception of the loss of shareholder value in the context of the United States. The agreement was reached between European and American banks. Each of the three-day (-1, 1) and eleven-day (-5, 5) event windows that followed the announcement of the merger resulted in the merged bank portfolio having a weighted capital adequacy ratio of 4.29% and 9.71%, respectively. This was the case regardless of which event window was implemented. We are able to see for ourselves, with the aid of the event research, how the merger of the two banks will be favourable to the former.

According to K. Mohan (2006), Furthermore, despite being overbanked, the Indian market does not have enough supply. Because of this, Indian banks are completely absent from the international scene. The paradox between the low customer profitability of banks and the price increases experienced by customers may be due to the existence of an oversupply of banks. The financial system cannot carry out its duties effectively until banks are merged. A number of benefits would accrue, including fortified institutions, scale economies, enhanced global competitiveness, more affordable financial services, and the retention of key staff who could pool their expertise. In addition to providing banks with greater entry hurdles and faster access to new markets, consolidation will save operational expenses by combining resources. Banks will face additional entry hurdles as a result of consolidation. Scale, geographic and distribution synergies, talent, capacity, and mergers and acquisitions are market-related variables that must drive the domestic banking business. These are the main forces that propel the company forward.

According to Dilip Kumar Chanda (2015), Deregulatory initiatives in India did nothing to improve the bottom lines of the country's public sector banks. In terms of profitability, India's banking industry stands head and shoulders above the rest of the globe. Stocks of public sector banks are quite valuable, which is a major consideration. One may make the case that consumers' needs aren't fully met by bank mergers. With this in place, monopolistic pricing might materialise. Because there is now more competition among banks, customers can get a better rate of interest on their savings. Foreign banks, because to their massive size and extensive range of financial services, are increasingly gaining access to India's borderless economy in this age of globalisation. The reason behind this is because India's economy is growing at a rapid pace.

According to Francis Atuche (2006), To succeed in today's cutthroat banking industry, larger institutions need not just a skilled workforce but also strong governance and regulation. The top talent is being chased by all 25 of Nigeria's post-consolidation banks. An organization's need for more senior management is directly proportional to its rate of expansion. With ever-increasing levels of competition, it is more important than ever to possess superior knowledge in strategic planning, risk assessment, and operational management. The already heavy load

of compliance will be even heavier under a more stringent regulatory environment. Knowledge and skill are in short supply, which is quite unfortunate.

Objective:

1. To find out what drives bank mergers and what effects they have on the Indian economy.
2. To provide an explanation for the necessity of bank mergers

CONCLUSION

Regardless of the obstacles that have been encountered, consolidation has been pursued as a method of establishing banks of world-scale size in accordance with the goals that the government has set for itself. When it was initially incorporated as a provision in the Banking Regulation Act of 1949, the major purpose was to construct a mechanism that would enable weak banks to be safeguarded from the harsh effects of liquidation and dissolution. This was the fundamental objective. Because the failure of a single bank would lead to the failure of the entire banking system, the Reserve Bank of India (RBI) was granted the right to compel the merging of weak banks with healthy banks in order to remove losses and liabilities. This was done in order to prevent the failure of the entire banking system. On the other hand, as demonstrated by the case studies, mergers and acquisitions in the banking business are being investigated for a wide range of additional reasons. It is without a doubt a big instrument for preserving liquidity, guaranteeing transparency in business, and ensuring effective administration; yet, the fact that a single bank would be subject to unpredictable and unstable system risk is a significant drawback. Consolidation is a significant tool for sustaining liquidity.

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