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Mergers and Acquisitions - Revival strategies in the Indian Banking Sector

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Abstract:

The research Paper on "Mergers and Acquisitions –Revival strategies in the Indian Banking Sector" *is prepared to know, what is the need of merger and acquisition in Indian Banking sector?andCause and effects of merger and acquisition on various banks. As we know, in India Banking Sector has widely growing in various functional areas which are not only restricted to the function of accepting deposits and lending money. It has expanded to various activities which lead to growth as well as increases the challenges towards survival. In previous few decades in Indian Banking sector the concept of merger and acquisition have took place.*

The main reason behind the merger and acquisition of banks is slowdown of economy due to various circumstances, to prevent such situation which cause slowdown of economy the initiation like merger and acquisition had been took place in Indian Banking Sector to uplift the economy by assorting risk, increasing liquidity and to oppose issue of Non-performing Assets. The concept of merger and Acquisition is not new in India, since before Independence the banks had been merging and acquired to balance Economy. Few of the examples are like Merger of Bank of Bengal, Bank of Bombay and Bank of Madras into Imperial Bank of India, Merger of Allahabad Bank with Indian Bank, merger, and acquisition of Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB) and, Merger and acquisition of Syndicate Bank with Canara Bank.

Keywords: *Merger, Acquisition, Bank, Slowdown, Liquidity, Growth, Survival etc.,*

Introduction of Merger and acquisition:

In India, Banking sector plays a vital role which is not only restricted to accepting deposits and lending money to its customer;it helps in growth of Indian economy by expanding its functional areas in the arena of digitalisation to boom the economic growth of the nation. But since 2010, Banks started losing its inferiority significantly and decline its credit growth, results into slowdown of economic activities. To avoid such slowdown Indian authorities have taken numerous steps likemerger and acquisition, amalgamation etc.

Mergers and acquisitions (M&A) are a term refers to Consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, purchase of assets, and management acquisitions etc.

Objective of the study:

- To study the concept of merger and Acquisition with changing arena of banking sector
- To study the revival strategies in Banking sector
- To study the measures taken by different banks to overcome with slowdown of economic growth
- To study the impact of merger and acquisition in economic growth

Research methodology:

The data used for research is secondary-based data collected from various sources of information like earlier publications, business magazines, and from various internet sources, etc.

Review of Literature:

As researcher uses various published sources like research paper, articles, and report of committees etc. it is reviewed that, since last few decades the many experts studied and highlighted the concept of merger and acquisition of Indian Banking and revived the same, the expertise like Anand Manoj & Singh Jagandeep (2008) studied the impact of merger announcements of five banks in the Indian Banking Sector on the shareholder bank. And found that the announcement of merger of Bank had positive and significant impact on shareholder's wealth.

As reviewed by Franz, H. Khan 2007, Merger of one or two weaker bank with one healthy bank or merger of one weaker bank with one healthy bank can be helpful to faster and reduce costs of improvement of banks and its profitability to improve internal growth of Bank.

Concept of merger and acquisition:

The concept of merger and acquisition is used from earlier era of economy to overcome with drawbacks of slowdown of any kind of business activities, Recently in Indian Banking sector the announcement of Merger of various banks changes the structure of bank system which helps to boom

Indian Economy for faster the growth.

Background of merger and acquisition of Indian Banking sector:

In context of Indian Banking, Consolidation of Banking or amalgamation of Banks took place from 1980, as we recalled it with Report of the Committee on Banking Sector Reforms (the Second Narasimham Committee - 1998) had suggested, that mergers among strong banks, both in the public and private sectors and even with financial institutions and NBFCs improves the Banking sector growth.

Since 1961, the merger and acquisition are not stranger phenomenon across India. Under the Provision of banking regulation act 1949, since 1961 to 2008 more than 77 banks amalgamated in Indian Banking sector

Since 1990, onset of reforms 22 banks merge and become part of amalgamation, and it is found that the merger and acquisition of banks preliminary took place to trigger the financially weaker banks being amalgamated, whereas after 1999 the concept of merger and acquisitions has been adopted by healthy banks too to trigger the economic growth which changes the structure of Indian Banking System driven by commercials consolidation and Business.

Purpose of Merger and acquisition of Indian Banking Sector:

- The main purpose of merger and Acquisition of various public, private sector bank etc. is overcome the difficulties of weaker banks and slowdown of the economic growth.
- To maintain balance NPA ratio by consolidating with anchor banks
- To trigger the Indian Banking sector by consolidating various weaker banks and maintain balances liquidity
- To secure the interest of banks, customers and employees by merging weaker banks instead of winding up.

Government objectives behind merger and acquisition of Indian Banks:

- The main objective of government is to unblock the potential to create next generation banks through consolidation of healthy banks.
- Another object of Government is repositioning the scale with 5 trillion economies for building PSBs
- Increase the capacity of credit by consolidating Bank.
- Strengthen the capacity of banks to reach the efficiency and Increase International ability
- Reduce the risk and enhance risk appetite.

Revival Strategies by banking sector through Amalgamation:

1. **Merger of public sector banks:**

   In case of public sector bank the statutory Framework has been structured as nationalised banks, State Bank of India and its subsidiary banks, to prepare such scheme after consultation with the RBI For transfer of undertaking of corresponding new bank to another new bank or for transfer of part or whole of any banking institution to corresponding new Bank , the structure regards the nationalised bank, under the Banking companies act ,1970 and 1980, or the Bank Nationalisation Acts authorise the Central Government, under Section 9(1)c.

As per the announcement of Union Finance Minister Nirmala Sitharaman, 27 public sector bank merged into 12 in year 2020, which affects Indian Banking system in the manner of change in Financial Efficiency, Cash flow, credit flow and payment statement, Monetary statement.

2. Merger between a private sector bank and an NBFC:

As Per Indian Banking sector, it is found that the old private banks found difficulties to Merged with healthy anchor bank, therefore RBI Should come up with guideline of merger and acquisition of Private Banks with NBFC, it may help to solve RBI's Problem of Dealing with weaker private Bank. Where the NBFC is proposed to be merging into a banking company, the banking company should obtain the approval of the Reserve Bank of India

Even it is suggested earlier that instead of forcing a strong bank to take over a weaker bank, it should allow NBFCs to merge with banks to access to deposits. As per RBI guidelines, the main objective of such merger is to ensure healthy growth and to ensure that NBFCs work within the policy framework.

As per High court's order, RBI has all powers to regulate the NBFCs and provided that the RBI issued number of guidelines for working as NBFCs. As per regulation in India Merger between banks and NBFCs is approved

The merger between an old private sector bank with other banks since 2006 \such as Sangli Bank merged with ICICI bank in 2006, Lord Krishna Bank Merged with centurion Bank of Punjab in 2007, and Bank of Punjab merged with HDFC in 2008, in 2016 ING Vysya Bank merged with Kotak Mahindra Bank will get Benefit after merger with NBFCs

3. Compulsory amalgamation between private sector banks:

As per RBIs regulation, under section 45 of the Banking Regulation Act, RBI has power to force any weak Private bank with stronger Bank as Anchor Bank. The main motto behind compulsory amalgamation or merger is to secure public interest or to secure proper management of Banking or to secure the interest of Depositors of distress Bank or to secure banking Interest.

4. Voluntary amalgamation between private sector banks:

A guideline for voluntary merger is given under section 44A of the Banking Regulation Act 1949, provided that the voluntary Merger and Acquisition provides cost effective and easiest procedure for different banks merged together.

The voluntary amalgamation helps for employing the vast responsibilities to the depositor's money and to reduce the risk of failure of a banking institution is the responsibility of the regulators.

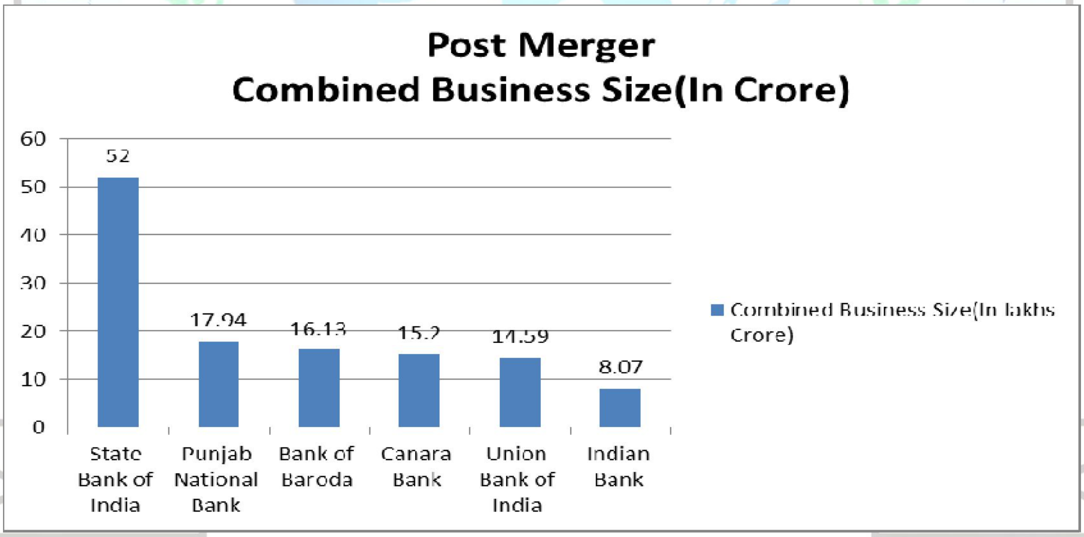
Impact of Merger and acquisitionof Indian Banking:

- After announcement of Merger and acquisition of banking sector it helps to reduce cost of Lending by higher operational efficiency gains of consolidated banks
- The merger and acquisition not only helps increase in capital of Banks but also helps to expand the banks geographical, functional and operational area as well as larger consumers and able to provide all mandatory services to its customer
- The bank merger and acquisition impacted on the size of Banks and small banks become part of the largest banking sectors results into increase of growth of economy.
- As a result of merger and acquisition of numerous banks it helps to assist the financial institution and gain higher number of new customers which scale up the fastest growth to improve the institutions balance sheet and cashflow statement.
- Provided that, merger and acquisition results into reduction of number of banks in one which effect on the competitiveness of Banks.
- The merger and acquisition of Indian banks helps to improve the global competitiveness and strengthen banks efficiency by merger of healthy banks
- The merge and acquisition of banking sectors affected on efficiency of financial institutions, financial stability, credit flows and payment and settlement systems, monetary policy etc.
- The merger and acquisition play vital role in case of core banking system, due to merger and acquisition the banks share common technologies which become more effective in manner of growth.
- The merger and acquisition benefited in the point of view of customer too, it provides the much wider access to customer in various branches, in digital services, and to provide good credit facilities and strengthen the bank positions.
- All the employees and assets are become transferred to amalgamated bank and become centralised with one bank which expanded the size of the anchor bank in nature of capital, area and size.
- All the Branches become part of merged bank become acquired by anchor bank and all customer of merged banks become customer of Anchor bank which result into increase of number of customers of Anchor bank and provided with efficient services after merger.

➢ **Post-merger Analysis of Bank merger analysis**

- **List of Merged Public Sector banks**

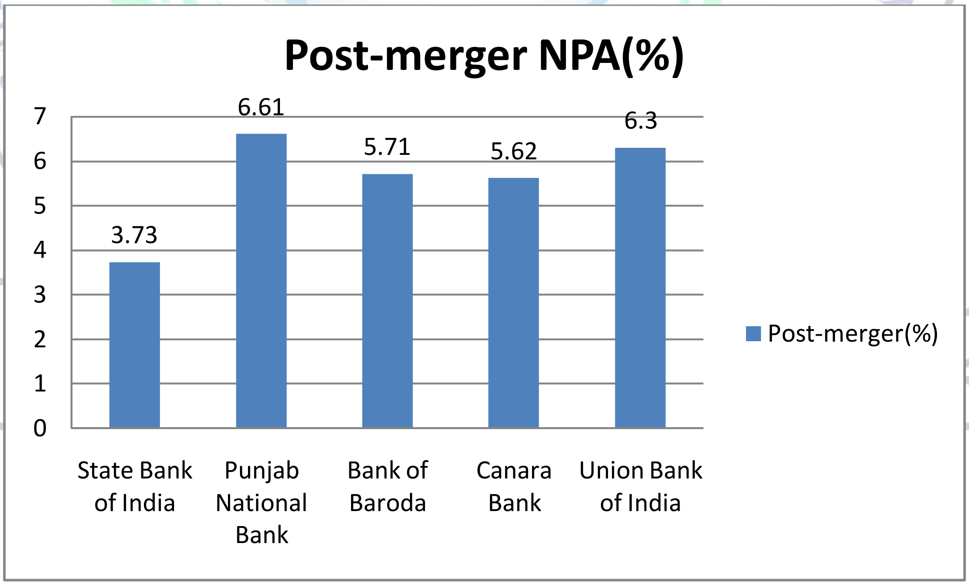
Anchor Bank	Merged Bank	Combined Business Size after Merger
State Bank of India	State Bank of Bikaner and Jaipur State Bank of Hyderabad State Bank of Mysore State Bank of Patiala State Bank of Travancore Bhartiya Mahlia Bank	Rs 52 lakh crore
Punjab National Bank	Oriental Bank of Commerce United Bank of India	Rs 17.94 lakh crore
Bank of Baroda	Dena Bank Vijaya Bank	Rs. 16.13 Lakh crore
Canara Bank	Syndicate Bank	Rs 15.20 lakh crore
Union Bank of India	Andhra Bank Corporation Bank	Rs 14.59 lakh crore
Indian Bank	Allahabad Bank	Rs 8.07 lakh crore



As above mentioned, is the list of merged banks with a healthy anchor banks like state bank of India, Punjab National Bank, Bank of Baroda, Union Bank of India etc. After Merge and acquisition state bank of India is the largest bank in India with Combined Base of Rs. 52 lakh Crore, second is Punjab National Bank with business size of Rs 17.94 lakh crore and Bank of Baroda is third bank with amount of 16.13. And other banks so on. It helps Indian banking sector to overcome with slowdown of economic.

Pre- and post-merger analysis of Net NPA

Anchor Bank	Merged Bank	Pre-Merger		Post-merger
		Anchor Bank	Merged Bank	
State Bank of India	State Bank of Bikaner and Jaipur State Bank of Hyderabad State Bank of Mysore State Bank of Patiala State Bank of Travancore Bhartiya Mahila Bank	3.81	3.39 (All associated banks)	3.73
Punjab National Bank	Oriental Bank of Commerce United Bank of India	6.55	5.93 8.67	6.61
Bank of Baroda	Dena Bank Vijaya Bank	5.40	11.04 4.10	5.71
Canara Bank	Syndicate Bank	5.73	6.16	5.62
Union Bank of India	Andhra Bank Corporation Bank	6.85	5.73 5.71	6.30

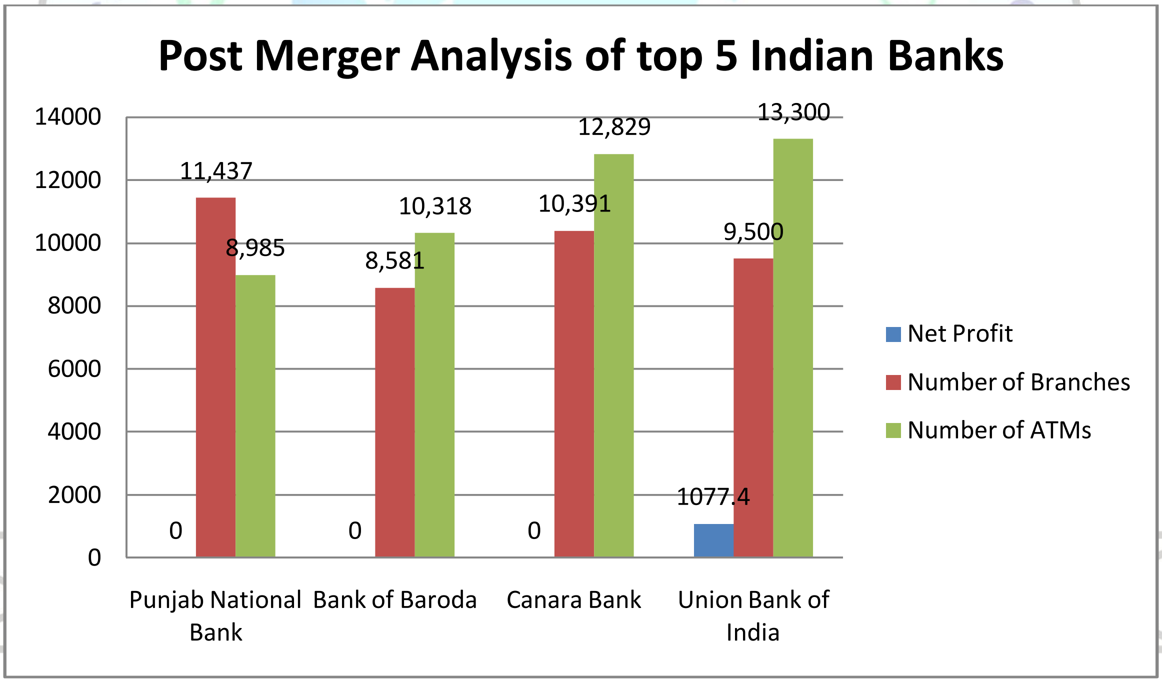


The main reason behind Consolidation of Banks is to improve the position of Banks in monetary term, improve financial efficiency and creditability by keeping balanced NPA. The NPA of merged banks improved after consolidation of Banks. The Post NPA of SBI is 3.73, Punjab Nation

Banks is 6.61, Bank of Baroda's is 5.71, Canara Bank's is 5.62, and Union Bank of India's is 6.30. It indicates the improvement in Banks NPAs.

Post-merger details of Net Profit, branches and ATMs of TOP 5 largest merged Banks

Anchor Bank	Net Profit	Number of Branches	Number of ATMs
State Bank of India	8432 Cr.	24,000	58,559
Punjab National Bank	1126.78 Cr	11,437	8,985
Bank of Baroda	2197 Cr.	8,581	10,318
Canara Bank	1502 Cr.	10,391	12,829
Union Bank of India	1077.40	9,500	13,300



- As result of merger and acquisition, in the post-merger of banks results into conversion of healthy banks into largest banks of nation. The state bank of India becomes first largest bank with net profit of 8,432 cr. having 24,000 branches and 58,559 Number of ATMs operating in nation.
- Punjab National Bank is the second largest merged bank with net profit of Rs. 1126.78 cr and total number of 11,437 branches and 8,985 ATMs.

- The net profit of Bank of Baroda is 2,197 cr with 8,581 Branches and 10,318 ATMs, become the third largest amalgamated bank.
- The Canara bank merged with syndicate bank earned Net profit of 1502 Cr. Operating with 10,391 Branches and 12,829 ATMs become fourth largest Consolidated Bank
- Union Bank is India is one among largest merged banks earned net profit of Rs. 1077.40 and working with 9,500 Branches and 13,300 ATMs.

Conclusion:

The Amalgamation of Indian Banking sector Plays vital role in Indian Economy since the Indian economy facing slowdown of economic growth, dropdown of profitability and risk of higher NPA**.** The consolidation of healthy Banks with weaker banks, merger of private and public banks, merger with NBFCs give solution to the Indian banking sector to grow their competency at regional level, financial level and at international level. The merger and acquisition of various banks since 2016 like Merger of SBI with its different associate banks and Bhartiya Mahila Bank, Punjab National Bank with Oriental Bank of Commerce, Canara Bank with Syndicate Bank etc. has triggered the growth of economy by improving the rate of returns and maintaining the controllable NPA to reduce the risk of slowdown.

The concept of Merger and acquisition gives the way out to Indian Banking sector to provide digitalised services to its customer through the merger and provides an efficient and cost reducing way out to Banking Operations.

In overall the merger and acquisition brings the positive change in Indian Banking system and earning a return on its investment in various sectors of Banking Business.

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