



Mergers and acquisitions of banks in post-reform India

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Abstract

Merger and acquisition of Indian banking sector have played an important role in service sector. It consists public sector banks, private sector banks and other banks are engaged in the Merger and acquisition of Indian banking sector. a researcher attempted to study on merger and acquisition (M&As) of banks in post-reform India. The post-reforms period of Indian banking sector, economics of scale, reduce to NPAs, improve the credit system, provide satisfactory services etc. therefore, our union cabinet decided to consolidate the public sector banks in order to avoid insolvency. Whereas some banks didn't show the significant improvement in the financial performance in the post reform merger.

Keywords: merger and acquisition, Indian banking sector, post-reform period, NPAs, consolidation, financial performance

Introduction

Mergers and acquisitions (M&As) are considered up by banking companies to reap greater benefits. This will aid to improve the performance of assets strengthen the banking system, strategic reforms, economics of scale, reduce administrative overheads, to compete over the world, to reduce NPAs. The Indian banking sector plays an important role in the overall economic development of the country. In the India, the banking sector divided into two parts, central bank of India (RBI) and commercial bank of India. RBI established under the RBI Act,1934 with effect from 1st april,1935. Credit control of money supply is the main objective of RBI. commercial bank consists public sector banks, private sector banks, foreign banks and regional rural banks (RRB). this commercial bank governed under banking regulation Act,1949. The main objective of the banks is to create the credit. There are five basic types of mergers. A vertical merger is a merger of two non-competing companies in which one of the products is a key component of the other. This type of merger might occur between two companies that specialize in different areas of business. When two companies operate and compete in the same industry, they form a horizontal merger. The target and purchasing companies are both in the same industry. An accretive merger occurs when firm with a high price to earnings ratio buys a company with a low price to earnings ratio. If there isn't an environmentally friendly alternative, a nomic tie exists between the acquiring and acquired entities in such a combination. Conglomerate merger in which totally unrelated business activities. The Indian banking sector consists of twelve public sector and twenty-two private sector banks till November 2020.

Table 1

Particulars	No. of banks
Public sector banks	12
Private sector banks	22
Foreign banks	46
Regional rural banks (RRB)	56
Urban co-operative banks	1485
Rural co-operative banks	96000
Total numbers of ATMs in India	209282

In 2019, banking and financial institutions has witnessed 32 merger and acquisition (M&A) activities worth US\$1.72billion.

*[source: <https://www.ibef.org/industry/banking-india.aspx>]

Review of Literature

Ashok botta (2018), explained in this paper through theoretical study the competitive advantage of merger in banking sector with context to bank of Baroda, vijya bank and Dena bank. In general term merger consider as a strategic tool for the consolidation to gaining activity. Overall improvement observed in the performance of both

the banks in productivity ratios analysis, certain parameters and also ascertained by employing the statistical tools.

Honey gupta (2016), analysed the financial performance of state bank of India pre and post-merger activity. The researcher in his study used paired sample t-test to check the financial performance for the pre and post-merger through the various kinds of parameters like, investment ratio, profitability ratios, management ratios etc. The researcher used secondary data in the study. The study revealed that the SBI did not show the significant improvement in the financial performance after such merger. Whereas, the some of the parameters shown significant improvement after such merger activity.

Nidhi nalwaya and rahul vyas (2012) analysed the post-merger financial performance of ICICI bank and erstwhile bank of Rajasthan ltd. by comparative study. The researcher took convenient sample of OI banking company merged in the BESI sector. The study based on the secondary source of data websites, journals, newspaper etc. The used six important ratios as the tools & technique, where average ratios were being paired sample t-test. The results of the study found that the earning growth higher rate which create in value addition to shareholders.

Objectives

1. To study the financial performance of Selected Nationalized banks.
2. To study the Impact of merger and acquisition on financial performance of Selected Samples.
3. To study the effect of NPA on financial performance of selected samples.

Banking history in India

Morden banking in India originated in the last decade of the 18th century. Among the first banks were the bank of Hindustan, which was established in the year 1770 and liquidated 1829-32, and the general bank of India, founded in 1786 but failed in 1791, were among the first banks. The state bank of India is the country's largest and oldest operational bank (SBI). it was created in mid-June 1806 and commenced operations as the bank of Calcutta. in 1809, it was known as the bank of Bengal. The bank of Bombay was founded in 1840, and the bank of Madras was founded in 1843. By all of which were founded by a presidential government at the time of British ruler. The three banks amalgamated in 1921 to become the imperial bank of India, which became the state bank of India (SBI) in 1955 after India's independence. The presidential banks as well as their predecessors, served as quasi- central banks for many years until the reserve bank of India was founded in 1935 under the reserve bank India act, 1934. In 1960, the state bank of India was given control of eight associated banks under the state bank of India act, 1959. These eight associated banks are known as the associate banks. In 1969, prime minister Indira Gandhi moved to nationalize fourteen major commercial banks of India. Due to nationalization percentage of deposits and advances tool a huge jump. The process of nationalization it resulted significant growth in geographical coverage of banks in India: therefore, the bank branches were being raised from 8200 to 62000, out of which maximum number of branches from rural areas. Thus, nationalization resulted to increase household savings, investment in MSMEs, loan to agriculture and to the development of Indian industries. The Indian banking industry is divided into two type: scheduled and non- scheduled banks. The scheduled banks are those covered in 2nd schedule of reserve bank of India act, 1934. nationalized banks, state bank of India and its subsidiaries, regional rural banks, foreign banks, and other Indian private sector banks are among the scheduled banks on 1st April, 2017. the state bank of India merged its associate banks to form India's largest bank. SBI now has a global ranking of 236 on the fortune 500 index as a result of this transaction. commercial banks include both scheduled and non-scheduled commercial banks that are governed by the banking regulation act, 1949.

Nationalization of Banks

Nationalization of banks is arguably the biggest structural reforms introduced in the financial sector during the post -independence era of Indian history. the second volume of the official history of the reserve bank of India describe s banks nationalization as the single most important economic policy decision taken by government after independence i.e. 1947. historians of RBI say in terms of impact, even the economic reforms of 1991 pale in comparison. Before 1969, all Indian banks were privately owned and except the state bank of India, it was nationalized in 1955. SBI was nationalized at a time when several private banks were facing bankruptcy at an alarming rate. By the 1960s, the Indian banking system had developed into a vital component for the country's economic progress. 14m banks were nationalized by Indira Gandhi's government in 14, July, 1969. At the time, these banks owned 80 percent of the country's deposits.

The list of following banks was nationalized on 1969

1. Allahabad bank
2. Bank of Baroda
3. Bank of Maharashtra
4. Bank of India
5. Central bank of India
6. Canara bank
7. Dena bank
8. Indian bank

9. Indian overseas bank
10. Punjab national bank
11. Syndicate bank
12. Union bank
13. United bank of India
14. UCO bank

The following banks were nationalized and controlled by government in 1980, namely; six other banks.

1. Punjab and Sind bank
2. Vijaya bank
3. Oriental bank of India
4. Corporate bank
5. Andhra bank
6. New bank of India

The following are the major goals of bank nationalization

1. Cope up with the rising economic crisis that afflicted in the 1960s.
2. Remove the few's monopoly in the financial sector.
3. Ensuring adequate credit for agriculture, small businesses, and exports.
4. Professionalizing the banking sector's management.
5. Encouraging new business owners.
6. India's backward areas should be developed.

One of the most significant developments in independent India was the nationalization of banks. This action resulted in a significant increase in bank deposits and savings. Banks had become a captive source of financing due to the mounting budget deficit at the time. This action will have a long-term influence on the performance of small-scale industry and agriculture. It has also resulted in increasing bank penetration in rural India. Continuous political interference had a negative impact on bank profitability in the long run. However, through the financial sector, the government was able to partially achieve its developmental agenda goal. Despite this, many people in India still lack access to formal credit, and a huge section of the population lives in poverty.

The followings are negative implications of the nationalization of banks

1. NPA: since 2012, the NPA issue may have been created, at least in part, by a credit bubble that rose with political support as a result of bank nationalization.
2. Complicated interest rates: The nationalization of banks has resulted in an increase in the complexity of interest rate structures in the banking sector. There were various interest rates for various types of loans. The reserve bank of India eventually had to deal with hundreds of different interest rates. The loans were not offered to individuals who needed them because of the difficult procedures and interest rates. As a result, the goal of bank nationalization was defeated. This perplexing arrangement was only dismantled after the 1991 reforms, with the central bank controlling the key repo rate and the banks deciding on commercial lending rates.
3. Reduced competition within the banking sector: Banking is a very competitive industry. The nationalization of banks, on the other hand, has limited rivalry between public and private banks.
4. Inefficiency: The banking sector developed a bureaucratic attitude as a result of bank nationalization within the public sector banks, there was no duty, accountability, or motivation for it to advance within these banks, unjustified delays had become the new norm.
5. Long term risks: While liberal credit is vital for rural India's development, it has had negative consequences for the banking sector's stability. Overdue debts and the development of economically unviable branches are now an issue for nationalized banks. Extending credit to agribusiness and small businesses has proven to be a risky venture, with lower returns.

Mergers and acquisitions (M &A) are seen as a relatively quick and cost-effective way to enter new industries and adopt new technologies. The primary motivation for businesses to employ this strategy is to strengthen and maintain their market position. Mergers and acquisitions (M&A) have played a significant part in the growth of many companies. Mergers and acquisitions have become highly favored or respected by a variety of businesses with a variety of goals. Whether it's a matter of survival, profit maximization or economic strengthening, corporate mergers and acquisitions are the most talked about topic in the industry. A world that is competitive mergers and acquisitions are the pinnacle of company transformation, there isn't another event like it.

Table 2

Acquiring bank	Acquired bank	Year of acquisition
Indian Bank	Allahabad Bank	August 2019
Union Bank of India	Andhra Bank and Corporation Bank	August 2019

Canara Bank	Syndicate bank	August 2019
Punjab National Bank	Oriental bank of commerce and United bank of India	August 2019
Bank of Baroda	Vijaya Bank, Dena Bank	April 2019
Canara Bank	Syndicate Bank	---
Bank of India	Andhra Bank, Bank of Maharashtra	---
Punjab National Bank	Oriental Bank of Commerce (OBC), Allahabad Bank, Corporation Bank, Indian Bank	---
State bank of India	Bhartiya Mahila bank (BMB) State Bank of Bikaner and Jaipur (SBBJ) State Bank of Hyderabad (SBH) State Bank of Mysore (SBM) State Bank of Patiala (SBP) State Bank of Travancore (SBT)	2017 (Recent and Important)
Kotak Mahindra bank	ING Vysya bank	2014
ICICI Bank	Bank of Rajasthan	2010
HDFC Bank	Centurion bank of Punjab	2008
Indian overseas bank	Bharat overseas bank	2007
Federal bank	Ganesh bank of kurandwad	2006
Industrial development bank of India	United western bank	2006
Centurion bank of Punjab	Lord Krishna bank	2007
ICICI Bank	Sangli bank	2006
IDBI Bank	United Western Bank	2006
Bank of Punjab	Centurion bank	2005
Bank of Baroda	South Gujarat local area bank	2004
Oriental bank of commerce	Global trust bank	2004
Punjab national Bank	Nedungadi bank ltd	2003
ICICI Bank	Icici ltd	2002
Bank of Baroda	Banaras state Ltd bank	2002
ICICI Bank	Bank of Madura	2001
HDFC bank ltd	Times bank ltd	2000
Bank of Baroda	Bareilly co-op ltd	1999
Union bank of India	Sikkim bank Ltd	1999
Oriental bank of commerce	Bari doab bank ltd	1997
Oriental bank of commerce	Punjab co-op ltd	1996
State bank of India	Kashinath state bank	1995
Bank of India	Bank of Karad ltd	1994
Punjab national bank	New bank of India	1993

The following important mergers were taking place

Syndicate bank merged with canara bank, Allahabad bank merged with Indian bank; and Dena bank and Vijaya bank both been absorbed by bank of Baroda. The merger of syndicate bank and canara bank came as the government of the national democratic alliance (NDA) planned to implement new banking reforms in 2019. The merger of the two banking institutions resulted in the development of one of the country's largest public sector banks in August, 2019. The finance minister quoted that the purpose of merging of banks such as this was geared towards the reduction in cost. She went on to state that this would transform into operational costs being reduced on account of network overlaps and more source of income opportunities for joint ventures as well as subsidiaries.

Andhra bank and corporation bank were amalgamated with union bank of India with effect from April 1, 2020. After amalgamating union bank of India became the fifth largest public sector bank in India. The purpose of amalgamation was strengthening the bank's footprint in southern India with considerable market share in this region, the Mumbai head quartered lender said. The merger also expected to generate cost and revenue synergies to the approx. Rs.2500 crore over the next three year. Therefore, banks provide to customer a greater number of branches, ATMs, digital services and credit facilities and are now in a much stronger and apex position as a bank. It further said in order to reduce disruption, A/C numbers, IFSC codes, debit & credit facilities, net banking etc. will remain same.

The amalgamation of Punjab national bank, united bank of India and oriental bank of commerce came into effect from April 1, 2020. In terms of business and branch network, the merger will generate the country's second largest nationalized bank. The bank claimed in a statement that the synergy from the merger will establish PNB 2.0, a globally competitive next generation bank, and that all customers, including depositors, will be treated as PNB customers.

From April 1, 2017, the State Bank of India (SBI), India's largest bank, has been operating as a united entity. Apart from Bhartiya Mahila Bank, it amalgamated with 5 associate banks (BMB). State Bank of Bikaner and

Jaipur (SBBJ), State Bank of Mysore (SBM), State Bank of Travancore (SBT), State Bank of Hyderabad (SBH), and State Bank of Patiala (SBP) are among the affiliate banks (SBP). SBI would most likely join the top 50 banks in terms of assets after this merger. To reduce unfavorable competition between public sector banks (PSBs). Smaller businesses find it challenging to keep up with the pace of competition and regulatory /risk mitigation requirements. The merger was necessary due to changes in the banking environment, such as the rise of new areas for compliance, such as Basel III, risk management, and so on, which need a significant investment in technology and compliance. With an asset base of Rs 37 lakh crore, or \$555 billion, with 22,500 branches and 58,000 ATMs, SBI is projected to compete with the world's largest bank after the merger.

ING Vysya Bank (Vysya) and Kotak Mahindra Bank (Kotak) announced that their respective businesses will be merged. The combination of their operations will boost their position as one of India's premier privately held banks, with a broader geographic footprint and more expertise across customer demographics and product categories. The exchange ratio indicates a premium of 16 percent above Kotak's one-month average share price at closing on November 19, 2014, over Vysya's one-month average share price at closure on November 19, 2014. Based on Vysya's book value as of September 30, 2014, the proposed transaction is expected to provide a pro-forma net profit of around EUR 150 million for ING Bank, which will be booked at close, and a small positive impact on the bank's common equity Tier 1 ratio. During the years 2002-2004, the Bank of Rajasthan acquired properties in Mumbai through a close relative of the promoter, Mr. P K Tayal. From 2009 onwards, the promoters were under intense pressure from the Bank of Rajasthan and regulatory authorities to restructure the bank due to a range of issues. The BoR held by the Tayal Group was urged by RBI to reduce their shareholding from 28 percent to 10%. According to the SEBI, the promoter owned a 55 percent stake in the old private sector bank. On February 26th, 2010, the RBI imposed a penalty of Rs. 25 lakhs for a series of violations, including irregular property deals, actions against money laundering norms, deletion of corporate records from information systems, irregularities in corporate groups' accounts, extension of repayment period beyond permissible limits on intra-day overdraft, as well as a lack of sufficient credit communities and poor corporate governance. The ICICI bank has been reported to indicate that they are willing to pay more than the Bank of Rajasthan's current market value. Sangli Bank Limited and ICICI Bank Limited have been merged by the Reserve Bank of India (NYSE: IBN). The merger will go into effect on April 19, 2007. The merger has previously been approved by both banks' boards of directors and shareholders. The stockholders of both companies are likely to benefit from the merger. In the expansion of its rural and small enterprise banking activities, which are important priority areas for the Bank, ICICI Bank will attempt to use Sangli Bank's network of over 190 branches and existing customer and employee base throughout urban and rural cities. The merger would also help ICICI Bank expand its urban distribution network. Sangli Bank stockholders will be able to participate in the growth of ICICI Bank's strong domestic and worldwide franchise as a result of the merger. Sangli Bank's staff will have new opportunities as a result of the merger, and Sangli Bank's clients will have access to ICICI Bank's multi-channel network and vast range of products and services.

Conclusion

Bank Our finance ministry has been talking about merging talks for a few months now. The majority of our public sector banks have a large number of non-performing assets (NPA) and are losing money. In the meantime, several banks' expenses have outpaced their expected revenue. Our union cabinet has decided to consolidate our public sector banks in order to avert insolvency. The combination is significant in terms of consolidation and expansion. Mergers have produced excellent results in terms of salvaging failing banks, which will be critical in satisfying their expectations. To discuss the aforesaid points with our top banking executives, Union cabinet Finance Minister Nirmala Sitharaman stated that the consolidation of ten public sector banks (PSBs) into a huge four state-owned banks were underway, with the merger taking effect on April 1, 2020. The merger proposal has been approved by the Union Cabinet, and the government has been in contact with these banks on a regular basis. The merger will result in the formation of seven huge public sector banks, each with a business of more than Rs 8 lakh crore. Greater size and cooperation through mergers will result in cost savings for public sector banks, allowing them to improve their competitiveness and have a favorable impact on the Indian banking system. Mergers and acquisitions were extremely essential in the banking industry. Small and medium-sized banks are under attack from an economic environment that is riddled with issues for them, such as a lack of resources, obsolete technology, and so on. a non-systemized management approach, stumbling marketing attempts, and a lack of financial resources structure, technological obsolescence, and a dearth of product innovation Their Reorganization through mergers may allow those in viable banks to re-establish themselves. Size is ideal, and the company has a global reach. So far, the Indian banking industry has seen a lot of mergers and acquisitions. In India, the merger craze has yet to take hold, with merchant bankers and financial advisors honing their abilities in grinding down banks to acquire unprofitable institutions and replace them with viable ones. congratulate them on a job well done. After mergers, all of the merged entities and in comparison, to before the merger, acquisitions are steadily increasing. An increase has occurred. in terms of the number of branches and ATMs, as well as the amount of money deposited, their net profit, and their overall value.

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