

TRENDS AND PROGRESS OF MERGERS AND ACQUISITIONS IN INDIAN IN BANKING SECTOR

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ABSTRACT

Mergers and acquisitions occurred in many sectors including banking sector across the world that took place for several reasons like consolidation of firms, expansion by entering into new areas, increasing the Banking services, Synergies etc. The Indian banking sector trend can be divided into two periods, the pre- liberalization period and the post liberalization period. In the pre liberalization period government of India nationalized fourteen banks as 19 July, 1965 and later on six more commercial Banks were nationalized as 15 April, 1980. During 1993 government merged the new banks of India and Punjab National banks and this was the only merged between nationalized Banks after that the number of Nationalized Banks reduces from 20 to 19. In the post liberalization regime, government had taken initiated the policy of liberalization and licenses were issued to the private sector banks which lead to the growth of Indian banking sector. Mergers in Banking Sector To know the trends in M&A in banking industry, the period from 1961 to 2018 is divided into three phases on the basis of time in line with the policy, or banking reforms initiatives of the Indian Government. The overall M&A in the banking industry and the trends were discussed in this paper..

Key Words: Banks, Mergers, Acquisitions, liberalization, globalization , history of mergers.

Introduction

The Indian economy has experienced a major structural transformation following the introduction of economic reforms by the Government of India in 1991. The forces of Liberalization, Privatization and Globalization unleashed by these reforms have brought about a sea change in the traditional Indian business mindset. Indian business leaders started thinking in terms of inorganic growth both within and beyond the borders of the country. In this backdrop, M&A presented a viable alternative for the businesses aspiring to grow quickly and gain the benefits of sustainable competitive advantage by realizing the benefits of scale and scope economies, fast changing technologies for effectively facing rapidly

Intensifying domestic and international competition. Many corporate embarked upon several corporate restructuring activities like M&As, Joint Ventures, Spin-offs and Divestitures. The major industry sectors influenced by the forces of consolidation in India, though varied from time to time, were mostly in the realm of infrastructure sectors like cement, power and steel, drugs, telecommunications, media & entertainment and banking. A major change evident after 2002 in the corporate restructuring activity in India is that of Indian companies making forays into developed foreign markets through acquisitions and joint ventures (JVs). During this period India also became an attractive destination for foreign direct investment (FDI) as the inbound acquisitions also gained considerable momentum. Merger and Acquisition activity in India comes under the purview of the various provisions of the Companies Act, Securities Exchange Board of India (SEBI) and Competition Commission Act of India, 2002.

In the year 2009, M&A and PE investments in India almost halved both in volume and value terms due to the economic slowdown precipitated by the global financial crisis. According to Grant Thornton's Deal Tracker report, the total value of M&A and PE deals announced in 2009 stood at \$21.20 billion as against \$41.54 billion in 2008. PE and qualified institutional placement in the same year was at \$11.17 billion (\$10.59 billion). The M&A and PE investments in 2007 were of the order of \$70.14 billion. There were 488 deals in the year 2009 against over 766 in 2008. Domestic M&A volumes dipped to 142 from 172 in 2008. Outbound M&A was down at 64(196) while inbound M&A to 61(75% to \$ 3.11 billion from \$12.55 billion in 2008, the Russian 86). Coming to the value of deals, the value of inbound deals dipped by about Government's acquisition of a strategic stake in Sistema Shyam Telecom for \$676 million was the largest inbound deal in 2009 while Daichi's acquisition of Ranbaxy Technologies for \$4.5 billion was the largest inbound deal in 2008. The value of outbound deals declined to \$1.12 billion (\$13.19 billion) in 2009. However, the top two outbound deals in 2008-Tata-Jaguar Land Rover and ONGC-Imperial accounted for almost 40% of the outbound deals. Top deals occurred in the oil and gas sector followed by telecom, pharmaceuticals, healthcare and biotech while in the year 2008 the top deals were spread across various sectors. It may also be noted that in 2008, cash-rich Indian companies like Infosys Technologies made new acquisitions both in India and abroad following a steep drop in the valuations of target companies.

According to global M&A(Mergers and acquisitions) intelligence service, *Merger market*, the overall improvement in economic and business environment of India has resulted in an impressive (166.5%) jump in the M&A deals (both inbound and outbound being nearly equal in volume terms at around \$25 billion) in the year 2010 as against 2009. Telecom sector got the lion's share with 16 transactions amounting to \$19.6 billion while Bharti's acquisition of Zain Africa for \$10.7 billion contributed significantly to the M&A pie in the year 2010.

Mergers in Banking Sector

To know the trends in M&A in banking industry, the period from 1961 to 2018 is divided into three phases on the basis of time in line with the policy, or banking reforms initiatives of the Indian Government. The overall M&A in the banking industry and the trends are shown in the following tables. Phase wise mergers in Banking Sector in India are shown in table 1

Table 1 Phase wise mergers in Banking Sector in India

Sl. No	Phase	Period	No. of Mergers
1	I- Pre Nationalization Period	Mergers during 1961 to 1969	46
2	II- Post Nationalization Period	Mergers during 1969 to 1991	13
3	III- Post Liberalization Period	Mergers during 1991 to 2015	22
4	IV- Consolidation of Banks	Mergers during 2015 till date March 2017	05
	Total		86

Source: Compiled from RBI reports by the researcher

Phase I - Pre Nationalization Period (1961 - 1969)

The above classification is made on the basis of the time frames during which various changes have taken place on account of Governmental Policy initiatives in the Banking Sector.

The period before 1969 is considered as Pre Nationalization period, during which number of banks were

operating in the Private Sector excepting for a only few banks in the Public Sector. During this period a major mass of mergers took i.e. 46 mergers have taken place.

The major initiative in the Banking industry was the establishment of RBI (Reserve Bank of India) in the year 1935 followed by the enactment of Banking Regulation Act in the year 1949; Nationalization of Imperial Bank of India and renaming it as State Bank of India in the year 1955 which acted as the principal agent of RBI to handle the banking transactions of both the Central and State Governments; followed by nationalizing the subsidiaries of SBI in the year 1959.

Reserve Bank of India formulated different schemes for the reconstitution and mandatory/compulsory merger of weak banks with the better banks to strengthen the banking system in India. The list of banks M&A merged since 1961 till the nationalization period is presented in the following table 2

Table 2 : Phase I: Pre Nationalization Phase Mergers (1961 - 1969)

Sl.No	Transferor Bank	Transfer ee Bank	Date of Merger	No
1.	Prabhat Bank Ltd.	National Bank of Lahore	09-03-1961	30
2.	Indo-Commercial Bank Ltd	Punjab National Bank	25-03-1961	
3.	Bank of Nagpur Ltd.	Bank of Maharashtra	27-03-1961	
4.	New Citizen Bank Ltd	Bank of Baroda	29-04-1961	
5.	Travancore Forward Bank Ltd	State bank of Travancore	15-05-1961	
6.	Bank of Kerala Ltd.	Canara Bank	20-05-1961	
7.	Bank of Poona Ltd	Sangli Bank Ltd	03-06-1961	
8.	Bank of New India Ltd	State bank of Travancore	17-06-1961	
9.	Venadu Bank Ltd	South Indian Bank Ltd	17-06-1961	
10.	Wankaner Bank Ltd	Dena Bank	17-06-1961	
11.	Seasia Midland Bank Ltd	Canara Bank	17-06-1961	
12.	Kottayam Orient Bnk Ltd	State bank of Travancore	17-06-1961	
13.	Bank of Konkan Ltd	Bank of Maharashtra	19-06-1961	
14.	Poona industrial Bank Ltd	Sangli Bank	28-06-1961	
15.	Bharath Industrial Bank Ltd	Bank of Maharashtra	01-07-1961	
16.	Rayalaseema Bank Ltd	Indian Bank	01-09-1961	
17.	Cuttack Bank Ltd	United Bank of India	04-09-1961	
18.	Pie Money Bank Ltd	Syndicate Bank	04-09-1961	
19.	Moolky Bank Ltd	Syndicate Bank	04-09-1961	
20.	Merchants Bank Ltd	Tanjore Permant Bank	04-09-1961	
21.	Tezpur Industrial Bank Ltd	United Bank of India	04-09-1961	
22.	G Raghunathmulla Bank Ltd	Canara Bank	04-09-1961	
23.	SS Commercial Bank Ltd	United Western Bank Ltd	06-09-1961	
24.	Catholic Bank Ltd	Syndicate Bank	11-09-1961	
25.	Phaltan Bank	Sangli Bank Ltd	07-10-1961	
26.	Jodhpur Commercial Bank Ltd	Central Bank of India	16-10-1961	

27.	Bank of Citizen Ltd	Canara Banking Corporation Ltd	17-10-1961	
28.	Karur Mercantile Bank Ltd	Laxmi Vilas Bank Ltd	19-10-1961	
29.	Peoples Bank Ltd	Syndicate Bank	14-11-1961	
30.	Pratap Bank Ltd	Lakshmi Commercial Bank Ltd	11-12-1961	
31.	Unity Bank Ltd	State Bank of India	20-08-1962	1
32.	Bank of Algapuri Ltd	Indian Bank	14-08-1963	1
33.	Metropolitan Bank Ltd	United Industrial Bank	06-02-1964	10
34.	Cochin Nayar Bank Ltd	State Bank of Travancore	08-02-1964	
35.	SS K Bank Ltd	Karur Vysya Bank Ltd	01-06-1964	
36.	Unnao Commercial Bank Ltd	Bareilly Corporation Bank Ltd	12-08-1964	
37.	Latin Christian Bank Ltd	State Bank of Travancore	17-08-1964	
38.	Southern Bank Ltd	United Industrial Bank Ltd.	24-08-1964	
39.	Shri Jadeya Sakarling Bank Ltd	Belgaum Bank Ltd.	26-10-1964	
40.	Bareilly Bank Ltd	Benarus State Bank Ltd.	16-11-1964	
41.	Thiya Bank Ltd	Lord Krishna Bank Ltd.	16-11-1964	
42.	Allahabad Trading & Bank Ltd.	State Bank of India	25-08-1964	
43.	Vettaikarna PM Bank Ltd	Bank of Madhura Ltd	01-09-1965	3
44.	Malnad Bank Ltd	State Bank of Mysore	06-10-1965	
45.	Josna Bank Ltd	Lord Krishna Bank Ltd	13-10-1965	
46.	Amrit Bank Ltd	State Bank of Patiala	03-02-1968	1
Total				46

Source: K. Srinivas -M & A in Indian Banking Sector- A study of Selected Banks

Phase II - Post Nationalization Period (1969 - 1991)

The period from 1969 to 1991 is Post Nationalization Period. During this period the Government of India has nationalized 14 commercial banks with total deposits of Rs. 50 crores in the year 1969, which gave Government a control over 84% of total branches; 6 banks with a total deposits of Rs. 200 crores were nationalized in the year 1980 which increased the total branch network of the nationalized banks to 91%.

These banks were nationalized with the objectives to prevent few big business houses from controlling the banks; to prevent the concentration of economic power and maximisation of wealth in few hands; to mobilize savings from all sections of people throughout the country. The active participation of the nationalized banks in the mergers is seen during this phase. The bank mergers in India during the Post Nationalization Period are presented in table 3.

Table – 3: Phase II: Post Nationalization Mergers (1969 - 1991)

Sl. No	Transferor Bank	Transferee Bank	Date of Merger	No
1	C hawla Ban k L td	New Bank of Ind ia	23-04-1969	02
2	B an k o f B ehar Ltd	State Bank o f Ind ia	08-11-1969	
3	National Bank o f L ahore Ltd	State Bank o f Ind ia	20-02-1970	01
4	M iraj State B ank Ltd	Un ion Bank of In di a	20-07-1985	03
5	Lakshmi Commercial Bank Ltd	C an ara B ank	24-08-1985	
6	B an k o f C ochin Ltd.	State Bank o f Ind ia	26-08-1985	
7	Hin du stan Com m ercial Ban k Ltd	Pu njab National Bank	19-12-1986	01
8	Traders Ban k L td	B an k o f B aro da	13-05-1988	01
9	Un ited Ind us tri al B ank L td	Allahabad B ank	31-10-1989	01
10	B an k o f Tam ilnad L td	Ind ian Overs eas Bank	20-02-1990	04
11	B an k o f Th anjav ur Ltd.	Ind ian B ank	20-02-1990	
12	Parur Central B ank L td	B an k o f In dia	20-02-1990	
13	Pu rban chal Ban k L td	Central Bank of India	29-08-1990	
Total				13

Source: K. Srinivas: *M & A in Indian Banking Sector - A Study of Select Banks*

During the Post Nationalization Period, thirteen bank mergers have taken place from 1969 to 1990. All these mergers were between the Public Sector and Private Sector Banks. Out of these thirteen mergers, State Bank of India topped the list with three mergers to its credit during the years 1969; 1970 and again in the year 1985. Remaining ten mergers took place between the nationalized banks and other banks in the private sector.

Phase III - Post Liberalization Period (1991 - 2017)

The Government announced a New Economic Policy on July 24, 1991. The new policy deregulated industrial economy in a substantial manner. One of the steps taken to liberalize and globalize Indian economy were the wide-ranging Financial Sector Reforms in the Banking, Capital Markets, and Insurance Sectors, including the deregulation of interest rates, strong regulation and supervisory systems, and the introduction of foreign/private sector competition (www.iasscore.in). This period has witnessed the increased participation of Indian Private Sector Banks. The bank mergers in India during the Post Liberalization Period are presented in table 4

Table 4: Mergers in Banking Sector in India
(1st April 1991-31st March 2017)

Sl. No	Transferor Bank	Transferee Bank	Date of Merger	No
1.	New Bank of India	Punjab National Bank	04-09-1993	1
2.	Bank of Karada Ltd.	Bank of India	1993-1994	1
3.	Kashinath Seth Bank	State Bank of India	1995-1996	1
4.	Punjab Co-op. Bank Ltd	Oriental Bank of Commerce	1996-1997	2
5.	Bari Doab Bank Ltd	Oriental Bank of Commerce	1996-1997	
6.	Bareilly Corp. Bank Ltd	Bank of Baroda	03-06-1999	2
7.	Sikkim Bank Ltd	Union Bank of India	22-12-1999	
8.	Times Bank	HDFC Bank Ltd	26-02-2000	1
9.	Bank of Madura	ICICI Bank	Mar-2001	1
10.	Benares State Bank Ltd	Bank of Baroda	20-07-2002	1
11.	Nedungadi Bank Ltd	Punjab National Bank	01-02-2003	1
12.	South Gujarat Local Area Bank	Bank of Baroda	2004	2
13.	Global Trust Bank	Oriental Bank of Commerce	24-07-2004	
14.	Bank of Punjab	Centurion Bank of Punjab	Oct-2005	1
15.	Ganesha Bank of Kurundward	Federal Bank Ltd	Jan – 2006	4
16.	United Western Bank	IDBI	2006	
17.	Lord Krishna Bank	Centurion Bank of Punjab	2006	
18.	Sangli Bank	ICICI Bank	2006	
19.	Centurion Bank of Punjab	HDFC Bank	25-02-2008	2
20.	State Bank of Sourashtra	State Bank of India	Aug-2008	
21.	Bank of Rajasthan	ICICI Bank Ltd	13-08-2010	1
22.	ING Vysya Bank	Kotak Mahindra Bank	01-04-2015	1
Total				22

In Indian banking industry M&A (Mergers and acquisitions) has become trend throughout the India. A large number of private sector bank, public sector bank, and other banks are engaged in mergers and acquisitions

practices in India. The basic motive behind Mergers and acquisitions in the Indian banking sector is to harvest the benefit of economies of scales. Merger and acquisition have played a significant role in the changing of industrial sector of India since the II World War period. During the II World War period political and Economic conditions give rise to Mergers and acquisitions (M&A). Mergers can be a large source of growth to serve consumers in any economy but particularly in one that's comparatively stagnant and caught up in deep insecurity Mergers and acquisitions (M&A) are considered as a relatively efficient and fast approach to expand and develop into new segments and incorporate latest technologies in serving the customers in the banking industry.

The one of the main motive behind used strategy by firms to sustain and strengthen their competitive position in the market place. Mergers and acquisitions (M&A) have played a major important role for restructuring corporate and in providing the financial services in the banking industry. Due to the entry of new banks and products with latest technology, changing demographics of customer behavior, globalization of financial markets, low cost service, consumer pressure for wider choice , shrinking margins, and shareholder wealth demands,

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