Project Report On

"A STUDY ON MERGERS & ACQUISITIONS IN THE INDIAN BANKING SECTOR"

Submitted to

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Nagpur

In partial fulfilment for the award of the degree of

Bachelor of Business Administration

Submitted by

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Under the Guidance of

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Academic Year 2021 – 22

G.S. College Of Commerce & Economics , Nagpur

Academic Year 2021 – 22

CERTIFICATE

This is to certify that **"Tanya Dhingra"** has submitted the project report titled **"A Study On Mergers & Acquisitions In The Indian Banking Sector''**, towards partial fulfillment of **BACHELOR OF BUSINESS ADMINISTRATION** degree examination. This has not been submitted for any other examination and does not form part of any other course undergone by the candidate.

It is further certified that she has ingeniously completed her project as prescribed by The Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.

Dr. Aniruddha Akarte **(Project Guide)**

Dr. Afsar Sheikh **(Co-ordinator)**

Place: Nagpur

Date:

G.S. College Of Commerce & Economics, Nagpur

Academic Year 2021 – 22

DECLARATION

I here-by declare that the project with title "A STUDY ON MERGERS & ACQUISITIONS IN THE INDIAN BANKING SECTOR'' has been completed by me in partial fulfilment of BACHELOR OF BUSINESS ADMINISTRATION degree examination as prescribed by Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur and this has not been submitted for any other examination and does not form the part of any other course undertaken by me.

Tanya Dhingra

Place: Nagpur

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Academic Year 2021 – 22

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I would like to thank all those who helped me in making this project complete and successful.

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Place: Nagpur

Date:

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1. INTRODUCTION

The project aims to understand the various **"Mergers and Acquisitions in Indian Banking Sector"** A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale. In the recent times, there have been numerous reports in the media on the Indian Banking Industry Reports have been on a variety of topics. The topics have been ranging from issues such as user friendliness of Indian banks, preparedness of banks to meet the fast approaching Basel II deadline, increasing foray of Indian banks in the overseas markets targeting inorganic growth.

Mergers and Acquisitions is the only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking to strategic acquisitions within India and abroad. In order to attain the economies of scale and also to combat the unhealthy competition within the sector besides emerging as a competitive force to reckon with in the International economy. Consolidation of Indian banking sector through mergers and acquisitions on commercial considerations and business strategies - is the essential pre-requisite. Today, the banking industry is counted among the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and therefore, it has become the most preferred banking destinations for international investors'. In the last two decade, there have been paradigm shift in Indian banking industries. The Indian banking sector is growing at an astonishing pace. A relatively new dimension in the Indian banking industry is accelerated through mergers and acquisitions. It will enable banks to achieve world class status and throw greater value to the stakeholders.

The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations.

In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well-known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies.

The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice.

The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

India has emerged as one of the top countries with respect to merger and acquisition deals. In 2007, the first two months alone accounted for merger and acquisition deals worth $40 billion in India.

2. BRIEF ABOUT MERGERS

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. Merger is the fusion of two or more existing companies. All assets, liabilities and the stock of one company stand transferred to Transferee Company in consideration of payment in the form of :-

- Equity shares in the transferee company,
- Debentures in the transferee company,
- Cash, or

A mix of the above modes.

Merger is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover.

Managers are concerned with improving operations of the company, managing the affairs of the company effectively for all round gains and growth of the company which will provide them better deals in raising their status, perks and fringe benefits. If we trace back to history, it is observed that very few mergers have actually added to the share value of the acquiring company and corporate mergers may promote monopolistic practices by reducing costs, taxes etc.

TYPES OF MERGERS

Merger or acquisition depends upon the purpose of the offerer company it wants to achieve. Based on the offerer's objectives profile, combinations could be vertical, horizontal, circular and conglomeratic as precisely described below with reference to the purpose in view of the offerer company.

(A) Horizontal Combination

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities

and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising costs, increase in market segments and exercise better control on market.

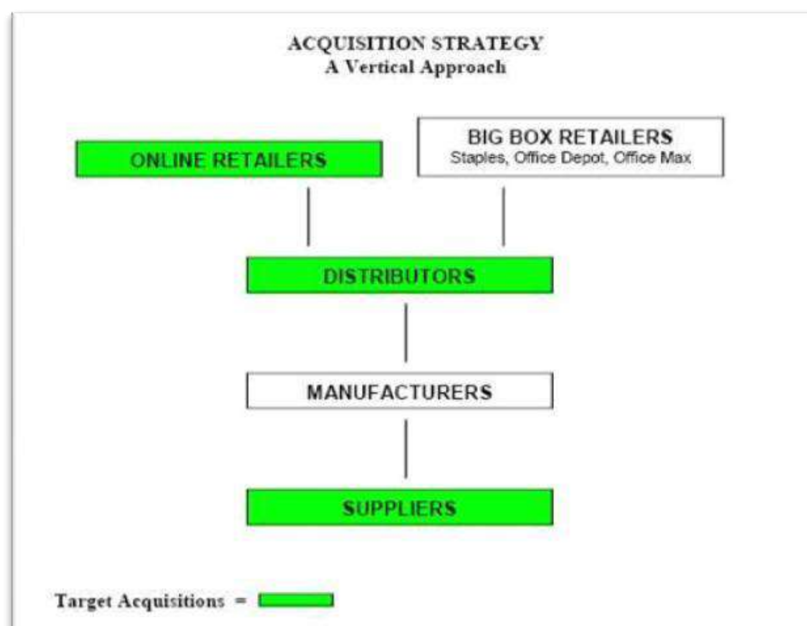
(B) Vertical Combination

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. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production.

The following main *benefits* accrue from the vertical combination to the acquirer company:

1. It gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;

2. Has control over products specifications

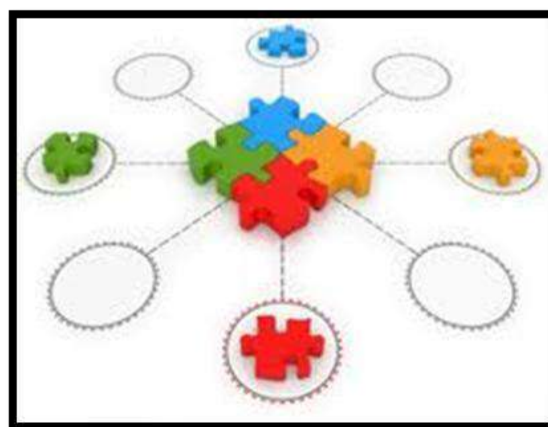


(C) Circular Combination

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. The acquiring company obtains *benefits* in the form of economies of resource sharing and diversification.

(D) Conglomerate Combination

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries. 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, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company's total portfolio of diverse products and production processes.



3. BRIEF ABOUT ACQUISITIONS

An Acquisition usually refers to a purchase of a smaller firm by a larger one. Acquisition, also known as a *takeover* or a *buyout*, is the buying of one company by another.

Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.

Methods of Acquisition

An acquisition may be affected by:

- An agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power;
- Purchase of shares in open market;
- Making takeover offer to the general body of shareholders;
- Purchase of new shares by private treaty;
- Acquisition of share capital through the following forms of considerations viz. means of cash, issuance of loan capital, or insurance of share capital.

TYPES OF ACQUISITIONS

There are different types of Acquisitions/takeover :-

A) Friendly Takeovers
B) Hostile Takeovers
C) Reverse Takeovers

A) Friendly Takeovers

Before a bidder makes an offer for another company, it usually first informs that company's board of directors. If the board feels that accepting the offer serves shareholders better than rejecting it, it recommends the offer be accepted by the shareholders.

In a private company, because the shareholders and the board are usually the same people or closely connected with one another, private acquisitions are usually friendly. If the shareholders agree to sell the company, then the board is usually of the same mind or sufficiently under the orders of the shareholders to cooperate with the bidder.

B) Hostile Takeovers

A hostile takeover allows a suitor to bypass a target company's management unwilling to agree to a merger or takeover. A takeover is considered "hostile" if the target company's board rejects the offer, but the bidder continues to pursue it, or the bidder makes the offer without informing the target company's board beforehand.

A hostile takeover can be conducted in several ways. A tender offer can be made where the acquiring company makes a public offer at a fixed price above the current market price. Tender offers in the USA are regulated with the Williams Act.

An acquiring company can also engage in a proxy fight, whereby it tries to persuade enough shareholders, usually a simple majority, to replace the management with a new one which will approve the takeover.

Another method involves quietly purchasing enough stock on the open market, known as a creeping tender offer, to effect a change in management. In all of these ways, management resists the acquisition but it is carried out anyway.

C) Reverse Takeovers

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. However, under AIM rules, a reverse take-over is an acquisition or acquisitions in a twelve month period which for an AIM company would:

- exceed 100% in any of the class tests; or
- result in a fundamental change in its business, board or voting control; or

In the case of an investing company, depart substantially from the investing strategy stated in its admission document or, where no admission document was produced on admission, depart substantially from the investing strategy stated in its pre-admission announcement or, depart substantially from the investing strategy.

4. OBJECTIVES OF THE STUDY

- To Find the Impact of Merger on Company's Stock.
- To Study The Purpose of Mergers & Acquisitions in The Banking Sector.
- To Study The Benefits of Mergers & Acquisitions.
- To Examine The Effects of Merger on Equity Shareholders.
- To Study The Risks Involved in Mergers & Acquisitions.

5. PURPOSE OF MERGER & ACQUISITIONS

The purpose for an offerer company for acquiring another company shall be reflected in the corporate objectives. It has to decide the specific objectives to be achieved through acquisition. The basic purpose of merger or business combination is to achieve faster growth of the corporate business. Faster growth may be had through product improvement and competitive position. Other possible purposes for acquisition are short listed below: -

(1) PROCUREMENT OF SUPPLIES

1. To safeguard the source of supplies of raw materials or intermediary product.
2. To obtain economies of purchase in the form of discount, savings in transportation costs, overhead costs in buying department, etc.
3. To share the benefits of suppliers‟ economies by standardizing the materials.

(2) REVAMPING PRODUCTION FACILITIES

1. To achieve economies of scale by amalgamating production facilities through more intensive utilization of plant and resources.
2. To standardize product specifications, improvement of quality of product, expanding market and aiming at consumers satisfaction through strengthening after sale Services.
3. To obtain improved production technology and know-how from the offered company.
4. To reduce cost, improve quality and produce competitive products to retain and improve market share.

(3) MARKET EXPANSION & STRATEGY

1. To eliminate competition and protect existing market.
2. To obtain a new market outlets in possession of the offeree.
3. To obtain new product for diversification or substitution of existing products and to enhance the product range.
4. Strengthening retain outlets and sale the goods to rationalize distribution.
5. To reduce advertising cost and improve public image of the offeree company.
6. Strategic Control of Patents & Copyrights.

(4) FINANCIAL STRENGTH

1. To improve liquidity and have direct access to cash resource.
2. To dispose of surplus and outdated assets for cash out of combined enterprise.
3. To enhance gearing capacity, borrow on better strength and the greater assets backing.
4. To avail tax benefits.
5. To improve EPS (Earning per Share).

(5) GENERAL GAINS

1. To improve its own image and attract superior managerial talents to manage its affairs;
2. To offer better satisfaction to consumers or users of the product.

(6) OWN DEVELOPMENTAL PLANS

The purpose of acquisition is backed by the offerer company's own developmental plans. A company thinks in terms of acquiring the other company only when it has arrived at its own development plan to expand its operation having examined its own internal strength where it might not have any problem of taxation, accounting, valuation, etc. But might feel resource constraint with limitations of funds and lack of skill managerial personnel. It has to aim at suitable combination where it could have opportunities to supplement its funds by issuance of securities; secure additional financial facilities eliminate competition and strengthen its market position.

(7) STRATEGIC PURPOSE

The Acquirer Company view the merger to achieve strategic objectives through alternative type of combinations which may be horizontal, vertical, product expansion, market extensional or other specified unrelated objectives depending upon the corporate strategies. Thus, various types of combinations distinct with each other in nature are adopted to pursue this objective like vertical or horizontal combination.

(8) CORPORATE FRIENDLINESS

Although it is rare but it is true that business houses exhibit degrees of cooperative spirit despite competitiveness in providing rescues to each other from hostile takeovers and cultivate situations of collaborations sharing goodwill of each other to achieve performance heights through business combinations. The corporate aims at circular combinations by pursuing this objective.

6. BENEFITS OF MERGERS & ACQUISITIONS

1. GROWTH OR DIVERSIFICATION

Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfil the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period of time by merging with an existing firm. In addition such a strategy is often less costly than the alternative of developing the necessary production capability and capacity. If a firm that wants to expand operations in existing or new product area can find a suitable going concern. It may avoid many of risks associated with a design; manufacture the sale of addition or new products. Moreover when a firm expands or extends its product line by acquiring another firm, it also removes a potential competitor.

2. SYNERGISM

The nature of synergism is very simple. Synergism exists whenever the value of the combination is greater than the sum of the values of its parts. In other words, synergism is "2+2=5". But identifying synergy on evaluating it may be difficult, in fact sometimes its implementations may be very subtle. As broadly defined to include any incremental value resulting from business combination, synergism is the basic economic justification of merger. The incremental value may derive from increase in either operational or financial efficiency.

- **Operating Synergism:-** Operating synergism may result from economies of scale, some degree of monopoly power or increased managerial efficiency. The value may be achieved by increasing the sales volume in relation to assists employed, increasing profit margins or decreasing operating risks.

  Although operating synergy usually is the result of either vertical/horizontal integration some synergistic also may result from conglomerate growth. In addition, sometimes a firm may acquire another to obtain patents, copyrights, technical proficiency, marketing skills, specific fixes assets, customer relationship or managerial personnel. Operating synergism occurs when these assets, which are intangible, may be combined with the existing assets and organization of the acquiring firm to produce an incremental value. Although that value may be difficult to appraise it may be the primary motive behind the acquisition.

- **Financial Synergism:-** Among these are incremental values resulting from complementary internal funds flows, more efficient use of financial leverage, increase external financial capability, and income tax advantages.

a) Complementary Internal Funds Flows

Seasonal or cyclical fluctuations in funds flows sometimes may be reduced or eliminated by merger. If so, financial synergism results in reduction of working capital requirements of the combination compared to those of the firms standing alone.

b) More Efficient Use of Financial Leverage

Financial synergy may result from more efficient use of financial leverage. The acquisition firm may have little debt and wish to use the high debt of the acquired firm to lever earning of the combination or the acquiring firm may borrow to finance and acquisition for cash of a low debt firm thus providing additional leverage to the combination. The financial leverage advantage must be weighed against the increased financial risk.

c) Increased External Financial Capabilities

Many mergers, particular those of relatively small firms into large ones, occur when the acquired firm simply cannot finance its operation. Typical of this is the situations are the small growing firm with expending financial requirements. The firm has exhausted its bank credit and has virtually no access to long term debt or equity markets. Sometimes the small firm has encountered operating difficulty, and the bank has served notice that its loan will not be renewed? In this type of situation a large firms with sufficient cash and credit to finance the requirements of smaller one probably can obtain a good buy bee. Making a merger proposal to the small firm. The only alternative the small firm may have is to try to interest 2 or more large firms in proposing merger to introduce, competition into those bidding for acquisition. The smaller firm's situations might not be so bleak. It may not be threatened by non-renewable of maturing loan. But its management may recognize that continued growth to capitalize on its market will require financing be on its means. Although its bargaining position will be better, the financial synergy of acquiring firm's strong financial capability may provide the impetus for the merger. Sometimes the acquired firm possesses the financing capability. The acquisition of a cash rich firm whose operations have matured may provide additional financing to facilitate growth of the acquiring firm. In some cases, the acquiring may be able to recover all or parts of the cost of acquiring the cash rich firm when the merger is consummated and the cash then belongs to it.

d) The Income Tax Advantages

In some cases, income tax consideration may provide the financial synergy motivating a merger, e.g. assume that a firm A has earnings before taxes of about rupees ten crores per year and firm B now break even, has a loss carry forward of rupees twenty crores accumulated from profitable operations of previous years. The merger of A and B will allow the surviving corporation to utility the loss carries forward, thereby eliminating income taxes in future periods.

- **Counter Synergism:-** Certain factors may oppose the synergistic effect contemplating from a merger. Often another layer of overhead cost and bureaucracy is added. Do the advantages outweigh disadvantages? Sometimes the acquiring firm agrees to long term employments contracts with managers of the acquiring firm. Such often are beneficial but they may be the opposite. Personality or policy conflicts may develop that either hamstring operations or acquire buying out such contracts to remove personal position of authority. Particularly in conglomerate merger, management of

acquiring firm simply may not have sufficient knowledge of the business to control the acquired firm adequately. Attempts to maintain control may induce resentment by personnel of acquired firm. The resulting reduction of the efficiency may eliminate expected operating synergy or even reduce the post-merger profitability of the acquired firm. The list of possible counter synergism factors could go on endlessly; the point is that the mergers do not always produce that expected results. Negative factors and the risks related to them also must be considered in appraising a prospective merger.

- ## Other Motives For Merger

Merger may be motivated by two other factors that should not be classified under synergism. These are the opportunities for acquiring firm to obtain assets at bargain price and the desire of shareholders of the acquired firm to increase the liquidity of their holdings.

1. Purchase of Assets at Bargain Prices

Mergers may be explained as an opportunity to acquire assets, particularly land mineral rights, plant and equipment, at lower cost than would be incurred if they were purchased or constructed at the current market prices. If the market price of many socks have been considerably below the replacement cost of the assets they represent, expanding firm considering construction plants, developing mines or buying equipments often have found that the desired assets could be obtained where by cheaper by acquiring a firm that already owned and operated that asset. Risk could be reduced because the assets were already in place and an organization of people knew how to operate them and market their products. Many of the mergers can be financed by cash tender offers to the acquired firm's shareholders at price substantially above the current market. Even so, the assets can be acquired for less than their current casts of construction. The basic factor underlying this apparently is that inflation in construction costs not fully rejected in stock prices because of high interest rates and limited optimism by stock investors regarding future economic conditions.

2. Increased Managerial Skills or Technology

Occasionally a firm with good potential finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner's wealth.

3. Acquiring New Technology

To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.

7. BANK MERGER/ AMALGAMATION UNDER VARIOUS ACTS

The relevant provisions regarding merger, amalgamation and acquisition of banks under various acts are discussed in brief as under:

❖ Mergers- Banking Regulation Act 1949

Amalgamations of banking companies under B R Act fall under categories are voluntary amalgamation and compulsory amalgamation.

❖ Section 44A Voluntary Amalgamation of Banking Companies

Section 44A of the Banking Regulation act 1949 provides for the procedure to be followed in case of voluntary mergers of banking companies. Under these provisions a banking company may be amalgamated with another banking company by approval of shareholders of each banking company by resolution passed by majority of two third in value of shareholders of each of the said companies. The bank to obtain Reserve Bank's sanction for the approval of the scheme of amalgamation. However, as per the observations of JPC the role of RBI is limited. The reserve bank generally encourages amalgamation when it is satisfied that the scheme is in the interest of depositors of the amalgamating banks.

A careful reading of the provisions of section 44A on banking regulation act 1949 shows that the high court is not given the powers to grant its approval to the schemes of merger of banking companies and Reserve bank is given such powers.

Further, reserve bank is empowered to determine the Markey value of shares of minority shareholders who have voted against the scheme of amalgamation. Since nationalized banks are not Baking Companies and SBI is governed by a separate statue, the provisions of section 44A on voluntary amalgamation are not applicable in the case of amalgamation of two public sector banks or for the merger of a nationalized bank/SBI with a banking company or vice versa. These mergers have to be attempted in terms of the provisions in the respective statute under which they are constituted. Moreover, the section does not envisage approval of RBI for the merger of any other financial entity such as NBFC with a banking company voluntarily. Therefore a baking company can be amalgamated with another banking company only under section 44A of the BR act.

❖ Sector 45- Compulsory Amalgamation of Banks

Under section 45(4) of the banking regulation act, reserve bank may prepare a scheme of amalgamation of a banking company with other institution (the transferee bank) under sub- section (15) of section 45. Banking institution means any banking company and includes SBI and subsidiary banks or a corresponding new bank. A compulsory amalgamation is a pressed into action where the financial position of the bank has become week and urgent measures are required to be taken to safeguard the depositor's interest. Section 45 of the Banking regulation Act, 1949 provides for a bank to be reconstructed or amalgamated compulsorily' i.e. without the consent of its members or creditors, with any other banking institutions as defined in sub section(15) thereof. Action under there provision of this section is taken by reserve bank in consultation with the central government in the case of banks, which are weak, unsound or

improperly managed. Under the provisions, RBI can apply to the central government for suspension of business by a banking company and prepare a scheme of reconstitution or amalgamation in order to safeguard the interests of the depositors.

Under compulsory amalgamation, reserve bank has the power to amalgamate a banking company with any other banking company, nationalized bank, SBI and subsidiary of SBI. Whereas under voluntary amalgamation, a banking company can be amalgamated with banking company can be amalgamated with another banking company only. Meaning thereby, a banking company cannot be merged with a nationalized bank or any other financial entity.

❖ Companies Act

Section 394 of the companies act, 1956 is the main section that deals with the reconstruction and amalgamation of the companies. Under section 44A of the banking Regulation Act, 1949 two banking companies can be amalgamated voluntarily. In case of an amalgamated of any company such as a non-banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies act and such schemes can be approved by the high courts and such cases do not require specific approval of the RBI. Under section 396 of the act, central government may amalgamate two or more companies in public interest.

❖ State Bank of India Act, 1955

Section 35 of the State Bank of India Act, 1955 confers power on SBI to enter into negotiation for acquiring business including assets and liabilities of any banking institution with the sanction of the central government and if so directed by the government in consultation with the RBI. The terms and conditions of acquisition by central board of the SBI and the concerned banking institution and the reserve bank of India is required to be submitted to the central government for its sanction. The central government is empowered to sanction any scheme of acquisition and such schemes of acquisition become effective from the date specified in order of sanction.

As per sub-section (13) of section 38 of the SBI act, banking institution is defined as under "banking institution" includes any individual or any association of individuals (whether incorporated or not or whether a department of government or a separate institution), carrying on the business of banking.

SBI may, therefore, acquire business of any other banking institution. Any individual or any association of individuals carrying on banking business. The scope provided for acquisition under the SBI act is very wide which includes any individual or any association of individuals carrying on banking business. That means the individual or body of individuals carrying on banking business. That means the individual or body of individuals carrying on banking business may also include urban cooperative banks on NBFC. However it may be observed that there is no specific mention of a corresponding new bank or a banking company in the definition of banking institution under section 38(13) of the SBI act.

It is not clear whether under the provisions of section 35, SBI can acquire a corresponding new bank or a RRB or its own subsidiary for that matter. Such a power mat have to be presumed by interpreting the definition of banking institution in widest possible terms to include any person doing business of banking. It can also be argued that if State Bank of India is given a power to acquire the business of any individual doing banking business it should be permissible to acquire any corporate doing banking business subject to compliance with law which is applicable to such corporate. But in our view, it is not advisable to rely on such interpretations in the matter of acquisition of business of banking being conducted by any company or other corporate. Any such acquisition affects right to property and rights of many other stakeholders in the organization to be acquired. The powers for acquisition are therefore required to be very clearly and specifically provided by statue so that any possibility of challenge to the action of acquisition by any stakeholder are minimized and such stakeholders are aware of their rights by virtue of clear statutory provisions.

Nationalized banks may be amalgamated with any other nationalized bank or with another banking institution. i.e. banking company or SBI or a subsidiary. A nationalized bank cannot be amalgamated with NBFC.

Under the provisions of section 9 it is permissible for the central government to merge a corresponding new bank with a banking company or vice versa. If a corresponding new bank becomes a transferor bank and is merged with a banking company being the transferee bank, a question arises as to the applicability of the provisions of the companies act in respect to the merger. The provisions of sec. 9 do not specifically exclude the applicability of the companies act to any scheme of amalgamation of a company. Further section 394(4) (b) of the companies act provides that a transferee company does not include any company other than company within the meaning of companies act. But a transferor company includes any body corporate whether the company is within the meaning of companies act or not. The effect of this provision is that provision contained in the companies act relating to amalgamation and mergers apply in cases where any corporation is to be merged with a company. Therefore if under section 9(2) (c) of nationalization act a corresponding new bank is to merged with a banking company (transferee company), it will be necessary to comply with the provisions of the companies act. It will be necessary that shareholder of the transferee banking company 3/4 the in value present and voting should approve the scheme of amalgamation. Section 44A of the Banking Regulation Act which empowers RBI to approve amalgamation of any two banking companies requires approval of shareholders of each company 2/3" in value. But since section44A does not apply if a Banking company is to be merged with a corresponding new bank, approval of 3/4" in value of shareholders will apply to such merger in compliance with the companies act.

❖ Amalgamation of Co-operative banks with Other Entities

Co-operative banks are under the regulation and supervision of reserve bank of India under the provision of banking regulation act 1949(as applicable to cooperative banks). However constitution, composition and administration of the cooperative societies are under supervision of registrar of co-operative societies of respective states (in case of Maharashtra State, cooperative societies are governed by the positions of Maharashtra cooperative societies act, 1961)

❖ Amalgamation of Co-operative banks

Under section 18A of the Maharashtra State cooperative societies act 1961(MCS Act) registrar of cooperatives societies is empowered to amalgamate two or more cooperative banks in public interest or in order to secure the proper management of one or more cooperative banks. On amalgamation, a new entity comes into being.

Under sector 110A of the MCS act without the sanction of requisition of reserve bank of India no scheme of amalgamation or reconstruction of banks is permitted. Therefore a cooperative bank can be amalgamated with any other entity.

AMALGAMATION OF MULTISTATE CO-OPERATIVE BANKS WITH OTHER ENTITIES

➢ Voluntary Amalgamation

Section 17 of multi state cooperative society's act 2002 provides for voluntary amalgamation by the members of two or more multistage cooperative societies and forming a new multi-state cooperative society. It also provides for transfer of its assets and liabilities in whole or in part to any other multi state cooperative society or any cooperative society being a society under the state legislature. Voluntary amalgamation of multi state cooperative societies will come in force when all the members and the creditors give their assent. The resolution has been approved by the central registrar.

➢ Compulsory Amalgamation

Under section 18 of multi state cooperative societies act 2002 central registrar with the previous approval of the reserve bank, in writing during the period of moratorium made under section 45(2) of BR act (AACS) may prepare a scheme for amalgamation of multi state cooperative bank with other multi state cooperative bank and with a cooperative bank is permissible.

➢ Amalgamation of Regional Rural Banks with Other Entities

Under section 23A of regional rural banks act 1976 central government after consultation with The National Banks (NABARD) the concerned state government and sponsored banks in public interest an amalgamate two or more regional rural banks by notification in official gazette. Therefore, regional rural banks can be amalgamated with regional rural banks only.

➢ Amalgamation of Financial Institution with Other Entities

Public financial institution is defined under section 4A of the companies' act 1956. Section 4A of the said act specific the public financial institution. Is governed by the provisions of respective acts of the institution?

➢ Amalgamation of Non-Banking Financial Companies (NBFC's) with Other Entities

NBFCs are basically companies registered under companies' act 1956. Therefore, provisions of companies act in respect of amalgamation of companies are applicable to NBFCs.

➢ Voluntary Amalgamation

Section 394 of the companies' act 1956 provides for voluntary amalgamation of a company with any two or more companies with the permission of tribunal. Voluntary amalgamation under section 44A of banking regulation act is available for merger of two" banking companies". In the case of an amalgamation of any other company such as a non-banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies act such cases do not require specific approval.

➢ Compulsory Amalgamation

Under section 396 of the companies' act 1956, central government in public interest can amalgamate 2 or more companies. Therefore, NBFCs can be amalgamated with NBFCs only.

8. PROCEDURE OF BANK MERGERS & ACQUISITIONS

- The procedure for merger either voluntary or otherwise is outlined in the respective state statutes/ the Banking regulation Act. The Registrars, being the authorities vested with the responsibility of administering the Acts, will be ensuring that the due process prescribed in the Statutes has been complied with before they seek the approval of the RBI. They would also be ensuring compliance with the statutory procedures for notifying the amalgamation after obtaining the sanction of the RBI.

- Before deciding on the merger, the authorized officials of the acquiring bank and the merging bank sit together and discuss the procedural modalities and financial terms. After the conclusion of the discussions, a scheme is prepared incorporating therein the all the details of both the banks and the area terms and conditions. Once the scheme is finalized, it is tabled in the meeting of Board of directors of respective banks. The board discusses the scheme threadbare and accords its approval if the proposal is found to be financially viable and beneficial in long run.

- After the Board approval of the merger proposal, an extra ordinary general meeting of the shareholders of the respective banks is convened to discuss the proposal and seek their approval.

- After the board approval of the merger proposal, a registered valuer is appointed to valuate both the banks. The valuer valuates the banks on the basis of its share capital, market capital, assets and liabilities, its reach and anticipated growth and sends its report to the respective banks.

- Once the valuation is accepted by the respective banks, they send the proposal along with all relevant documents such as Board's approval, shareholders' approval, valuation report, etc. to Reserve Bank of India and other regulatory bodies such Security & exchange board of India (SEBI) for their approval.

- After obtaining approvals from all the concerned institutions, authorized officials of both the banks sit together and discuss and finalize share allocation proportion by the acquiring bank to the shareholders of the merging bank (SWAP ratio).

- After completion of the above procedures, a merger and acquisition agreement is signed by the bank.

RBI Guidelines on Mergers & Acquisitions of Banks

- With a view to facilitating consolidation and emergence of strong entities and providing an avenue for non-disruptive exit of weak/unviable entities in the banking sector, it has been decided to frame guidelines to encourage merger/amalgamation in the sector.

- Although the Banking Regulation Act, 1949 (AACS) does not empower Reserve Bank to formulate a scheme with regard to merger and amalgamation of banks, the State Governments have incorporated in their respective Acts a provision for obtaining prior sanction in writing, of RBI for an order, inter alia, for sanctioning a scheme of amalgamation or reconstruction.

- The request for merger can emanate from banks registered under the same State Act or from banks registered under the Multi State Co-operative Societies Act (Central Act) for takeover of a bank/s registered under State Act. While the State Acts specifically provide for merger of co-operative societies registered under them, the position with regard to take over of a co-operative bank registered under the State Act by a co-operative bank registered under the CENTRAL.

- Although there are no specific provisions in the State Acts or the Central Act for the merger of a co-operative society under the State Acts with that under the Central Act, it is felt that, if all concerned including administrators of the concerned Acts are agreeable to order merger/ amalgamation, RBI may consider proposals on merits leaving the question of compliance with relevant statutes to the administrators of the Acts. In other words, Reserve Bank will confine its examination only to financial aspects and to the interests of depositors as well as the stability of the financial system while considering such proposals.

Information & Documents to be furnished by BY THE ACQUIRER OF BANKS

- Draft scheme of amalgamation as approved by the Board of Directors of the acquirer bank.

- Copies of the reports of the valuers appointed for the determination of realizable value of assets (net of amount payable to creditors having precedence over depositors) of the acquired bank.

- Information which is considered relevant for the consideration of the scheme of merger including in particular:-

  - Annual reports of each of the Banks for each of the three completed financial years immediately preceding the proposed date for merger.

  - Financial results, if any, published by each of the Banks for any period subsequent to the financial statements prepared for the financial year immediately preceding the proposed date of merger.

  - Pro-forma combined balance sheet of the acquiring bank as it will appear consequent on the merger.

  - Computation based on such pro-forma balance sheet of the following:-

    1) Tier I Capital

    2) Tier II Capital

    3) Risk-weighted Assets

4) Gross and Net NPAs

5) Ratio of Tier I Capital to Risk-weighted Assets VI. Ratio of Tier II Capital to Risk-weighted Assets

6) Ratio of Total Capital to Risk-weighted Assets

7) Tier I Capital to Total Assets

8) Gross and Net NPAs to Advances

9) Cash Reserve Ratio

10) Statutory Liquidity Ratio

- Information certified by the values as is considered relevant to understand the net realizable value of assets of the acquired bank including in particular:-

    a) The method of valuation used by the values

    b) The information and documents on which the values have relied and the extent of the verification, if any, made by the values to test the accuracy of such information

    c) If the values have relied upon projected information, the names and designations of the persons who have provided such information and the extent of verification, if any, made by the values in relation to such information

    d) Details of the projected information on which the values have relied

    e) Detailed computation of the realizable value of assets of the acquired bank.

- Such other information and explanations as the Reserve Bank may require.

9. RISKS IN BANK MERGER & ACQUISITIONS

- When two banks merge into one then there is an inevitable increase in the size of the organization. Big size may not always be better. The size may get too widely and go beyond the control of the management. The increased size may become a drug rather than an asset.

- Consolidation does not lead to instant results and there is an incubation period before the results arrive. Mergers and acquisitions are sometimes followed by losses and tough intervening periods before the eventual profits pour in. Patience, forbearance and resilience are required in ample measure to make any merger a success story. All may not be up to the plan, which explains why there are high rate of failures in mergers.

- Consolidation mainly comes due to the decision taken at the top. It is a top-heavy decision and willingness of the rank and file of both entities may not be forthcoming. This leads to problems of industrial relations, deprivation, depression and demotivation among the employees. Such a work force can never churn out good results. Therefore, personal management at the highest order with humane touch alone can pave the way.

- The structure, systems and the procedures followed in two banks may be vastly different, for example, a PSU bank or an old generation bank and that of a technologically superior foreign bank. The erstwhile structures, systems and procedures may not be conducive in the new milieu. A thorough overhauling and systems analysis has to be done to assimilate both the organizations. This is a time consuming process and requires lot of cautions approaches to reduce the frictions.

- There is a problem of valuation associated with all mergers. The shareholder of existing entities has to be given new shares. Till now a foolproof valuation system for transfer and compensation is yet to emerge.

- Further, there is also a problem of brand projection. This becomes more complicated when existing brands themselves have a good appeal. Question arises whether the earlier brands should continue to be projected or should they be submerged in favor of a new comprehensive identity. Goodwill is often towards a brand and its sub-merger is usually not taken kindly.

10. CHALLENGES & OPPORTUNITIES IN INDIAN BANKING SECTOR

In a few years from now there would be greater presence of international players in Indian financial system and some of the Indian banks would become global players in the coming years. Also competition is not only on foreign turf but also in the domestic field. The new mantra for Indian banks is to go global in search of new markets, customers and profits. But to do so the Indian banking industry will have to meet certain challenges. Some of them are :-

- **FOREIGN BANKS**

India is experiencing greater presence of foreign banks over time. As a result number of issues will arise like how will smaller national banks compete in India with them, and will they themselves need to generate a larger international presence? Second, overlaps and potential conflicts between home country regulators of foreign banks and host country regulators: how will these be addressed and resolved in the years to come? It has been seen in recent years that even relatively strong regulatory action taken by regulators against such global banks has had negligible market or reputational impact on them in terms of their stock price or similar metrics. Thus, there is loss of regulatory effectiveness as a result of the presence of such financial conglomerates. Hence there is inevitable tension between the benefits that such global conglomerates bring and some regulatory and market structure and competition issues that may arise.

- **GREATER CAPITAL MARKET OPENNESS**

An important feature of the Indian financial reform process has been the calibrated opening of the capital account along with current account convertibility. It has to be seen that the volatility of capital inflows does not result in unacceptable disruption in exchange rate determination with inevitable real sector consequences, and in domestic monetary conditions. The vulnerability of financial intermediaries can be addressed through prudential regulations and their supervision; risk management of non-financial entities. This will require market development, Enhancement of regulatory capacity in these areas, as well as human resource development in both financial intermediaries and non-financial entities.

- **TECHNOLOGY IS THE KEY**

IT is central to banking. Foreign banks and the new private sector banks have embraced technology right from their inception and continue to do so even now. Although public sector banks have crossed the 70% level of computerization, the direction is to achieve 100%. Networking in banks has also been receiving focused attention in recent times. Most recently the trend observed in the banking industry is the sharing of ATMs by banks. This is one area where perhaps India needs to do significant 'catching up'. It is wise for Indian banks to exploit this globally state-of-art expertise, domestically available, to their fullest advantage.

- **CONSOLIDATION**

We are slowly but surely moving from a regime of "large number of small banks" to "small number of large banks." The new era is one of consolidation around identified core competencies i.e., mergers and acquisitions. Successful merger of HDFC Bank and Times Bank; Stanchart and ANZ Grindlays; Centurion Bank and Bank of Punjab have demonstrated this trend. Old private sector banks, many of which are not able to cushion their NPA's, expand their business and induct technology due to limited capital base should be thinking seriously

about mergers and acquisitions.

- **PUBLIC SECTOR BANKS**

It is the public sector banks that have the large and widespread reach, and hence have the potential for contributing effectively to achieve financial inclusion. But it is also they who face the most difficult challenges in human resource development. They will have to invest very heavily in skill enhancement at all levels: at the top level for new strategic goal setting; at the middle level for implementing these goals; and at the cutting edge lower levels for delivering the new service modes. Given the current age composition of employees in these banks, they will also face new recruitment challenges in the face of adverse compensation structures in comparison with the freer private sector.

- **Basel II** - As of 2006, RBI has made it mandatory for Scheduled banks to follow Basel II norms. Basel II is extremely data intensive and requires good quality data for better results. Data versioning conflicts and data integrity problems have just one resolution, namely banks need to streamline their operations and adopt enterprise wide IT architectures. Banks need to look towards ensuring a risk culture, which penetrates throughout the organization.

- **COST MANAGEMENT**

Cost containment is a key to sustainability of bank profits as well as their long-term viability. In India, however, in 2003, operating costs as proportion of total assets of scheduled commercial banks stood at 2.24%, which is quite high as compared to in other economies. The tasks ahead are thus clear and within reach.

- **RECOVERY MANAGEMENT**

This is a key to the stability of the banking sector. Indian banks have done a remarkable job in containment of non-performing loans (NPL) considering the overhang issues and overall difficult environment. Recovery management is also linked to the banks' interest margins. Cost and recovery management supported by enabling legal framework hold the key to future health and competitiveness of the Indian banks. Improving recovery management in India is an area requiring expeditious and effective actions in legal, institutional and judicial processes.

- **REACH AND INNOVATION**

Higher sustained growth is contributing to enhanced demand for financial savings opportunities. In rural areas in particular, there also appears to be increasing diversification of productive opportunities. Also industrial expansion has accelerated; merchandise trade growth is high; and there are vast demands for infrastructure investment, from the public sector, private sector and through public private partnerships. Thus, the banking system has to extend itself and innovate. Banks will have to innovate and look for new delivery mechanisms and provide better access to the currently under-served. Innovative channels for credit delivery for serving new rural credit needs will have to be found. The budding expansion of non-agriculture service enterprises in rural areas will have to be financed. Greater efforts will need to be made on information technology for record keeping, service delivery, and reduction in transactions costs, risk assessment and risk management. Banks will have to invest in new skills through new recruitment and through intensive training of existing personnel.

- **RISK MANAGEMENT**

Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Sound risk management practices would be an important pillar for staying ahead of the competition. Banks can, on their part, formulate 'early warning indicators' suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

- **GOVERNANCE**

The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. The objective should be to continuously strive for excellence. Improvement in policy-framework, regulatory regime, market perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda - to serve our society's needs and realities while being in harmony with the global perspective.

11. MAJOR BANKS INVOLVED IN MERGERS & ACQUISITIONS

NAME OF THE ACQUIRING BANK	BANK TARGETED	YEAR IN WHICH MERGER TOOK PLACE
Punjab National Bank	New Bank of India	1993
Bank of India	Bank of Karad Ltd.	1994
State Bank of India	Kashinath State Bank	1995
Oriental Bank of Commerce	Punjab Co-op Ltd.	1996
Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
Union Bank of India	Sikkim Bank Ltd.	1999
Bank of Baroda	Bareilly Co-op Ltd.	1999
HDFC Bank Ltd.	Times Bank Ltd.	2000
ICICI Bank	Bank of Madura	2001
Punjab National Bank	Nedungadi Bank Ltd.	2003
Bank of Baroda	South Gujarat Local Area Bank	2004
Oriental Bank of Commerce	Global Trust Bank	2004
Bank of Punjab	Centurion Bank	2005
Federal Bank	Ganesh Bank of Kuranwad	2006
Industrial Development Bank of India	United Western Bank	2006
Indian Overseas Bank	Bharat Overseas Bank	2007
HDFC Bank	Centurion Bank of Punjab	2008
ICICI Bank	Bank of Rajasthan Ltd.	2010
Kotak Mahindra Bank	ING Vyasa Bank	2014
Bank of Baroda	Vijaya Bank & Dena Bank	2019
Canara Bank	Syndicate Bank	2020
Union Bank of India	Andhra Bank & Corporation Bank	2020
Indian Bank	Allahabad Bank	2020
Punjab National Bank	Oriental Bank of Commerce & United Bank of India	2021

KEY M&A DEALS 2000 ONWARDS

The cases chosen for the purpose of this study were selected based on their prominence and recency (all post-2000) to ensure that the motives driving the deals will remain relevant in the current context.

❖ HDFC Bank Acquires Centurion Bank of Punjab (May '08)

- HDFC bank is merged with Centurion Bank of Punjab
- New entity is named as "HDFC bank itself".
- The merger will strengthen HDFC Bank's distribution network in the northern and the southem regions.
- **HDFC Bank Board** on 25th February 2008 approved the acquisition of
- Centurion Bank of Punjab (CBoP) for Rs 9,510 Crore

• Intent

For HDFC Bank, this merger provided an opportunity to add scale, geography (northern and southern states) and management bandwidth. In addition, there was a potential of business synergy and cultural fit between the two organizations.

For CBoP, HDFC bank would exploit its underutilized branch network that had the requisite expertise in retail liabilities, transaction banking and third party distribution. The combined entity would improve productivity levels of CBoP branches by leveraging HDFC Bank's brand name.

• Benefits

The deal created an entity with an asset size of Rs 1,09,718 Crore (7th largest in India), providing massive scale economies and improved distribution with 1,148 branches and 2,358 ATMs (the largest in terms of branches in the private sector). CBoP's strong SME relationships complemented HDFC Bank's bias towards high rated corporate entities.
There were significant cross-selling opportunities in the short-term. CBoP management had relevant experience with larger banks (as evident in the Centurion Bank and BoP integration earlier) managing business of the size commensurate with HDFC Bank.

• Drawbacks

The merged entity will not lend home loans given the conflict of interest with parent HDFC and may even sell down CBoP's home-loan book to it. The retail portfolio of the merged entity will have more by way of unsecured and two wheeler loans, which have come under pressure recently.

❖ Bank of Baroda Acquires South Gujarat Local Area Bank Ltd (June '04)

- **Intent**

According to the RBI, South Gujarat Local Area Bank had suffered net losses in consecutive years and witnessed a significant decline in its capital & reserves. To tackle this, RBI first passed a moratorium under Section 45 of the Banking Regulation Act 1949 & then, after extending the moratorium for the maximum permissible limit of six months, decided that all seven branches of SGLAB function as branches of Bank of Baroda. The final decision about the merger was of the Government of India in consultation with the RBI. Bank of Baroda was against the merger, & protested against the forced deal.

- **Benefits**

The clients of SGLAB were effectively transferred to Bank of Baroda, deriving the advantage of dealing with a more secure & bigger bank. SGLAB did not benefit much, except that it was able to merge with a bigger bank & able to retain its branches & customers, albeit under a different name. Since BoB was a large entity (total assets of Rs. 793.2 billion at the time of merger), addition of a small liability did not affect it much. Albeit minor, it obtained seven more branches & the existing customers of SGLAB. This further strengthened its position in rural Gujarat.

- **Drawbacks**

There was no widespread criticism or any apparent drawback of the merger since the financials involved were not very high.

❖ ICICI Bank Ltd. Acquires Bank of Madura (March '01)

- **Intent**

ICICI Bank Ltd wanted to spread its network, without acquiring RBI's permission for branch expansion. BoM was a plausible target since its cash management business was among the top five in terms of volumes. In addition, there was a possibility of reorienting its asset profile to enable better spreads and create a more robust micro-credit system post-merger.

BOM wanted a (financially and technologically) strong private sector bank to add shareholder value, enhance career opportunities for its employees and provide first rate, technology-based, modem banking services to its customers.

- **Benefits**

The branch network of the merged entity increased from 97 to 378, including 97 branches in the rural sector." The Net Interest Margin increased from 2.46% to 3.55 %. The Core fee income of ICICI almost doubled from Rs 87 crores to Rs 171 crores. IBL gained an additional 1.2 million customer accounts, besides making an entry into the small and medium segment. It possessed the largest customer base in the country, thus enabling the ICICI group to cross-sell different products and services.

- **Drawbacks**

Since BoM had comparatively more NPAs than IBL, the Capital Adequacy Ratio of the merged entity was lower (from 19% to about 17%). The two banks also had a cultural misfit with BoM having a trade-union system and IBL workers being young and upwardly mobile, unlike those for BoM. There were technological issues as well as IBL used Banks 2000 software, which was very different from BoM's ISBS software. With the manual interpretations and procedures and the lack of awareness of the technology utilization in BoM, there were hindrances in the merged entity.

❖ Oriental Bank of Commerce Acquires Global Trust Bank Ltd (August '04)

- **Intent**

For Oriental Bank of Commerce there was an apparent synergy post-merger as the weakness of Global Trust Bank had been bad assets and the strength of OBC lay in recovery.10 In addition, GTB being a south-based bank would give OBC the much needed edge in the region apart from tax relief because of the merger. GTB had no choice as the merger was forced on it, by an RBI ruling, following its bankruptcy.

- **Benefits**

OBC gained from the 104 branches and 276 ATMs of GTB, a workforce of 1400 employees and one million customers. Both banks also had a common IT platform. The merger also filled up OBC's lacunae - computerization and high-end technology. OBC's presence in southern states increased along with the modern infrastructure of GTB.

- **Drawbacks**

The merger resulted in a low CAR for OBC, which was detrimental to solvency. The bank also had a lower business growth (5% vis-a-vis 15% of peers). A capital adequacy ratio of less than 11 per cent could also constrain dividend declaration, given the applicable RBI regulations.

12. CASE STUDY ON MERGER & ACQUISITION OF BANK OF BARODA

On 20th July 1908, Bank of Baroda was established as a private bank by the Maharaja of Baroda, Maharaja Sayajirao Gaekwad III. Bank of Baroda has headquarter in Gujarat in Vadodara formerly known as Baroda. It has a corporate office in Maharashtra in Mumbai. In the year 1910, the Bank of Baroda opened their branch in the Ahmadabad city. On 19 July 1969, Bank of Baroda was nationalized by the Government of India, along with 13 other major commercial banks of India.

Bank of Baroda is India's leading public sector bank with a strong domestic presence supported by self- service channels. The Bank's distribution network includes 8,200+ branches, 10,000+ ATMs, 1,200+ self-service e-lobbies and 20,000 Business Correspondents. The Bank has a significant international presence with a network of 100 branches/offices of subsidiaries, spanning 20 countries. The Bank has wholly owned subsidiaries including BOB Financial Solutions Limited (former BOB Cards Ltd.), BOB Capital Markets and Baroda Asset Management India Ltd. Bank of Baroda also has joint ventures for life insurance viz. India First Life Insurance Company Limited and India Infradebt Ltd., engaged in infrastructure financing. The Bank owns 98.57% in The Nainital Bank. The Bank has also sponsored three Regional Rural Banks namely Baroda Uttar Pradesh Gramin Bank, Baroda Rajasthan Gramin Bank and Baroda Gujarat Gramin Bank.

In history of Bank of Baroda, this is not the first time when other banks are merged with Bank of Baroda.

The timeline of merger are given below.

1961: New Citizen Bank of India merged in Bank of Baroda.

1963: Bank of Baroda acquired Surat Banking Corporation.

1969: The Government of India nationalized 14 top banks including Bank of Baroda.

1988: Bank of Baroda acquired Traders Bank, which had 34-branch network in Delhi.

2018: On 17th September, the Ministry of Finance of the Government of India proposed the merger of Bank of Baroda, Vijaya Bank and Dena Bank.

2019: On 2nd January 2019, the merger was approved by the Union Cabinet and the boards of the banks.

2019: On 1st April, the merger came into effect.

From April 1, 2019, things have become much bigger for the public sector Bank of Baroda (BoB). The merger of Vijaya Bank and Dena Bank with BoB, has catapulted BoB to becoming the second largest lender in the public sector after the State Bank of India and the third largest overall after SBI and HDFC Bank. In the public sector, Punjab National Bank was so far the second largest bank. The merger was announced by the government in September 2018.

This is the second big merger of public sector banks after the merger of five associated banks of SBI in April 2017. While the branches of Dena Bank and Vijaya Bank will continue to don their old signage as of now, very soon, they will all change to the BoB brand. The government has been favoring consolidation of PSU banks for operational efficiency as well as economies of scale. This merger could pave the way for more such mergers in the banking sector.

Dena Bank was one of five banks kept under the Prompt Corrective Action (PCA) by the RBI for mounting losses and NPAs. But while BoB gets scale and size, its profitability will take a blow because of the Non-Performing Assets of the two merging banks particularly Dena Bank. In order to boost BoB's balance sheet and take care of its credit requirements, the government

will provide Rs 5,000 crore to BoB through preferential allotment of equity shares.

According to a BoB statement, the complementary branch presence will add to the network in western and southern states – Maharashtra, Gujarat, Kerala, Tamil Nadu, Karnataka and Andhra Pradesh. The bank will have a 22 per cent market share in Gujarat and an 8-10 per cent market share in Maharashtra, Karnataka, Rajasthan and Uttar Pradesh. It said that the diverse bouquet of products from the three banks, substantial investments made in technology, will help in benefiting a wider customer base.

The newly-merged entity is expected to become globally competitive with the synergies of the three banks as well as the advantage of low-cost deposits. BoB has a lower lending rate which will now benefit the other two entities as well and boost their portfolios. It will also have a wider customer base and reach, and with the help of the advantages of the merger, be able to provide a wider set of offerings to customers.

The merger will also help many corporate customers of Dena Bank who were facing restrictions in borrowings from the bank because of the limitations imposed by the RBI under PCA. BoB has also stated that the new branches, inherited by BoB as a result of the merger, will get the advantage of artificial intelligence and other technological benefits from the main bank to enable them to sell their products.

BoB will also inherit many unique projects from the other two banks. Vijaya Bank, for instance, had plantation financing in some states which will be extended to the other two banks in the same states. The bank also has small road transport operator schemes which will come in handy with the other banks.

The networks of Dena Bank and Vijaya will also help BoB penetrate deeper into the micro markets and increase its coverage of the rural and remote areas. With products designed for these markets BoB could have a better grip in these markets as compared to before.

While the merger will bring in a lot of synergies and benefits for BoB, the merged bank will have to walk a tightrope when it comes to managing loans and NPAs which will now become one of its main concerns. How it manages this and maintains its leadership position in the market will be clear in the next few months.

▪ Effects of Mega-Merger on Bank of Baroda

Bank of Baroda had become the second largest public sector bank after merging with Vijaya Bank and Dena Bank. The consolidated Bank of Baroda has started its operation with a business mix of over Rs 15 lakh crore of balance sheets. As per the bank official said, the Bank of Baroda would have a 22 % market share in Gujarat and 8-10 % market share in Maharashtra, Karnataka, Rajasthan and Uttar Pradesh after the merger. The merged entity is the third-largest lender in India, after State Bank of India (SBI) and HDFC Bank. This is also India's firstever three-way consolidation of banks in India, with the amalgamated entity emerging as the country’s second largest public sector bank.

- ## Effects on account holders

There will be changes in account information for the account holders of Vijaya Bank and Dena Bank, but as of now, the respective banks have decided not to bring in the changes. As per a Bank of Baroda statement, "The existing account number (of Vijaya Bank and Dena Bank), IFSC code, MICR code, existing ATM card and cheque books, and other identifiers of account and branch will continue, till a change is notified and announced." Even the users of digital banking channels such as mobile banking or net banking or UPI or BHIM will not see any change as of now. Also, as per BoB, "Should we decide to merge the branches located close by, customers will be allocated lockers in the new branch,"

However, going forward, as and when the banks communicate, the account holders may have to undergo these changes – New account number, new cheque book and ATM cards along with new user name for accessing the website of the amalgamated entity. Importantly, if you have provided ECS mandate or given Standing Instructions for debiting the account for services like an insurance premium, mutual fund SIP etc, they may have to be updated if asked by the banks.

"New account numbers, customer IDs, and IFSC codes mean that you would have to update these details with various third-party entities including the Income-tax department for tax refunds, insurers to get maturity proceeds, mutual funds to get the redemption amounts, etc. You will have to submit fresh SIP registration-cum-mandate forms in case of auto-debits for systematic investment plans (SIP) and for loan EMIs," says Adhil Shetty, CEO, Bankbazaar.com.

- ## Effects on depositors

If you have a fixed deposit in Vijaya Bank or Dena Bank, you need not to worry as of now. They will run till its original maturity date. "In case of deposits, this happens only on maturity. FDs are contract, and it is not possible for banks to change the rate mid-way. If you are locked into an FD, you can continue till maturity on the same interest rate even if the deposit rates of the merged entity are higher or lower. However, exceptions may be made in case of high-value deposits.

- ## Effects on borrowers

Borrowers, however, may have to get ready for an early change as per their agreement with the bank. For loans linked to the bank's MCLR, the home loan is reset after every 12 months. Home loan borrowers of Vijaya Bank and Dena Bank on their reset date may have to follow BoB MCLR and the mark-up and hence, accordingly, there may be a change in their EMIs.

BoB has informed that "There will be no immediate changes in any terms and conditions of existing credit facilities. However, the facilities are to be governed by the guidelines and policies of Bank of Baroda, post amalgamation. Any changes in the terms and conditions shall be informed in advance and consent shall be obtained prior to effecting the changed terms & conditions."

Here are 10 things to know about Bank of Baroda merger:

1) In terms of the number of branches, Bank of Baroda ranks second in India across all banks. The merged entity has nearly 9,500 branches as Dena Bank and Vijaya Bank will help BoB increase its reach in the western, southern and north-eastern regions. However, to achieve economies of scale and remove overlapping, it is expected that some branches of either of the banks will be shut down.

2) The new merged Bank of Baroda has an advances and deposits market share of 6.9% and 7.4%, respectively, according to a Motilal Oswal report. The retail book of the merged entity will increase to about 20% of total loans due to a higher retail book of Vijaya Bank. The combined entity will have a CASA mix of 33.6%, with a CD ratio of 70.7%, according to the report.

3) After the merger, the number of public sector banks (PSBs) has reduced to 19 from 21. As the second largest PSB, Bank of Baroda is smaller in size than SBI but bigger than all other state-owned entities. Debt-ridden Punjab National Bank (PNB) was so far the second largest PSB.

4) The merger has also brought down the number of banks kept under the Prompt Corrective Action (PCA) framework by the Reserve Bank of India (RBI) to four. Dena Bank is among the five PSU banks kept under PCA watch over burgeoning losses and NPAs.

5) Based on the third quarter results of Dena Bank and Vijaya Bank, key credit metrics of the merged entity, with the exception of profitability, will be broadly similar to that of Bank of Baroda, according to a Moody's report. It also predicts that BoB's profitability will be dragged down by the NPAs of the other two banks.

6) Brokerage firm Prabhudas Lilladher doesn't see any major integration issues dragging the performance of the bank and has predicted that the merger is likely to be a smooth process. It has, however, cautioned that branch profitability analysis remains a focus area.

7) To strengthen the balance sheet of the merged entity and meet its credit and contingency needs, the government has decided to infuse ₹5,042 crore into Bank of Baroda by way of preferential allotment of equity shares.

8) According to the share swap ratio, shareholders will receive 402 equity shares of Bank of Baroda for every 1,000 equity shares held of Vijaya Bank. For every 1,000 shares of Dena Bank held, investors will receive 110 equity shares of Bank of Baroda. On the basis of this share swap ratio, the government's shareholding in the merged entity will rise from 63.7% to 65.7%.

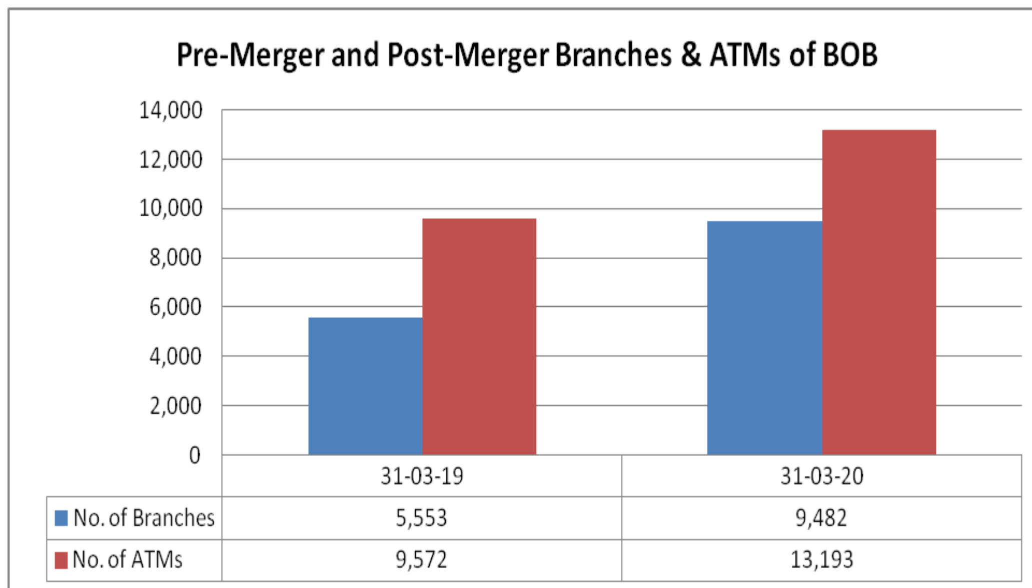
9) According to market reports, cultural integration of the three banks is likely to remain an overhang on the bank's near-term performance. The back-end technology integration would, however, be relatively smooth as all the three banks operate on the Finacle CBS platform.

10) The new Bank of Baroda is expected to create a globally competitive Bank by taking the advantages of economies of scale, synergies for the network, low-cost deposits and subsidiaries. It is also expected to improve customer base, market reach, operational efficiency and the capability to offer a wider bouquet of products and services for customers.

❖ Study on the financial performance of BOB, Dena and Vijaya pre-merger and post-merger:

➢ Operation Analysis of Merger

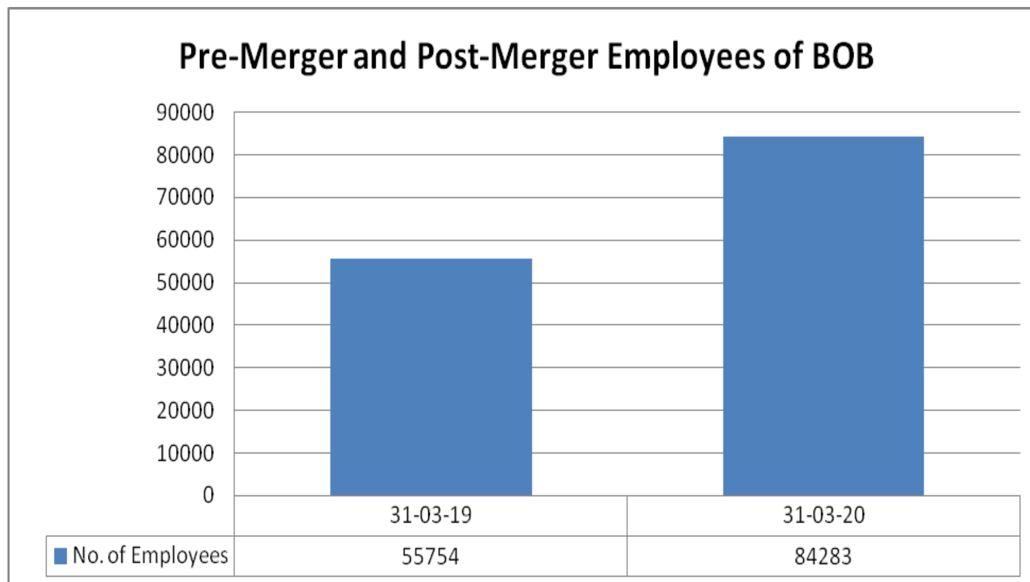
The operational performances of Bank of Baroda after the merger are analyzed as follow:



	31-03-19	31-03-20
No. of Branches	5,553	9,482
No. of ATMs	9,572	13,193

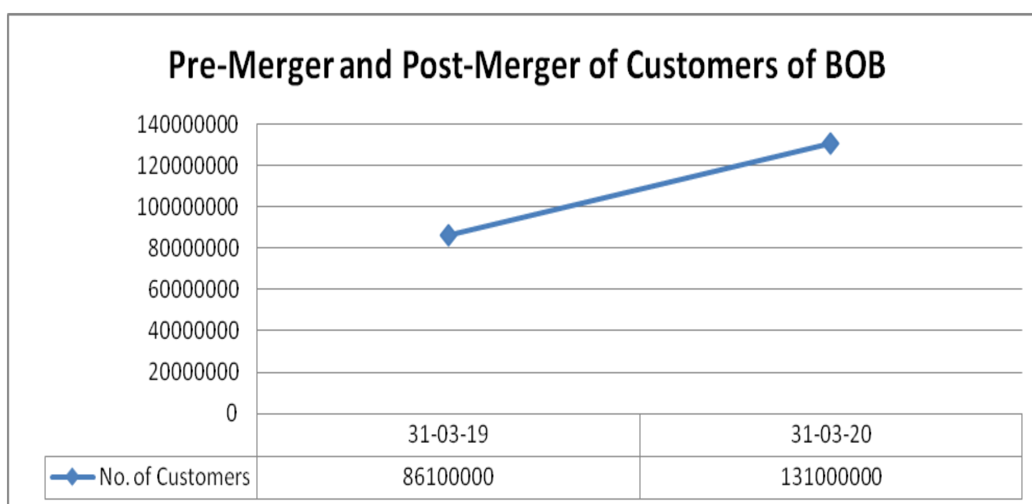
Source: Bank of Baroda Annual Reports

The standalone branches of Bank of Baroda were 5,553 before merger i.e. on 31st March 2019. Vijaya Bank and Dena Bank had 2,119 branches and 1,775 branches respectively. Hence the number of branches of Bank of Baroda is reached to 9,447 after merger on 1st April 2019. After one year of Merger, the number of branches is increased to 9,482 at the end of 31st March 2020. The standalone ATMs of Bank of Baroda were 9,572 before merger i.e. on 31st March 2019. Vijaya Bank had 2,163 ATMs and Dena Bank had 1,513 ATMs. Hence the number of ATMs of Bank of Baroda is reached to 13,248 after merger on 1st April 2019. At the end of first year of Merger, ATMs are reached to 13,193. After the end of First year of Merger 3929 branches and 3621 ATMs of Bank of Baroda are increased i.e. 70.75% branches and 37.83 % ATMs respectively.



Source: Bank of Baroda Annual Reports

The numbers of employees of Bank of Baroda, Vijaya Bank, and Dena Bank as on March 31, 2019 were 55,754, 15,882 and 13,334 respectively. As on March 31, 2019, the total number of employees of all three banks was 84,970. But due to retirement and VRS scheme the total numbers of employees on 31st March 2020 were 84,283 after merger. The total numbers of employees are increased by 28,529 in number and 51.17% in percentage. Government officials said that there is no retrenchment due to merger.

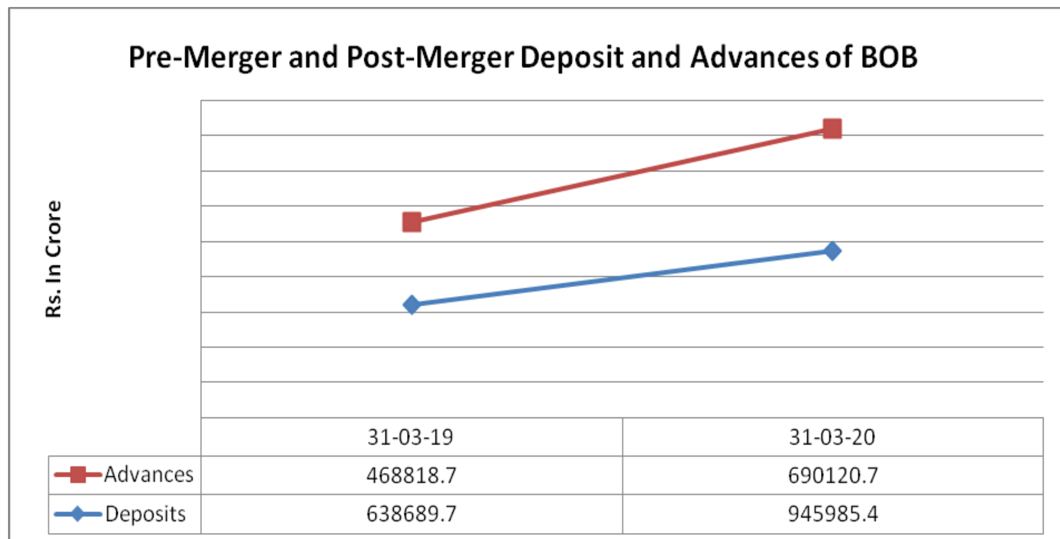


Source: Bank of Baroda Annual Reports

On March 31, 2019 the number of customers of Bank of Baroda, Vijaya Bank, Dena Bank as were 8.61 crore, 2.50 crore and 1.72 crore respectively. As on March 31, 2019, the total numbers of customers of all three banks were 12.83 crore. On 1st April 2019 after merger, the total number of customers banks was 12.53 crore because nearly 30 lakh customers had account in more than one bank. On 31st March 2020 the number of customers are increased to 13.10 crore. The total numbers of customers are increased by 4.49 crore from 1st April to 31st March 2020 i.e. 52.15 % in percentage.

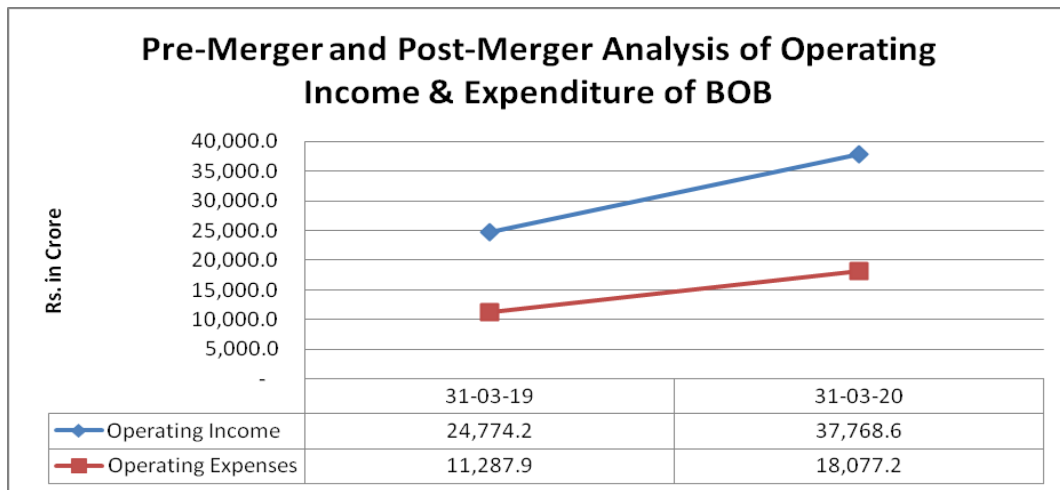
➢ Financial Analysis of Merger

The pre-merger and post-merger financial performance and financial position of Bank of Baroda is analyzed as follow:



Source: Bank of Baroda Annual Reports

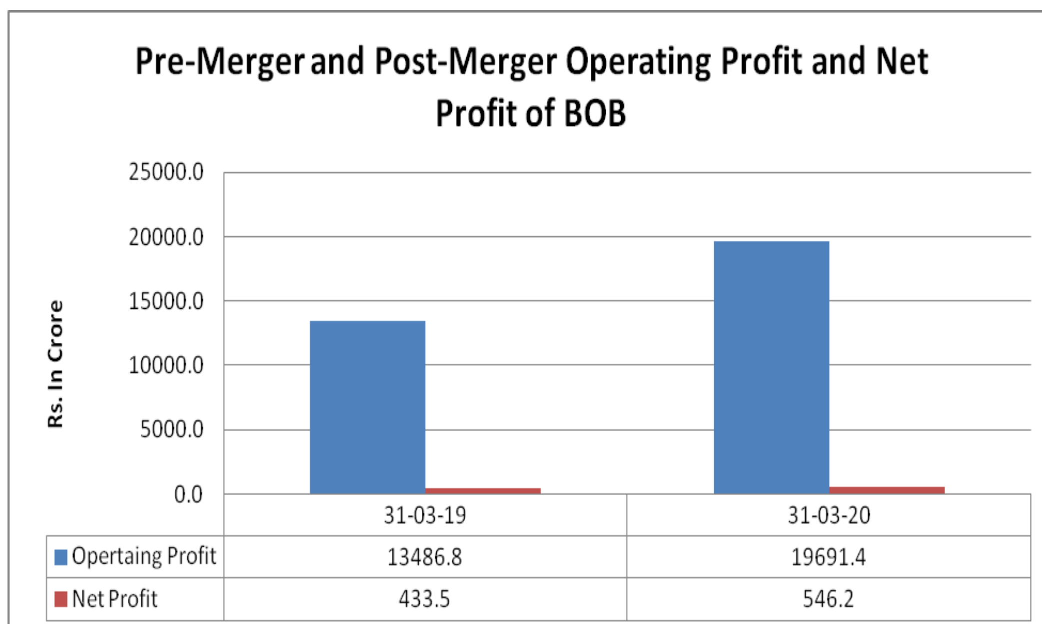
On March 31, 2019 the Deposits of Bank of Baroda were Rs. 6,38,689.7 Crore, Deposits of Vijaya Bank were Rs. 1,75,817 crore and Deposits of Dena Bank were Rs. 100,652 Crore. In which the Bank of Baroda's share was 69.79%. On 1st April 2019 after merger, the total consolidated Deposits of Bank of Baroda was Rs.9,15,159 crore. But at the end of one year of Merger, Deposits are increased to Rs. 945985.4 Crore. If pre-merger and post-merger Deposits ate compared then it is found that Deposits are increased by Rs. 307295.7crore i.e. by 48.11%. The Advances of Bank of Baroda were Rs. 4,68,818.7 Crore, Advances of Vijaya Bank were Rs. 1,30,606 Crore and Advances of Dena Bank were Rs. 51,959 Crore on March 31, 2019. In which the Bank of Baroda's share was 71.97%. On 1st April 2019 after merger, the total consolidated Advances of Bank of Baroda was Rs.6,90,121 Crore. On 31st March 2020, Advances are increased to Rs.6,33,181 Crore. If Advances are compared pre-merger and post-merger then it is found that Advances are increased by Rs. 2,21,302 Crore i.e. 47.20% only.



	31-03-19	31-03-20
Operating Income	24,774.2	37,768.6
Operating Expenses	11,287.9	18,077.2

Source: Bank of Baroda Annual Reports

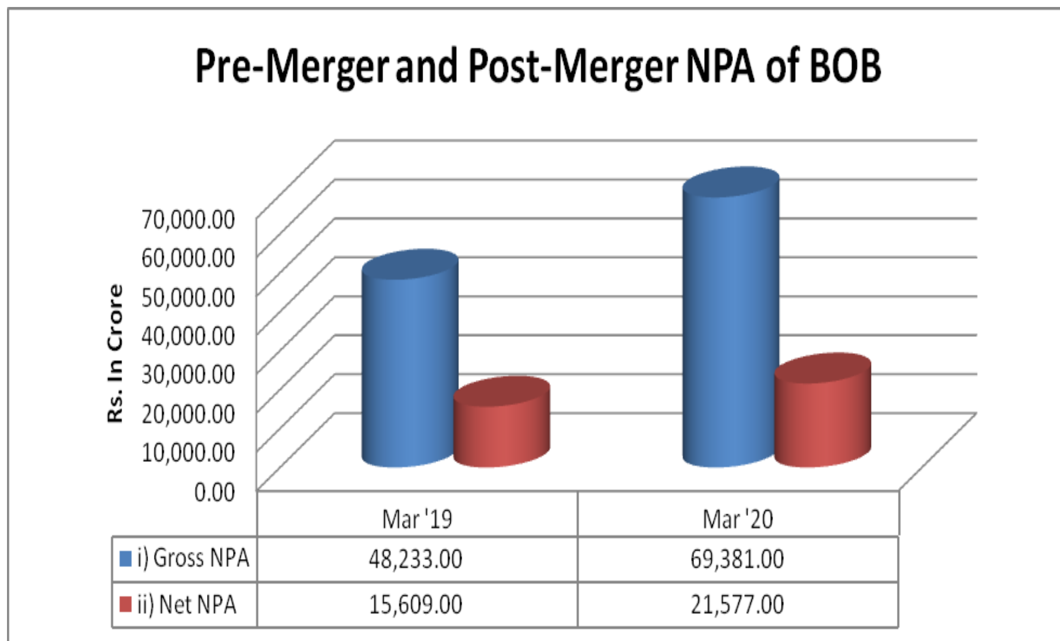
On 31st March 2019, the consolidated Operating Income of Bank of Baroda was Rs. 24,774.2 Crore and Operating Expense was Rs. 11,287.9 Crore. After the end of one year of Merger, Operating Income and Operating Expenses are increased up to Rs. 37,768.6 Crore and Rs. 18,077.2 Crore respectively. If post-merger performance is analyzed then Operating Income is increased by Rs. 12,994.4 Crore i.e. 52.45% and Operating Expenses is increased by Rs 6,789.3 Crore i.e. 60.15%.



	31-03-19	31-03-20
Opertaing Profit	13486.8	19691.4
Net Profit	433.5	546.2

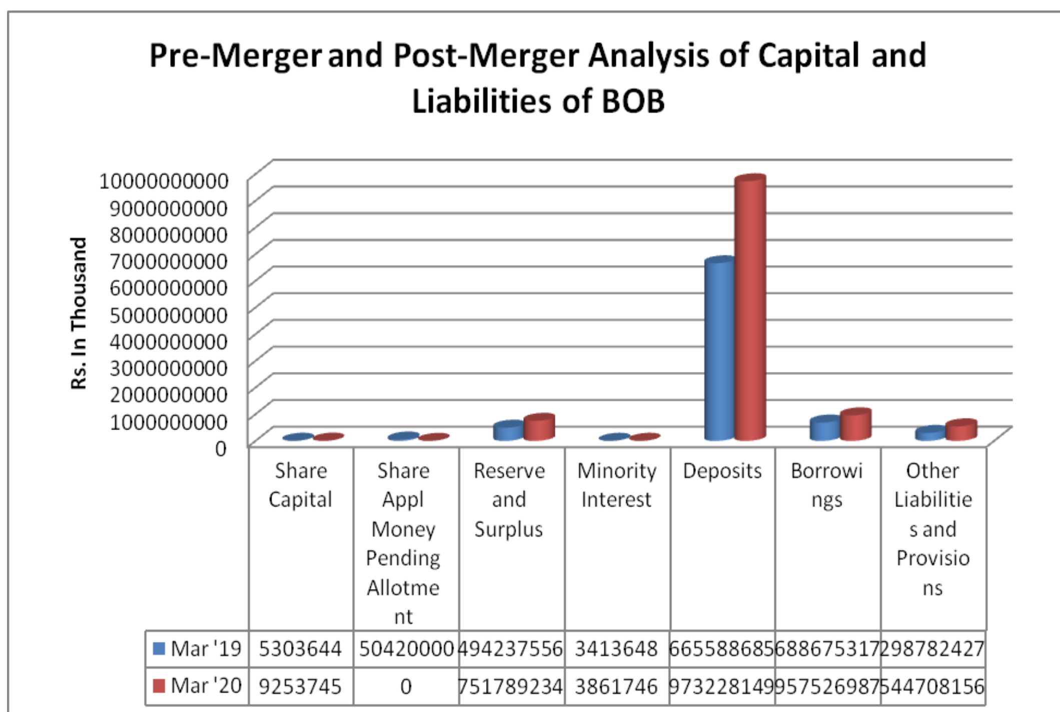
Source: Bank of Baroda Annual Reports

On 31st March, 2019, before merger the standalone operating profit was Rs. 13,486.8 Crore and after the merger of one year, the Operating Profit of Bank of Baroda was Rs. 19,691.4 Crore. Bank occurs the Pre-Merger Net Profit of Rs.433.5 Crore. Post-Merger Net Profit of Bank is Rs. 546.2 Crore. If post-merger performance is analyzed then Operating Profit is increased by Rs. 6,204.6 Crore i.e. 46% and Net Profit is increased by Rs. 112.70 Crore i.e. 26%.



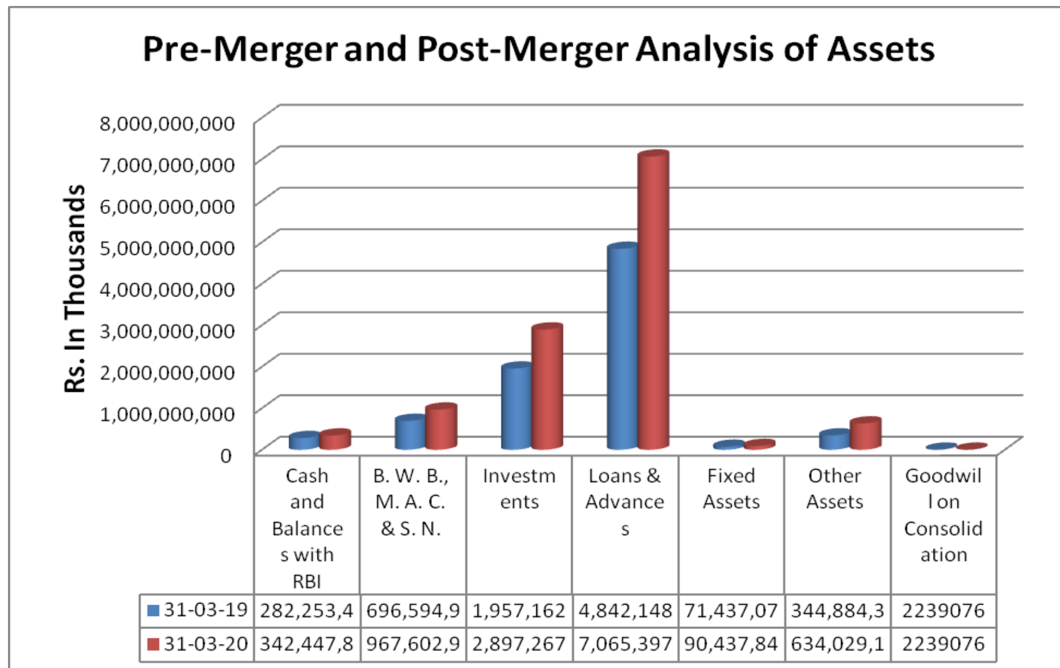
Source: Bank of Baroda Annual Reports

Non-Performing Assets (NPA) of Bank of Baroda is increased after Post-Merger, it is found that Gross NPA is increased from Rs. 48,233 Crore to Rs. 69,381 Crore. Net NPA is increased from Rs. 15,609 Crore to Rs. 21,577 Crore at the end of first year of Merger. Gross NPA and Net NPA are enhanced by Rs. 21,148 Crore and Rs. 5,968 Crore i.e. 43.85% and 38.23% respectively.



Source: Bank of Baroda Annual Reports

Share Capital of Bank of Baroda are increased by Rs. 3,950,101 Thousand from Pre-Merger to Post-Merger Period. Reserve and Surplus is increased by Rs. 257,551,678 Thousand i.e. 52.11%. Deposits are increased by Rs. 3,076,394,638 Thousand in Post-Merger Period. Borrowings and Other Liabilities and Provisions are increased by Rs. 268,851,670 Thousand and Rs. 245,925,729 Thousand after Pre-Merger Period. That is Share Capital, Reserve and Surplus, Deposits, Borrowings and Other Liabilities & Provisions are increased by 74.48%, 52.11%, 46.22%, 39.04% and 82.31% respectively. Ultimately, Total Capital and Liabilities are increased by Rs. 3,802,701,914 Thousand i.e. by 46.39%.



	Cash and Balances with RBI	B. W. B., M. A. C. & S. N.	Investments	Loans & Advances	Fixed Assets	Other Assets	Goodwill on Consolidation
31-03-19	282,253,4	696,594,9	1,957,162	4,842,148	71,437,07	344,884,3	2239076
31-03-20	342,447,8	967,602,9	2,897,267	7,065,397	90,437,84	634,029,1	2239076

Source: Bank of Baroda Annual Reports (Where, B. W. B., M. A. C. & S. N. means Balance with other bank, Money at Call & Short Notice)

Cash and Balances with Reserve Bank of India is increased by Rs. 60,194,356 Thousand in percentage 21.33% due to Merger. An investment is increased by Rs. 940,104,826 Thousand i.e. by 48.03%. Loans & Advances given is increased by value Rs. 2,223,249,179 Thousand and volume by 45.91%. Fixed Assets is increased by Rs. 19,000,771 Thousand i.e. by 26.60%. Other Assets is increased by Rs. 289,144,808 Thousand i.e. by 83.84%. But Balance with other bank, Money at Call & Short Notice is increased by Rs. 271,007,974 Thousand i.e. by 38.90%. Overall, Assets are enhanced by Rs. 3,802,701,914 i.e. 46.39%.

13. HYPOTHESIS

In our analysis we have taken the following hypothesis:

- **Testing the significance difference between Pre and Post-merger Actual Return on Equity**

  - **H0 (Null Hypothesis)** There is no significance difference between the pre and post-merger Mean Return on Equity.(taking 100 days before merger, 100 days after merger)

  - **H1 (Alternative Hypothesis)** There is significance difference between the pre and post-merger mean Return on Equity. (taking 100 days before merger, 100 days after merger).

This hypothesis is done to check whether there is any merger impact or not. If null hypothesis is accepted, that means there is no change in return to stock even after merger.

- **Testing the significance difference between Post merger's Actual and Predictive return**

  - **H0 (Null hypothesis)** There is no significance difference between the Actual and predictive return in 2nd period. (1 year before merger, 1 year after merger).

  - **H1 (Alternative hypothesis)** There is significance difference between the Actual and predictive return in 2nd period. (1 year before merger, 1 year after merger) i.e. The Actual return is greater than and predictive return for 2nd period.

This hypothesis will show whether the impact of merger (if any), positive or negative. If null hypothesis is rejected, that means there is positive impact of merger on bank.

14. RESEARCH METHODOLOGY

- **Data Collection**

For the purpose of evaluation, investigation data is collected from Merger and Acquisitions (M&A"s) of the Indian banking industry. The financial and accounting data of banks is collected from companies Annual Report to examine the impact of M&A"s on the performance of sample banks. Financial data has been collected from Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Securities and Exchange Board of India (SEBI), Money control for the study and other websites.

Variables chosen to represent merger impact of a company are: **(a)** Daily Adjusted close price of company (1 year before merger, and 1 year after merger), **(b)** Daily Adjusted close Indices of Market (1 year before merger, and 1 year after merger) corresponding to stock, **(c)** Book value (per share holder) of the company, **(d)** Deposits, **(e)** Total Deposits and **(f)** EPS.

Generally, indices are used to calculate how much is market explaining the movement in stock and how much riskier is the stock and thus are considered as a strong financial factor to explain a firm's performance in accordance to economy.

15. CONCLUSION

- At the end of first year of the post-merger period, the market size and customer base of the Bank of Baroda are increased from 8.61 Crore to 13.10 Crore i.e. 52.15 %.
- In India, there is high demand for consumer based banking but due to the inefficient infrastructure in proportion to clients, banks moved for mergers & enhanced their infrastructure level.
- It increased the customer base of banks.
- The stake of the equity shareholders will dilute as mergers will not only merge the structure of two banks but also the share capital.
- There is high risk involvement in mergers & acquisitions because banks may incur loss if mergers get failed.

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