International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

# Merger and Acquisition of Banking Sector in India

***[1]G. Jacob Wilson, [2]A.S. Danush Vikraman, [3]A. Nivetha MBA***

[1,2]B. Com CA, Department of B. Com, CA, Sri Krishna Adithya Collage of Arts and Science, Coimbatore – 641042, Tamil Nadu
[3]Assistant Professor, Department of B. Com, CA, Sri Krishna Adithya Collage of Arts and Science, Coimbatore – 641042, Tamil Nadu

**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. 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

## 1. INTRODUCTION:

There are some differences between merger and acquisition is that mean taking control of majority target bank's ownership. Most of the time stronger banker takeover the weaker bank. But here consolidation is designed as merger and acquisition .Our objective here is to present a panoramic view of merger trends in India, to ascertain the perceptions of two important stake-holders viz. shareholders and managers and to discuss dilemmas and other issues on this contemporary topic of Indian banking. We believe that the currently available merger cases do not form a sufficient data set to analyze the performance of mergers based on corporate finance theory because almost all the mergers are through regulatory interventions and market driven mergers are very few .The perception of bank managers is ascertained through a questionnaire-based survey that brings out several critical issues on bank mergers with insights and directions for the future. Finally, we present arguments on why Indian banks should go for mergers. These arguments are also applicable to other Asian countries which have bank consolidation on their agenda. To the best of our knowledge, this paper is perhaps the first attempt at analyzing a plethora of issues on bank mergers in one place, thus providing useful inputs for researchers as well as policy makers .

***TYPE OF MERGER:***

(a) **HORIZONTAL COMBINATION**: -

It is a merger of two competing firms which are at the same stage of industrial process. It is merger or business consolidation that occurs between firms that operates in the same industry. Competition that occurs between firms that operate the same industry

(b) **VERTICAL COMBINATION**: -

A company would like to take over 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.

(c) **CIRCULAR COMBINATION**: -

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.

(d) **CONGLOMERITE COMBINATION**: -

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

***TYPES OF ACQUISITION: -***

1. **FRIENDLY ACQUSITION**: -

Before a bidder makes an offer for another company, it usually first informs that company's board of directors.then the board is usually of the same mind or sufficiently under the orders of the shareholders to cooperate with the bidder.

2. **HOSTILE ACQUSITION**: -

A hostile takeover allows a suitor to bypass a target company's management unwilling to agree to a merger or takeover.Another method involves quietly purchasing enough stock on the open market, known as a creeping tender offer, to effect a change in management.

3. **REVERSE ACQUSITION**: -

A reverse takeover is a type of takeover where a private company acquires a public company. This is usually done at the instigation of the larger, private company, the purpose being for the private company to effectively float itself while avoiding some of the expense and time involved in a conventional IPO.

## 2. OBJECTIVES OF THE STUDY: -

- To find out the impact of merger on company's stock.
- To find out the effect of merger on the equity shareholder.
- To examine the main factor affecting performance of company, before merger and after merger.
- To study the relation between market and company.
- To study other variables affecting company's operations and not returns to stocks.

## 3. RESEARCH METHODOLOGY

| | |
|---|---|
| SAMPLING TECHNIQUE | CONVENIENT SAMPLING TECHNIQUE |
| AREA OF THE STUDY | COIMBATORE CITY |
| SAMPLING SIZE | 71 RESPONDENTS |

**STATISTICAL TOOLS**

The following are the various tools applied for analysing the primary data.

- Percentage Analysis
- Rank Analysis

**4. REVIEW OF LITERATURE**

1. **Prof. Ritesh Patel & Dr. Dharmesh Shah (2016):** -compared the financial performance of before and after merger of banks through Economic Value-added approach and through others financial parameters like mean score of net profit margin, return on net worth, return on assets, return on long term fund, interest earned and total assets. And told that it's not necessary that EVA approach is common for all other bank. They concluded that financial performance of bank may be improved after merger. But if past financial data are examined before merger, it can make merger fruitful.
2. **P. Akhil Bhanh (2016):** - as made an attempt to study the insight into the motives and benefits of the mergers in Indian banking sector. This is done by examining the eight merger deals of the banks in India during the period of reforms from 1999 to 2006. Through the empirical methods by applying t-test and EVA value calculations the potential of the mergers has been evaluate to study the efficiencies or benefits achieved due to the merger. Through this paper and the sample taken for analysis it has been concluded that the mergers in the banking sector in the post reform period possessed considerable gains which was justified by the EVA of the banks in the post-merger periods
3. **Guru Baksh Singh & Sunil Gupta's (2015):** - paper title "An impact of merger and acquisition on profitability of consolidation banking sector in India". Analyzed the performance of public and private sector bank with the data of last five year and evaluated pre- and post-merger positions of bank through financial parameters like Arithmetic mean, standardization, t-test common-value. They found that merger and acquisition have positively impacted on merged Bank

## 5.TABLE

**TABLE 5.1**

**TABLE SHOWING WHAT TYPE OF MERGER BANK RESPONDENT WILL CHOOSE:**

| MERGER BANK | RESPONDENTS | PERCENTAGE |
|---|---|---|
| SBI – BHARATHYA MAHALIA BANK | 28 | 39.4% |
| KVB – RELIENCE MOBILE EXPRESS LTD | 18 | 25.4% |
| HDFC - LIC | 16 | 22.5% |
| BANK OF BARODA – VIJAYA BANK | 9 | 12.7% |
| TOTAL | 71 | 100 |

**SOURCE TYPE**: Primary data

***INTERPRETATION:*** -

The above table and charts show the count of respondents had chosen if they are opening account in merger bank. Most of the respondents chosen SBI and BharathyaMahalia bank as 39.4% of 28 respondents, 18 of 25.4% respondents chosen KVB – Reliance mobile money express ltd, 16 of 22.5% respondents chosen HDFC – LIC bank, 9 of 12.7% respondents chosen Bank of Baroda – Vijaya Bank.

**INFERENCE: -**

Hence majority of the respondents prefers SBI – BharathyaMhalia bank.

**Chart 5.1**

**THE CHART SHOW WHAT TYPE OF MERGER BANK RESPONDENTS HAD CHOSEN*:*** -

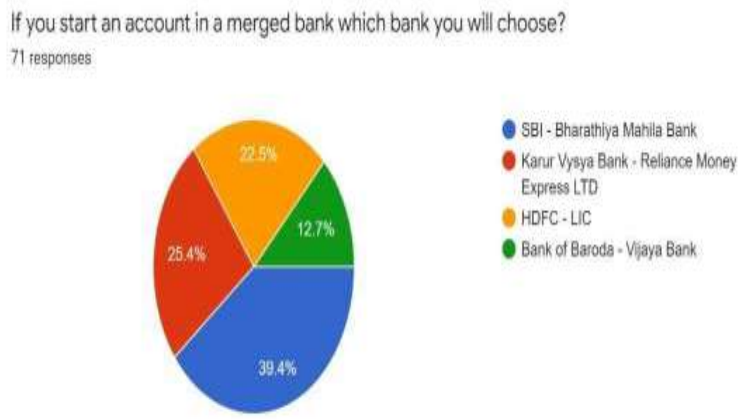



**TABLE 5.2**

**TABLE ABOUT QUALITY OF SELCTING BANK FOR STARTING AN ACCOUNT*:*** -

| NEED | EXCELLENT | GOOD | NEUTRAL | POOR |
|---|---|---|---|---|
| CONVIENIENT FOR LONG TERM SERVICE | 29 | 27 | 14 | 1 |
| VARIETIES OF LOAN AND INSURANCE | 29 | 27 | 13 | 2 |
| TECHNICAL UPGRADATION | 22 | 35 | 11 | 1 |
| NOT TO GET FAILED IN M&A PROCESS | 26 | 32 | 12 | 2 |

**SOURCE TYPE**: Primary data

***INTERPRETATION***: -

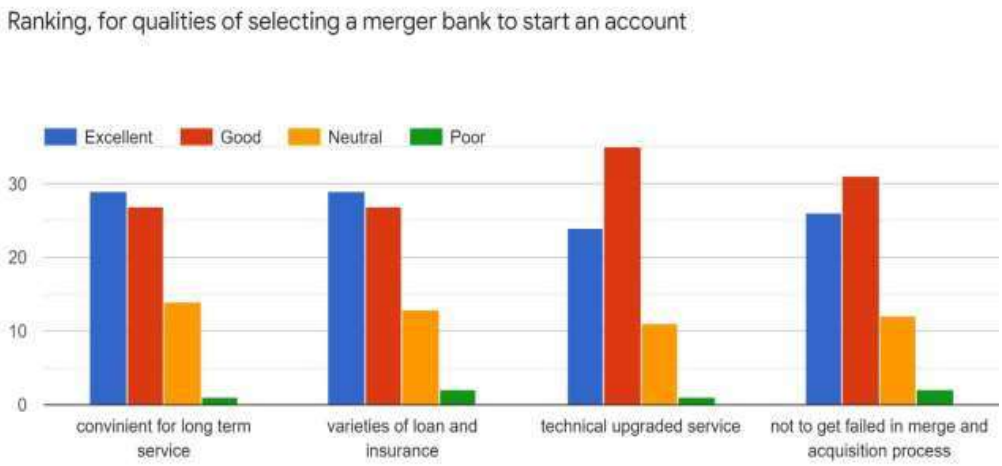
The above table and ranking chart show about quality of selecting bank before starting account. Most of respondents selected a bank should be convenient for long term service. Next a bank should have varieties of loan and insurance and technical upgradation.

**INFERENCE***:* -

Hence majority of the prefers convenient for long time and varieties of loan and insurance.

**Chart 5.2**

**CHART SHOWING ABOUT QUALITY OF SELECTING BANK BEFORE STARTNG AN ACCOUNT: -**




## 6. SUGGESTIONS: -

- The invention of new financial products and the merging of regional financial systems are the reasons for the merger. Markets industrialized and became more competitive and because of this, the market share of all individual companies condensed, and hence, mergers and acquisitions started.
- With the introduction of e-banking and some monetary instruments/derivatives and the removal of admission barriers, the gates have opened for new banks with the latest technology, and old banks can't compete with them. Hence, they decide to merge, which gives the old bank the latest technology that the banking industry needs and the new bank an established customer base.
- Synergy as a concept state that the combined value and performance of two companies will be greater than the sum of the separate individual parts. It is a term that is most commonly used in the context of mergers and acquisitions

## 7. CONCLUSION: -

Bank mergers and acquisitions are aimed at amplifying efficiency, enhancing competitive advantage, achieving synergy and improving shareholder's value. Mergers and Acquisitions pursue the profitability, liquidity and solvency objectives of an organization. The study was carried out to determine whether improvements occur in the post-merger and acquisition period. The analysis and results show that banking companies did not performed well in the post- merger and acquisition era as compared to the pre-merger and acquisition era. Which is the overall standard measure of financial performance due to the statistical significance it has on other ratios.

**8. REFERENCE**


- KPMG, (1999). Unlocking Shareholder Value: The Keys to Success. Mergers & Acquisitions. A Global Research Report 1999.
- Schenk, H. (2000). The Performance of Banking Mergers: Propositions and Policy Implications. UNI Conference on 'Mergers and Take-overs' London 23-24 October 2000.
- Yusuf, H., Sheidu, AD. (2015). Merger and Acquisition in the Banking Sector and Implications for Return on Equity
- (ROE): Evidence from Nigeria. International journal of business and social science vol.6, (No.9).
- S. Kuriakose., NV. Narasimham. (2010) Banking sector valuation practices and adequacy swap ratios
- P. Mishra (2015) Merger and Acquisitions on Firms performance experience of Indian pharmacy
- Berger, AN. (1997), The Efficiency Effects of Bank Mergers and Acquisitions: A Preliminary Look at the 1990"s data.
- In Arnihud Y, Miller G (Eds), Mergers of Financial Institutions. Business One-Irwin, Homewood, IL.
- Ghosh A, " Does operating performance really improve following corporate acquisition" Journal of corporate Finance, Vol 6,pp.695-720
- Pilloff Steven J. (1996), Performance Changes and Shareholder Wealth Creation Assocaited with Mergers of Publicly Traded Banking

Institutions", Journal of Money Credit and Banking, 28(2), pp .294-310.

- R. Srivassan, Chattopadhyay Gaurav & Sharma Arvind (2009), "Merger and Acquisition in the Indian Banking

**WEBSITES**

1. http://www.legalserviceindia.com
2. http://ukca.in
3. http://www.gyanvihar.org
4. http://acadpubl.eu