Mergers and Acquisitions in Indian Banking Sector – A Study of Selected Banks

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Himalaya Publishing House
MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR – A STUDY OF SELECTED BANKS

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First Edition : 2011
Large Indian corporates are going through a growth phase. They think there is a lot of opportunity and access to capital. This is possible with the policy of Liberalization, Privatization and Globalization (LPG) of economy. Low-cost but good quality products have become a necessity for survival in competitive markets. Corporate restructuring has gained considerable importance the popular method of restructuring corporate entities in India is through M&As. The banking sector reforms were aimed at making banks more efficient and viable.

Emerging markets witnessed a surge of M&A transactions in 2010. Of the 40,983 global M&A deals which generated almost $3 trillion, deals conducted in these regions accounted for more than a third of global deal value and volume. During 2010, M&A activity in emerging markets totalled $923.5bn spread across more than 14,700 deals – an increase of 65 percent on the $559bn in deal value recorded in the same period during 2009.

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. The estimated figures for the entire year projected a total of more than $100 billion worth of mergers and acquisitions in India. This is twofold growth from 2006 and a growth of almost four times from 2005.

In the banking sector, important mergers and acquisitions in India in recent years include the merger between IDBI (Industrial Development Bank of India) and its own subsidiary IDBI Bank. The deal was worth $174.6 million (Rs.7.6 billion in Indian currency). Another important merger was that between Centurion Bank and Bank of Punjab. Worth $82.1 million (Rs.3.6 billion in Indian currency), this merger led to the creation of the Centurion Bank of Punjab with 235 branches in different regions of India.

Firstly, this book is aimed to cover the legal framework for M&As; year-wise and industry-wise trends and progress of M&As in India in general and particular to banking sector. Secondly, the profile of Bank of Baroda, Banaras State Bank, Punjab National Bank, Nedungadi Bank Limited, Oriental Bank of Commerce, Global Trust Bank Limited, HDFC Bank, Times Bank Limited, ICICI Bank, Bank of Madura, and Centurion Bank of Punjab. Finally, the physical and financial performance of above said banks.

— Kamatam Srinivas

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1.1 INTRODUCTION

Companies Come and Go, Chief Executives Rise and Fall, Industry Sectors Wax and Wane, but an outstanding feature of the past decade has been the rise of business combinations, which may take forms of mergers, acquisitions, amalgamations and takeovers, are the important features of corporate structural changes. They have played an important role in the external growth of a number of leading companies the world over. In the United States, the first merger wave occurred between 1890 and 1904 and the second began at end of the World War-I and continued through the 1920s. The third merger wave commenced in the latter part of World War-II and continues to present day\(^1\). About two-thirds of the large public corporations in the USA have merger or amalgamation in the history. In India, about 1,180 proposals for the amalgamation of corporate bodies involving about 2,400 companies were filed with the High Courts during 1976-1986. These formed 6 per cent of the 40,600 companies at work at the beginning of the 1976\(^2\).

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Corporate restructuring has gained considerable importance all over the world because of intense competition, globalization and technological changes. The structural reforms initiated in the early 1990s have compelled the Indian industry also to adopt focused strategies like corporate restructuring by shedding non-core activities and mergers and amalgamations. The process accelerated with opening up of the economy to attract foreign investment. However, in India, the corporate restructuring is still in adolescent stage. The popular method of restructuring corporate entities in India is through M&As. M&As are said to be important feature of western capitalism. The history of modern large corporations is a clear testimony of the importance of M&As in the world. In the UK and the USA many of the corporate giants have reached the present state only by way of M&A. In the corporate sector, a merger is a popular strategy to attain growth and diversification, to enjoy operational synergy and to win a new market. Merger is one of the various corporate restructuring modes. In the USA and the UK restructuring modes include merger consolidation, acquisition, divestiture, LBO and spin-off.

The banking sector reforms, introduced in the early nineties and continued since then, form part of the overall economic reform programme aimed at improving the competitiveness and efficiency of the economic system. The banking sector reforms were also aimed at making banks more efficient and viable. As one who had a role in initiating these reforms, we can say that the period of transition was not that easy. However as a consequence of these reforms the banking system has emerged more sound and safe. The capital adequacy of the Indian banks is now on par with international standards. The level of net NPAs has come down to reach manageable levels. An issue that confronts the banking reforms currently is that of bank consolidation.

1.2 MEANING OF MERGERS AND ACQUISITIONS

The phrase M&A refers to the aspect of corporate financial strategy and management dealing with the merging and acquiring of different companies as well as other assets. Usually, mergers occur in a friendly setting, where executives from the respective companies participate in a due diligence process to ensure a successful combination of all parts. On other occasions, acquisitions can happen through hostile takeover by purchasing the majority of outstanding shares of a company in the open stock market.

Merger

A merger is said to occur when two or more companies combine into one company. One or more companies may merge with an existing company or they may merge to form a new company. In merger, there is complete amalgamation of the assets and liabilities as well as shareholders’ interests and business of the merging companies. Another mode of merger happens when one company purchases another company without giving proportionate ownership to the shareholders of the acquired company. According to the Institute of Chartered Accountants of India, statements of
Accounting Standards (AS-14) – Accounting for Amalgamation – Laws in India use the terms Merger and Amalgamation interchangeably. Merger of Amalgamation may take two forms: (i) merger through absorption; and (ii) merger through consolidation. Absorption is a combination of two or more companies into an existing company, whereas, consolidation is a combination of two or more companies into a new company.

Acquisition

The term acquisition refers to acquiring of effective working control by one company over another. The control may be acquired either through purchase of majority of shares carrying voting rights exercisable at a general meeting, or controlling the composition of the Board of Directors of the other company. In acquisition, the shares may be purchased either for cash or in exchange of shares of the acquiring company. The acquired company continues to exist but its shareholders change without any change in its constitution. The advantage of acquisition is that it allows a company to acquire control over another company by investing much less than what would be necessary for a merger.

1.3 TYPES OF MERGERS

Mergers are classified into vertical, horizontal, circular, conglomerate and reverse mergers.

Vertical Mergers

In vertical type of merger, the company either expands backwards towards the source of raw material or forward in the direction of the customer. This is achieved by merging with either a supplier or buyer, using its product or intermediary material for final production. When merger or acquisition is done in the reverse order of the supply chain management it is known as backward integration while when it is done to acquire business of the buyer of the existing offering it is known as forward integration.

Horizontal Mergers

When two firms operating in the same line of business and catering to the same segment of customer or operating at the same stage of industrial process merge together it is known to be Horizontal type of merger. In simple words when two competing firms merge together it is a horizontal merger.

Circular Mergers

Companies producing distinct products or providing distinct services seek amalgamation to share one or other common areas of operation like distribution network, agent network, service centers, and research facilities etc. to obtain economies by elimination of duplication of cost. Both the companies, i.e., acquirer and target company get benefits in the form of economies of resource sharing and diversification.

Conglomerate Mergers

Amalgamation of two companies engaged in unrelated industries. Such mergers are for the purposes like utilization of financial resources, to enlarge debt-procuring capacity, diversify the business risks, and enter into new emerging fields and also to take advantage of managerial synergies.

Reverse Merger

There are two modes in which reverse merger are understood. First, the commonly known mode of reverse merger is the merger of a healthy company into a sick / loss-making company. However, technically, it is categorized into ‘tax friendly merger’. Second mode of reverse merger is the merger of an unlisted company into a listed company. Technically, it is categorized as ‘listing friendly merger’. The prime purpose behind reverse merger is to get benefits of set off against loss and other tax benefits available to loss making company, most of which are not available in normal merger. It also avoids necessity of getting special permission under tax laws (Section 72A of Income Tax Act, 1961 or under special statute for rehabilitation of sick industrial companies) other purposes behind reverse merger could be savings in stamp duty, public issue expenses, getting quotation on a stock exchange etc.
1.4 GOALS OF MERGERS AND ACQUISITIONS

The important goals of mergers and acquisitions are presented as follows:

Expansion and Growth

M&As are the strategy for growth and expansion, in corporate jargon popularly known as an inorganic growth strategy. Stagnation in this dynamic world is akin to being in coma. Thus no company can afford to stand still. Fulfilling ‘growth objective’ of an organization, M&As are considered as possible alternative. This is also in consonance with public companies. The shareholders have invested their funds on the assumption that their investment will not only provide adequate returns but also capital appreciation. Such appreciation would be possible only when the organization keeps expanding.

Entry into New Markets

M&As provide an effective platform to enter into new markets. Adding to existing customer network through merger or acquisition is far easier than creating a new network. However, it is critical to analyze whether it will be economically justifiable or not considering other parameters involved. Many times firms in the wake of cashing in on their core competence need to penetrate into new market with lesser luxury of time due to the intensified nature of competition. In such a scenario M&As seem viable option to enter into the new markets. Product life cycle, business expansion, new product launching are other issues pertaining to M&As as entry strategy.

Diversification

M & As are motivated with the objective to diversify the activity so as to avoid putting all the eggs in the same basket and obtain advantages of joining the resources for enhanced debt financing and diversified risk proposition to shareholders. Such transactions result in creating conglomerate organizations. But most critics hold that such diversification is dubious and does not benefit the shareholders as they get better returns by having diversified portfolios by holding individual shares of these firms.

Surplus Liquidity

M&As can also occur due to surplus cash available with organizations. Deployment of such liquidity is a question having multiple options. Investing such cash into existing organizations by way of acquisitions is a worth considering option available with the CEOs. In recent times, it has been observed that cash-rich companies prefer to use the cash for M&As rather than distribute it as extra dividends to shareholders. That is why we see cash-rich firms making acquisitions more often even in unrelated industries. Such M&As also result for stagnant industries merging their way into fresh woods and new pastures.

Tax Saving

Many mergers are motivated by the aim of achieving benefits and concessions under the Direct and Indirect Tax laws. The benefits like carry forward of losses, deduction for infrastructure industry, export incentives etc., can be utilized in a better manner by the combined entity.

Corporate Restructuring

M&As also emerge due to corporate restructuring exercises. Group companies formulate schemes of amalgamation among themselves as part of corporate restructuring. M&As also work as a turnaround strategy for sick companies.

Other Motives

Besides the points considered in the foregoing discussion there could be other strategic reasons behind M&As. Companies do prefer acquisitions to create entry barriers for others, merge themselves with friendly corporations to avoid unwanted acquisitions. Sometimes demerger has to be implemented to comply with regulations like antitrust proceedings, Competition Act etc.
1.5 BENEFITS OF M&As

The principal benefits that M&As offer is the synergies that it creates. Synergy is defined in numeric terms as $2 + 2 > 4$ while in case of companies it can be seen as the value of the merged entity being greater than the sum of the independent entities. There are different types of synergies that could take place from merger or acquisition. In other words there are many ways M&As benefit the organization. The synergy benefits and other benefits from M&As are presented as follows:

**Synergy Benefits**

These include- economies of large scale business, increased leverage capacity, R&D and marketing synergies, operating economies - like installed capacity utilization, infrastructure utilization etc., reduction in overlapping administrative expenses, reduced costs – M&As may result into in-house procurement of raw material (backward merger) cost incurred like expenditure on training new employees can be eliminated or substantially reduced and easy procurement of supplies - taking over the source of supplies safeguards the supplies and obtains economies of purchase.

**Other Benefits**

The other benefits are – (i) Market Expansion - To eliminate competition in the existing market and to obtain new market outlets; (ii) Viable Way to Expand Rapidly - The acquirer may reduce the time and cost on many fronts like installing new machinery, producing and trying to gain market share, to increase geographical spread, introducing new range of products, catering to the new segment of customers creating and / or expanding distribution network etc., (iii) It Provides a Platform to Enter New Markets - To obtain new market outlets and diversify into new areas; (iv) Enhanced Shareholders’ Value - The value of shareholder’s holdings increases due to value creation and value capture and assist the shareholders to realize true market value for their shares; (v) Improvement in net worth, earning per share, promoters’ holding; (vi) Encashment of market value of properties held by the company for years together; (vii) Revamping production facilities - To achieve economies of scale by improved production technology and standardize product specifications; (viii) Consolidation of finances for better returns; (ix) Consolidation of core business; (x) Streamlining of product portfolio; (xi) Reverse mergers for rehabilitation and tax breaks; and (xii) Financial rehabilitation of ailing firm.

1.6 RECENT CHANGES IN INDIAN BANKING SECTOR

Over the years after accepting the recommendations of Narsimham Committee, Verma Committee and several other committees Indian Banking sector has brought up all the desired characteristics of model banking system. But Indian banking system is still perceived as high cost banking as operating cost in India is around 2.3 per cent against 1.1 per cent in China, 1.6 per cent in Malaysia, 2.1 per cent in European Countries. Another key issue that needs to be addressed cautiously is the increase in the NPAs. Apart from absolute size, the distribution of NPAs is skewed across banks. The Narsimham Committee has underlined the need to reduce the average level of net NPAs for all banks to 3 per cent by 2002 and zero for banks with international presence. However, it has come down to 1.9 as was recommended by committee.

The Government of India accepted all the major recommendations of the Narasimham Committee-1991 and started the process of implementation on urgent basis.

Following measures have been taken between 1991-92 and 1997-98.

*The Statutory Liquidity Ratio:* SLR on incremental net demand and time liabilities has been reduced from 38.5 per cent to 25 per cent and SLR on outstanding net domestic demand and time liabilities was gradually reduced from 38.5 per cent to 27 per cent in March 1997 and 25 per cent in October 1997.
Cash Reserve Ratio: Originally it was the intention of the RBI to bring down the cash reserve ratio from the 15% to just 5% in fact it was brought down to 14% in May 1993. At the same time the incremental cash reserve ratio of 10% was abolished. When conditions eased and money growth started slowing down since 1995-96, RBI reduced CRR gradually from 15% to 5.5% in December 2001. The purpose of reducing CRR was to release funds locked up with RBI for lending to the industrial sectors, which were starved of bank credit.

Interest Rate: Interest rate slabs were gradually reduced from 20 to 12 by 1994-95. Interest rate structure has also been revised in the following manner:

- Interest rate on domestic term deposits has been decontrolled.
- The prime-lending rate of SBI and most other banks on general advances of over Rupees two lakhs has been reduced.
- Rate of interest on bank loans above Rupees two lakhs has been fully controlled.
- The interest rates on deposits and on advances of all the co-operative banks (except urban co-operative banks) have been deregulated subject to a minimum lending rate of 13%, which hitherto was 12%.
- Scheduled commercial banks have now the freedom to set interest rates on their deposits subject to minimum floor rate and maximum ceiling rates.

Prudential Norms: Norms have been started by the RBI as a part of the reform process. Norms are in regard to: (a) income recognition, (b) classification of assets and (c) provisioning of bad debts. These are meant to ensure that the books of the commercial banks reflect their financial position more accurately and in accordance with internationally accepted accounting practices. It would also facilitate more effective supervision of banks by the RBI. Now the banks are required to make 100% provision for all non-performing assets (NPAs). The funding for this purpose was placed at Rs. 10,00,000 million and was to be phased over a period of two years. Banks had to make a minimum of 30% provision against doubtful and bad debts during 1992-93 and the balance of the 70% in the following year.

Capital Adequacy Norms: These norms were fixed at eight per cent by the RBI in April 1992 and banks had to comply with them over a period of three years. By March 31, 1996 all Public Sector Banks had attained capital to risk weighted assets ratio of eight per cent. The foreign banks had also complied with the capital adequacy norm in its entirety.

Capital Framework: A new capital framework was put into practice based on Basel Committee- (a) Tier I: Core capital considered the most permanent and readily available support against unexpected losses includes Paid-up Capital, Statutory Reserve, Securities Premium and Capital Reserve; and (b) Tier II: Capital consisting of undisclosed reserves, fully paid-up cumulative perpetual preference shares, Revaluation Reserves, General Provisions and Loss Reserves. Tier-II capital should not be more than 100% of Tier-I Capital.

Access to Capital Market: An enabling clause has been inserted in the Banking Companies (Acquisition and Transfer of Undertakings) Act by an amendment initiated by the Government of India. Accordingly, nationalized banks are permitted to have access to the market for capital funds through public issues, subject to the provision that the holding of the Government of India would not be less than 51% of the paid up capital.

Operational Autonomy: Having obtained the capital adequacy norms and prudential accounting standards, the scheduled commercial banks are now authorized to open branches (keeping in view the commercial viability principle) and upgrade extension counters. At the same time they are also permitted to close down the non-viable branches in the urban areas. In the matter of bank lending, banks have been given freedom to decide levels of holding of individual items of inventories and receivables.
Local Area Banks: The Government of India in 1996-97 Budget made an announcement to the effect that new Private Local Area Banks (PLABs) are to be set up with a view to mobilizing rural savings for investment in local areas. The RBI issued guidelines for setting up such banks in 1996 and approval “in principle” was given for the setting up of seven LABs in the private sector. These LABs have commenced business in the States of Andhra Pradesh, Karnataka, Rajasthan, Punjab and Gujarat.

Private Sector Banks: New private sector banks have started functioning. They are permitted to raise capital from foreign institutional investors up to one-fifth and from Non-resident Indians not more than two-fifths of the total capital.

Strict Supervision of Commercial Banks: A Board of Financial Supervision with an Advisory Council under the chairmanship of the RBI Governor to strengthen the supervisory and surveillance system of the banks and financial institutions has been set up. In addition to this, a new Department of Supervision as an independent unit for supervision of commercial banks and to assist the Board of Financial Supervision has been set up by the RBI in 1993.

Banking sector reforms in India have been progressing by leaps and bounds consequent upon the recommendations made by the two committees of which Mr. M. Narasimham was the Chairman. The finance minister, too, has expressed his views in favour of consolidation of banks for them to attain global standards. But, while he had earlier suggested that such mergers would not be imposed by the government and that the process should be voluntary. Size is a great competitive strength in banks, especially in these days of dwindling interest spreads. Size enables banks to lend to well-rated blue-chip corporates, thereby ensuring a better quality asset book and lower risk of default. In addition, size enables banks to offer a wider variety of products that could generate highly profitable fee based income. Another important reason is the realization of cost management strategies through economies of scale and scope. It also enables sharing of customer databases, cross selling of products and acquisition of new customer segments. Yet another important motivator is acquiring a plain Indian presence and the resultant geographical diversification that a bank can get after the merger through the less cumbersome inorganic route.

A wide variety of retail products requires significant overhead infrastructure. Only large sized banks can effectively build up and utilize such a large overhead infrastructure. Similarly, technology advancements which benefit customers and enhance customer retention and acquisition require considerable capital outlay, which, only large banks can provide. Continuous capital infusion is an essential ingredient for growth in the banking industry. Larger well-performing banks have the ability to add capital at better valuation than smaller banks. They raise funds from the markets at finer rates. This is going to be a necessity as the fine-tuned Basel II regulations spells out more stringent regulatory capital norms, making it necessary for banks to provide such capital for a larger number of risks. Again, when the relaxation in FDI norms comes into force in 2009 facilitating a greater presence for foreign banks, there will be a greater need for Indian banks to stave off competition.

1.7 NEED FOR THE STUDY

Mergers and acquisitions are an older one. The reasons may be different from time to time and may vary from company to company. The tasks of combinations have become more convenient after the new economic policy (liberalization policy in 1991). There have been a plethora of studies in the area of mergers and acquisitions, but most of them focused on manufacturing sector. Further very few studies have attempted to analyze the M&A activity in the service sector. Further more literature available on M&A vis-a-vis banking sector has been scanty. Hence, there is a need for a study of the present nature.
1.8 OBJECTIVES OF THE STUDY

The present study entitled “Mergers and Acquisitions in Indian Banking Sector – A Study of Select Banks” set forth the following objectives:

1. To know the legal framework for Mergers and Acquisitions in India.
2. To examine the trends and progress of Mergers and Acquisitions in India.
3. To study the impact of Mergers and Acquisitions on Physical Performance of Merged Banks.
4. To analyze the impact of Mergers and Acquisitions on Financial Performance of Merged Banks.

1.9 METHODOLOGY

It covers the sources of data, statistical tools, sample design, period of study etc.

Sources of Data


Statistical Tools

The statistical tools like- Mean, Standard Deviation, Simple and Multiple Correlation, Regression, t-Test, One-Way and Two-Way ANOVA are used to study the Trends and Progress of M&As in India and Physical and Financial performance of the select merged banks before and after merger.

1.10 HYPOTHESES OF THE STUDY

The study formulated the following hypotheses:

1. There is no significant difference in number and amount of M&A deals between years; between
Mergers and Acquisition in Indian Banking Sector

Introduction

1. There is no significant difference between pre and post merger physical performance of select merged banks.

2. There is no significant difference between pre and post merger financial performance of select merged banks.

1.1 SCOPE OF THE STUDY

The study focused on various issues relating to mergers and acquisitions in Indian Banking Sector. It covers the different aspects like legal implications for M&As, trends and progress of M&As, physical and financial performance of select merged banks before and after the merger.

1.12 REVIEW OF LITERATURE

The review of literature is divided into four parts. The first part deals with concept, second with regulatory framework, third with trends and progress and fourth part covers financial performance.

Concept

Rukmini Prarthasarathy (1998) analyzed merger economics, bank merger milestones and Narshimham Committee Reports. They concluded that merger saddles the strong bank with huge non-performing assets and erodes the profitability of the strong bank. Bank provides the stronger bank with a relatively cheap deposit network and minimizes the likelihood of systemic failure.

K. Kannan (1998) pointed out that globally bank borrowings as a percentage of gross domestic products have fallen. Banks cannot survive if they only offer the traditional product-mix of loans and deposits. To survive, banks need to diversify into non-fund-based activities (investment banking) and new fund-based activities (mutual funds, leasing, housing finance, infrastructure finance or may be even insurance). M&As offer a cheaper and quicker diversification option than organic growth. Banks expand the geographic reach of the merged entity and provides a larger capital cushion to absorb risks. It duplicates costs as labour rationalization is difficult and could lead to cartels, which limits gains to the consumer.

P.V. Maiyya (1998) found that the Indian banking was over branched and staffed but not covered the market. Unless Indian banks merge, they will lose market share and increases risks of mismatch between assets and liabilities. He concluded that the Government’s equity stake in the nationalized banks from dropping below 51 per cent and total public sector banks merged into three big banks. It classified State Bank of India and its associates are merged in one bank. Bank of India, Oriental Bank of Commerce and Corporation Bank are merged as another bank and other public sector banks merged into one bank.

Ramesh Gelli (1998) emphasized that if achieving size to compete on a global scale, even in the domestic market, were the objective, the banks would need an immediate series of mega-mergers. Finally he concluded that higher levels of capital backing are vital, which only mergers can achieve.

Y.V. Reddy (2005) focused on banking sector reforms and Basel-II norms in India. He concluded that in the current scenario, banks are constantly pushing the frontiers of risk management. Compulsions arising out of increasing competition, as well as agency problems between

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management, owners and other stakeholders are inducing banks to look at newer avenues to augment revenues, while trimming costs.

K. Ravi Sankar & K.V. Rao (1999)\(^9\) made an attempt to study the success of otherwise of the takeovers as a strategy of turning around a sick unit and analyze the implications of takeovers from the financial point of view. He concludes that the takeover can be successfully used to turnaround a sick company. One observation during his study which was worth mentioning is that the units which have turned around after the takeover by reputed management groups. Finally he concluded that if a sick company is taken over by a good management and makes serious attempts, it is possible to turn it around successfully.

Anjali Prasad (2004)\(^10\) studied the Narasimham Committee Reports 1991 and 1998. It was concluded that the emerging scenario points towards SBI and its Associates forming a single entity in the next couple of years. Further it was also felt that nationalized banks consolidate into not more than 4-5 banks in the medium term and the private sector banks consolidate into not more than five banks over a period of five to seven years.

A. Vasudevan (2004)\(^11\) opined that the focal point of interest is about the size of the banking firm. He felt that larger the size of the bank higher would be its competitiveness and better its prospects of survival. This argument implies that Indian banks are not in a position to compete for business internationally – in terms of funds mobilization, credit disbursal, investments and rendering of financial services – essentially because of their relatively small size.

K. Mohan (2006)\(^12\) lamented that the Indian market is over banked, but under serviced. As a result, Indian banks clearly lack global scale. The existence of too many banks results in the paradox of low profitability for customer, for banks and higher pricing for customers. From the point of view of financial system, consolidation of banks is imperative. The objective would be strengthening of banks, economies of scale, global competitiveness, and cheaper financial services and retaining of employees for merging skill sets. Consolidation will provide banks with new entry barriers; ensure immediate entry into new markets and lower operating costs through consolidation of resources. However, mergers and acquisitions in the domestic banking sector should be driven by market-related parameters such as size and scale, geographic and distribution synergies and skills and capacity.

Dilip Kumar Chanda (2005)\(^13\) concluded that profitability of the public sector banks has not been affected by deregulation in India. The Indian banking industry is second to none in the world from the viewpoint of its profitability. The stock prices of the public sector banks are impressive. In addition, it can be said that bank mergers may not always be a blessing for the customers. It may increase the opportunities for monopolistic pricing. As a result the customer will earn a lower rate of interest on deposits in a more concentrated banking market. Even then in the age of globalization, foreign banks are securing entry to the borderless economy of India on the strength of their giant size and diversified banking activities.

Francis Atuche (2006)\(^14\) opined that the bigger banks need skilled staff as well as good governance and regulation in the tougher competitive environment. Nigeria’s 25 post consolidation banks are squaring up in a battle for talent.

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The need for stronger management has grown in equal proportion to the increasing size of the banks. Stiffer competition demands better skills in areas such as strategy, risk management and operations. And far stricter regulatory environment will increase the compliance burden substantially. However, skills and know-how are in short supply.

Sujit Kumar Ray (2007) straggly felt consolidation and merger can have a number of positive impacts on the Indian banking sector, which are economies of scale, scope and product mix efficiency, super diversification, geographical coverage and tax relief. He concluded that higher asset size does not necessarily imply higher return assets.

Ashwani Kumar & Deep Kishore (2003) observed that implementing stricter prudential norms should in no way cause anxiety to depositors as to the safety of their deposits. He concluded that it is worth-noting the observation of the Narasimham Committee in its Second Report: The process of strengthening the banking system has to be viewed as a continuing one. There is no finite end to improving the levels of efficiency and profitability. After implementing various recommendations made by Narasimham Committee from 1991 onwards in the form of first phase reforms and second generation reforms (1998) in the banking and financial sector

Ashutosh Dash (2005) studied the recent changes in the Indian economic scenario, mergers and acquisitions, examined the economic consequences of mergers with the view to resolving the conflict. He found that the modern mergers are primarily motivated by the firms with above industry-average performance and this trend continues to persist over time. However there is no support of influence of mergers on operating profitability, whatever the strategy may be. Finally, he concluded that the popular belief of merger as a means of corporate bliss and declares it to be a myth.

VP Shetty (2006) observed that the consolidation and convergence is global phenomena in the banking sector and the Indian banking sector would show similar trends. Reforms in the banking sector would particularly need to provide and promote an enabling framework for mergers and acquisitions in the banking space. He concluded that mergers would take place by voluntary decision of banks themselves.

Kishore Chandra Padhy (2007) examined the banking sector changes. In a highly competitive scenario, there is no alternative to relationship-oriented banking. Relationship management is defined in terms of product, quality and functionality. Those who are engaged in Relationship Banking need to have distinctive traits such as direction, drive to execute, people relationship and management system. It was found that the resultant problem needs to be solved. The relationship people are to be given system support and initiative support. Quality should remain anchor point to broaden services and stabilize relationship.

V. Leeladhar (2007) analyzed the increasing levels of globalization of the India banking industry, evolution of universal banks and bundling of financial services, competition in the banking industry will intensify further. The banking industry has the potential and the ability to rise to the occasion as demonstrated by the rapid pace of automation which has already had a profound impact on raising the standard of banking services. The financial

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Mergers and Acquisition in Indian Banking Sector

Introduction

strength of individual banks, which are major participants in the financial systems, is the first line of defense against financial risks. Strong capital positions and balance sheets place banks in a better position to deal with and absorb the economic shocks.

Leeladhar (2008) observed that there has been considerable progress in consolidation in India in the private sector banks and the mergers have happened between not only the weak and healthy banks but also, of late, between healthy and well-functioning banks as well. The RBI has been supportive of the initiatives for consolidation and there have been no cases so far where the approval for merger of banks was denied by the RBI. Though consolidation in the public sector banking segment, which accounts for about 75 per cent of the assets of the banking system, is still a work in progress, there are enabling legal provisions for the purpose in the respective statutes of the public sector banks. The RBI, as the regulator and supervisor of the banking system, would continue to play a supportive role in the task of banking consolidation based on commercial considerations, with a view to further strengthening the Indian financial sector and support growth while securing the stability of the system.

J.D. Agarwal (2000) highlighted the need for a systematic growth of the overall economy of the country to meet the challenges of the new millennium. At the same time he underlines the inherent strengths of the Indian economy which, if exploited properly, can catapult India into the league of top three economies of the world. He also discussed financial issues like mergers and acquisitions.

Kunal Basu (2006) in his study related to organizational synergies and expected savings, and external factors involving a more coherent and persuasive presentation to the market. A great deal of attention has been focused on assessing the insider benefits—not only the systems, structures, and resources to be rationalized and better exploited, but also the people and organizational cultures that have to be meshed together. Correspondingly, little attention, however, has been paid to the outside factors—ways to assess the market benefits in terms of brand architecture and strategy. A Joint Brand is likely to result in the event of a merger of equals, each of which enjoys strong franchise among its target customers, and rationalizing over capacity in the industry is seen as the merger driver rather than acquisition of new customers. The two dimensions that determine a firm’s product branding strategy are its offer and its message. The offer signifies the specific product or service. The message dimension signifies the market positioning of the firm’s product or services that it wishes to convey to a given product market, taking into account both the customer benefit gap it aims to fill and the differentiation choice presents itself.

Rajan Handa (2007) analyzed why mergers and acquisitions fail and how to prevent them. The case study highlighted critical areas of concern in managing people related issues in M&As. Organizations that ignore cultural aspects, face complexities that can kill the deal even though the deal might pass all financial, marketing and operational aspects during due diligence.

Richard Ettenson and Jonathan Knowles (2006) found that when one company acquires another, executives have 10 distinct options for the corporate rebranding. Selecting the right strategy can set forth a compelling vision for the combined entity and send important signals to employees and the outside world. A strategy that permits the equity of the weaker brand to be absorbed gradually by the stronger brand gives both companies’ constituencies time to adjust, cushioning the loss of the weaker brand. One

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Mergers and Acquisitions in Indian Banking Sector

Introduction

The objective is to maintain multiple brands in order to maximize market share. When Yellow Transportation acquired Roadway Express, the new entity’s visual identity combined colours of the two parties.

Narayankar (2000) found that leveraged buy-out entails the acquisition of an operating company with funds derived primarily from debt financing that is based on the assets and/or cash flow of the target company, and differs from typical corporate acquisition. He examined what extent a LBO could be effective for merger and acquisition strategy.

D. Satish and Surender Vaddepalli (2006) examined the banking sector’s global competencies and found that the progress and growth of Indian banking is in line with the twin objectives of financial stability and growth. The capital adequacy ratio was well in line with the proposed new Basel norms. The average capital adequacy ratio of Indian banks stood at 12.8% at March 31, 2005, much above the prescribed norms. It has decided that banks which have maintained capital of at least 95 per cent of the risk weighted assets for both credit risk and market risks of both ‘Held For Trade’ (HFT) and ‘Available For Sale’ (AFS) categories as on March 31, 2006, would be permitted to treat the entire balance in the Investment Fluctuation Reserve as tier-I capital.

George Skaria (1998) concluded mergers with arranged marriages. The subsidiaries do not have much of a choice. M&A may generate additional value worldwide, but not in India. Even three years after the transnational parents merge, for peculiarly local reasons, their subsidiaries in this country are unable to synchronize their strategies, assimilate cultures, or derive synergies. That’s why global M&A never seems to add value to local shareholders.

Kuppuswamy P.T (2006) observed that the process of globalization will lead to the presence of more international players in the banking arena in India. Similarly, some of the Indian banks will become global players. Banks in India must not only prepare themselves to retain their business back home, but also to capture business in hitherto unexplored markets by competing with their global counterparts. It is felt that top international banks will enjoy lesser capital requirements on the back of their superior risk management practices. The decision to go global must be a strategic decision. This global move may be achieved through joint venture or an acquisitions or any other route, but not before analyzing carefully the market and competitors. Indian banking sector has already implemented internationally followed prudential accounting norms for classification of assets, income recognition and loan loss provisioning. The banking sector in India now complies with transparency and disclosure norms comparable with the best international practices.

Nimesh Shab (2000) analyzed the meaning of Reverse mergers. It is a step by-step guide through the intricate movements involved in the takeover of a sick company. Further it examines issue such as the acquisition process, the adventure of a BIFR scheme and the uncertainties involved in the process.

Frank Brunetti (2003) noted that the M&A community is beginning to use Internet data rooms to increase the efficiency and reduce the cost of due diligence. The value seems clear. However, mergers and acquisitions players have been slower to adopt the same technology speed with regard to the due diligence process. The technology can also greatly enhance the selling process. Many of the available technologies provide reporting capabilities that show which

parties have reviewed particular information, giving them a means to assess interest levels among buyers.

Chakravarthi Anand (2006) highlighted that corporate restructuring has become a major force in the financial and economic environment. Better disclosure of information to the shareholders is necessary for corporate restructuring. It is being viewed as a necessary process for corporate survival and growth in the present economic environment of liberalization and globalization, leading to global competition. Many Indian corporates have difficulties in restructuring due to internal or external constraints including those which have been created by the inaction of the central/state governments.

Sanjeev Kumar and Surumpudi Neeraja (2006) observed that the opening up of the economy to international financial markets and availability of different kinds of instruments have made corporate rethink ways and means of reducing their debt burden to avoid bankruptcy. Companies, by and large, are opting for financial restructuring either through Corporate Debt Restructuring (CDR) mechanism or change in their capital structure. He attempted to project the impact of interest rates on debt, and the necessity and trends of corporates to reduce the debt burden.

Tyrone W. Callahan noted that most the merits and acquisitions involve at least four parties. Acquiring firm shareholders, acquiring firm management, target firm shareholders, and target firm management. He considers the choice between hostile and friendly takeovers in his context and offers an explanation for the prevalence of friendly mergers between large acquirers and small targets. Negotiated mergers, by virtue of the ability to make side payments to the target managers, allow the target manager to be better compensated for their loss of private benefits while simultaneously mitigating the agency conflict in the bidder firm. The direct cost of side payment is borne by the target shareholder, but they benefit indirectly by the bidding manager having an increased incentive to investigate takeover targets. Target shareholder; therefore, accept the lower payoffs in a negotiated merger to increase the odds that a merger occurs. When the private benefits accruing to the bidding manager are correlated with size, bidder shareholder grant the manager relative autonomy in negotiating small mergers and monitor large mergers more closely. This includes the bidding manager to prefer to expend resources investigating small targets. The model generates specific predictions about the relation between principal-agent conflicts of both bidder and the target firm and the division of gains from mergers.

Reynold F. Nesiba (1994) outlined two issues facing the banking industry: discrimination in lending and banking industry mergers and acquisitions. He delineated the historical trends and the legislative context for both the community reinvestment movement and the geographic deregulation of the banking industry. He also examined the theoretical and empirical literature that deals with lending discrimination and calculated the effects of bank mergers and acquisitions on the allocation of residential housing credits. Using St. Joseph country, Indiana, for his research, the author reviewed acquisition growth strategies and community Reinvestment Act enforcement over banks. He pointed out that recent legislation will increase bank acquisitions and mergers and weaken the community Reinvestment Act thus should not be adopted 18 tables and 27 charts.

Paramita Malakar (2007) examined mergers and acquisitions in general and the emerging trend in the global

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steel industry in particulars. He concludes that the trend that began in the US is now spreading all over the world. Though this consolidation trend strengthens the global steel market, the monopoly power that arises from consolidation is the greatest threat for the steel market. Spreading operations to multiple continents is the major offensive move to grow business and defensive move to prevent a takeover.

**N.K. Thigalaya (2005)**\(^{37}\) pointed out that the current banking environment is entirely different from what it was four decades ago, when the merger movement was at its peak. Then it was a move for consolidating the base, when weaker banks were on the verge of extinction. Now banks of the younger generation are itching to takeover smaller banks, to grow bigger instantaneously.

**Legal Framework**

**Vamsi Krishna (1999)**\(^ {38}\) analyzed the techniques of hostile mergers and buyout. It gives accounting treatment and tax benefits of various cases.

**Asli Demirguc-Kunt and Ross Levine (2000)**\(^ {39}\) lamented that M&A activity concentration in the banking industry may have far-ranging and long-lasting implications for financial sector efficiency, bank stability, industrial competitiveness and the policies, regulations and institutions essential for long-run economic growth. Though a central policy issue around the world, existing empirical work on bank concentration has two notable weaknesses: one is research overwhelmingly focuses on the United States banking industry and second there is an absence of econometric evidence on the political economy aspects of bank concentration. The authors attempted to build a relationship between bank concentration and the structure of the tax system, tax compliance, policies toward industrial competition, political corruption, and the efficiency of legal and accounting systems.

**Mrityunjay Athreya (1998)**\(^ {40}\) emphasized that the letter of the law, rules and a procedure is important. What is even more critical is the spirit of regulation. That spirit should be governed by the public policy aspects, corporate strategic considerations and values. Let such regulatory dharma enhance India’s domestic and global competitiveness, wealth and welfare.

**K.R. Chandratre (1999)**\(^ {41}\) In his paper covers how the benefit of exemption under regulation 3(1)(e)(i) of the SEBI Takeover Regulations could be availed of in the event of inter se transfer of shares amongst group companies is the question that is examined. A group may consist of individuals, associations of individuals, firms, trusts, trustees or bodies corporate or any other combinations. He concludes that the benefit of the exemption under Regulation 3(1)(e)(i) of the Takeover Regulation can be availed if the transfer of shares is between two companies which fall within a group as defined in section 2(ef) of the MRTP Act.

**Trends and Progress**

The important studies on trends and progress on mergers and acquisitions are presented below:

**B.K. Bhoi (2000)**\(^ {42}\) undertook a scan of the first mergers and acquisitions more, which is currently underway in India. His study roughly coincides with the latest wave of international Mergers and Acquisitions. Takeovers are the dominant mode of Mergers and Acquisitions in India, similar to the international trend. It covered international experiences and the issues relating to Mergers and

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Mergers and Acquisitions in a historical perspective; an overview of the emergence of Mergers and Acquisitions including the recent trends in Mergers and Acquisitions in India. Finally it reassessed the preparedness of the regulating authorities in India to frame suitable guidelines for Mergers and Acquisitions.

Financial Performance

The important studies on financial performance of mergers and acquisitions are given below:

Prasantha Athma (1996) covered the Performance of Public Sector Commercial Banks – A Case Study of State Bank of Hyderabad. It covers the Growth and Progress of Commercial Banking in India. In her study analyzed the trends in deposits of SBH over a period of time and to evaluate the various components of profits. This is useful for understanding the financial performance of banking Industry. She used various ratios for calculating the bank performance. She concludes that the progress of banking in India has been impressive and the present structure out came of the process of expansion, reorganization and consolidation.

S. Vaidya Nathan (2002) concluded that the forced bank mergers – lead to value erosion. If you are shareholder in a public sector bank where the Reserve Bank of India still has the clout to call the shots, watch out for any mergers that may be imposed by the central bank. He analyzed the merger of Punjab national Bank, Bank of Baroda, Centurion Bank of Punjab.

V. Gangadhar and G. Naresh Reddy (2007) analyzed the growth and performance of sample banks during the pre and post merger periods. Based on his study, it was observed that the performance of merged banks in respect of growth of total assets, revenue, profits, investment and deposits witnessed a significant increase. It found ICICI Bank had achieved the highest growth rate in all respects, except for deposits, among the sample banks. It highlights that SBI, BOB and UBI have greater consistency in their performance, reflecting lower risk faced by them. As against this, Centurion Bank, HDFC Bank and ICICI Bank have faced greater inconsistency and higher risk pointing out that the public sector merged banks have shown better performance, with greater consistency and lower risk, as compared to private sector banks in India.

S. Rachappa and S.V. Satyanarayana (2005) studied the mergers and its effect on market gains. It was based on the sample of 10 companies. The main objective of this study was to find out the market performance of the share of the acquiring and acquired companies. They took four months before the announcement of merger, four months during the announcement of merger and four months long period of the announcement of merger. It is concluded that the mergers are more beneficial to the shareholders of the acquiring firms than that of the shareholders of the acquired firm in term of giving abnormal gains. However, the abnormal gains to shareholders of acquiring company differ at various stages of the process of merger.

Pramod Mantravadi and A Vidyadhar Reddy (2007) In his research paper studied the M&A are being increasingly used world over as a strategy for achieving larger size and faster growth in market share and reach, and to become more competitive through economies of scale. This aims to study the impact of mergers on the operating performance of acquiring corporates in different periods in India, after the announcement of industrial reforms, by

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examining some pre and post-merger financial ratios, with chosen sample firms, and all mergers involving public limited and traded companies of the nation between 1991 and 2003. The results suggest that there are minor variations in terms of impact on operating performance following mergers in different intervals of time in India. The results also indicate that for mergers between the same group of companies in India, there has been a deterioration in performance and return on investment, suggesting that such mergers were only motivated by a potential for increasing the asset base through consolidation of different businesses, rather than driving efficiency improvements.

David Larcker (1997)

examined the managerial incentives in mergers and their effect on shareholder wealth. It explained the basic premise of agency theory is rather simple: managers and owners, that is, shareholders, have potentially contradictory motivations. Managers, one could argue, are interested primarily in maximizing the utility derived from their compensation and non-pecuniary items, whereas owners are primarily interested in maximizing stock price. Consequently, the decisions of managers can diverge from stockholder interests in several respects. Agency theory, then, concerns the potential conflicts of interest between managers and stockholders.

Dhawal Mehta & Sunil Samanta (1997)

found that mergers do not generally increase profitability. He concluded that the company growth rates and market shares have been found either to decline or at best to remain unchanged. He found from the studies indicate that mergers and acquisitions benefit acquired firm’s shareholders with a median gain of 19.7 per cent, whereas acquiring firm’s shareholders suffer substantial losses continuing for up to several years after the mergers.

Wan Mansor Wan Mahmood and Rashidah Mohammad (2007) examined the recent bank mergers in Malaysia did create synergies as reflected in corporate operating performance measure. Four accrual operating performance measures are used, i.e. return on Assets, Return on Equity, Profit Margin and Earnings per Share. Using a sample of eight anchor banks for a sample period beginning 1997 through 2002, the results show that bank mergers had a significant post-merger improvement.

S.L. Gupta & Satish Kumar (2005) examined the various issues involved in mergers and acquisitions in banking sector in India. He studied reasons for mergers and acquisitions in Indian banking sector. It covers cost study of selected merger in banking industry in India i.e., HDFC and Times Bank, Global Trust Bank and Oriental Bank of Commerce and IDBI and IDBI Bank. Finally he concluded that the era of Globalization, Bank will have to be competitive in order to face the challenges and leverages the opportunities. With the decision taken by RBI to implement Basel II norms, commercial banks are required to follow prudential norms and maintain sound financial parameters like higher Capital Adequacy Ratio (CAR) and low Non Performing Assets (NPA). A merger and acquisition decision is strategic decision, which is taken after considering the strategic, financial factors as well as geographical spread. Government has already started working out in this direction.

Alfred Rappaport and Mark L. Sirower (1999) recorded that the companies are increasingly paying for acquisitions with stock rather than cash. But both they and the companies they acquire need to understand just how

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big a difference that decision can make to the value shareholders will get from a deal. In a cash deal, the roles of the two parties are clear-cut, but in a stock deal, it’s less clear who is the buyer and who is the seller. If the acquirer believes the market is undervaluing its shares, it should not issue new shares to finance an acquisition. A really confident acquirer would be expected to pay for the acquisition with cash. Even managers of Internet companies like Amazon or Yahoo should not be beguiled into thinking that issuing stock is risk-free.

Marjan Petreski (2007)\(^{53}\) his paper aims to cover the performance effects of bank mergers and acquisitions. A broad literature is reviewed as to banks cost and profit efficiency, market power, stock price, and welfare effects behind the merger/acquisition event. Furthermore, the acquisition of Stopanska Banka AD Skopje by National Bank of Greece is deeply examined with regard to the post-acquisition performance of Stopanska Banka on top of the benefits for NBG of this endeavor.

Jeffrey P. Katz, Astid Simanek, and James B. Townsend (1997)\(^{54}\) analyzed the latest wave of M&A is transforming whole industries, rocking competition, crippling future innovation, and increasing stockholder vulnerability. He covered recent mergers and acquisitions in the drug industry. Stockholders need to be forceful in ensuring that managers are motivated to maximize the value of the firm and are not short changing the shareholder through M&A premium or by sacrificing innovation.

R.N. Arun & Raghunatha Reddy (2007)\(^{55}\) analyzed the behavior of stock returns in mergers and acquisitions. Companies are trying to consolidate themselves in the areas of their core competence and divest that business where they do not have any competitive advantage. Consequently, as an option, mergers and acquisitions has emerged as a key corporate activity. One plus one makes three, this equation is the special alchemy of a merger or an acquisition. Many studies have been conducted to assess the value creation when two or more companies merge, or when one company acquires another. Most of these studies have concentrated on combined benefits of both the acquiring and target companies, more specifically the acquiring companies. It is equally important to analyze value creation from the view point of the target company’s shareholders. It analyzed the value creation for target company’s shareholders in the Indian context.

Pulak Mishra (2006)\(^{56}\) examined the structure and performance of Indian pharmaceutical industry in a multidimensional structure-conduct-performance-policy framework with a focus on M&A as an important conduct by firms. The study found that through industry recorded a high rate of increase in concentration and a marginal rate of growth in market power, the level of concentration was very low, leaving the market structure high competitive. Except on exports front, performance of the industry was also not so encouraging. While the level of market concentration was determined largely by a set of conduct, performance and policy variables, in addition to various demand supply related market conditions and horizontally differentiated product structure, concentration, import competition, marketing expenses and technology strategies by the firms. Since the market was highly competitive despite the wave of M&As, finally concludes that M&As had very little impact on performance of the industry.

Mallikarjunappa and Panduranga Nayak (2007)\(^{57}\) examined corporate mergers and acquisitions have become popular across the globe during the last two decades thanks

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to globalization, liberalization, technological developments and intensely competitive business environment. The synergistic gains from M&As may result from more efficient management, economies of scale, more profitable use of assets, exploitation of market power and the use of complementary resources. Interestingly, the results of many empirical studies show that M&As fail to create value for the shareholders of acquirers. In this backdrop, the paper discussed the causes for the failure of M&As by drawing the results of the extant research.

Harish and Srividya (2004)\textsuperscript{58} dissected rationale and valuation techniques for mergers and acquisitions. Broadly, there are two ways to grow a business – through organic growth and through inorganic growth. While taking the organic growth path, the company incrementally grows its people, customers, infrastructure resources and thus revenues and profits, an inorganic growth would provide instantaneous growth enabling the company to skip a few steps on the growth ladder. Merger and Acquisition is an inorganic growth strategy. Valuation techniques categorized into three ways earnings based valuation, market based valuation and asset based valuation.

B. Rajesh Kumar and Prabina Rajib (2007)\textsuperscript{59} analyzed the distinctive financial characteristics of the acquirer and the target firms in the period of merger. This study also employed logit analysis for predicting merger targets based on a variety of financial and product market variables. The study suggests that smaller firms with lower price-earning ratio are more likely to be acquired. The acquired firms may also be undervalued by the stock market. There is a possibility that the acquirer firms with higher price-earning ratios may get instantaneous gains from acquisitions of low P/E Targets due to the market’s tendency to value the combined firm at the acquirer’s original price.

\textsuperscript{58} Harish and Srividya “Rationale and Valuation Techniques for Mergers and Acquisitions” The Chartered Accountant May, 2004.


A Venkata Subramanian (2007)\textsuperscript{60} underlined that India Inc. has embarked on bold acquisitions to realize their growth and globalization plans- M&A management will play a vital role in determining who is successful and who is not in this exciting but challenging journey. Value capture and enhancement is possible only if focused strategies are followed in the areas of knowledge capture and transfer, holistic management of M&A, managing private equity players, handling debt covenants, integration management, negotiation management, managing M&A teams and advisors, employer branding, contingency adversity handling etc. the key to success in India Inc.’s global mission is efficient M&A management—a competency that will lead to sustainable competitive advantage in the long run.

The ICFAI study (2004)\textsuperscript{61} is based on CAMEL methodology. It includes an analysis of the performance of 59 banks whose annual results for 2005-06 are available. Banks are classified into Public Sector, Private and Foreign. Category-wise ranks are assigned based on the aggregate average of ranks under each group of parameters under CAMEL.

Firth (1980)\textsuperscript{62} examined the impact of takeovers on shareholders’ returns and management benefits and, some implications for the theory of the firm were drawn from the results. The results showed that mergers and acquisitions resulted in benefits to the acquired company’s managers but losses were suffered by acquiring company’s shareholders. He concluded that overall benefits to the economy in terms of share price gains or losses were nil in the sense that abnormal gains accruing to acquired companies shareholders were neutralized by losses of acquiring companies.

\textsuperscript{60} A Venkata Subramanian “M&A Management Key to India Inc.’s Global Mission” ICFAI Reader, March, 2007.


Ajit Singh (1971) examined the performance of firms before and after the merger and efficiency of stock market as a means of enabling the resources to move into more profitable uses. The study investigated the relationship between market valuation, some financial variables (namely, pretax return on assets, dividend return on equity assets, size liquidity, gearing, retention, growth of net assets, etc.) and takeovers. Finally it was concluded that mergers were non-profitable.

Manoj Anand and Jagandeep Sigh (2008) analyzed five mergers in the Indian banking sector to capture the returns to shareholders as a result of merger announcements using the event methodology. The merger of the Times Bank with the HDFC Bank, the Bank of Madura with the ICICI Bank, the ICICI Ltd with ICICI Bank, the Global Trust Bank with the Oriental Bank of Commerce, and the Bank of Punjab merger with the Centurion Bank have been studied. Finally he conclude that merger announcement in the Indian banking industry has positive and significant shareholder' wealth effect both for the bidder and target banks.

Robert G. Bowman and Elaine Yitt Ling Wong (2004) used a sample of horizontal acquisitions that took place between 1999 and 2002, he first investigated whether the bidder firms' share price performances were dependent upon the type of target firm. It was found that returns of acquiring firms were dependent on the ownership structure of the target firm (i.e., private, public or subsidiary). Positive abnormal returns were found across all the acquiring firms except that the share price performance was significantly negative when acquiring publicly traded targets. They found strong evidence in support of the hypothesis that cumulative

abnormal returns are negative related to relative size. The bidder’s managerial performance, market power of the acquiring firm, and level of industry concentration were not related to the cumulative abnormal returns.

Shailesh Karnik (2005) covered the Liberalization in the 1990s and the recession in the economy has created new challenges for the Indian corporate sector. Companies are engaging in various efforts to consolidate themselves in the areas of their core competence and divest those businesses where they do not have any competitive advantage. Consequently, as an option, mergers and acquisitions have emerged as a key corporate activity. The ultimate goal of any merger or acquisition is to add value. M&A activities are driven by the belief that two entities can achieve more value by operating together than separately. It is equally important to analyze value creation from the viewpoint of shareholders of the target company. This paper presents the findings of a research study to assess value creation for target companies’ shareholders in the Indian context.

Ahmad Sohrabian and Jeannie Kusnadi (1999) explored the impact of acquisitions on shareholders’ return within the insurance industry which took place between 1993 and 1996. The results reveal that acquiring firms do not post any significant abnormal returns during the announcement period, while the target firms get positive significant abnormal returns. When acquisitions are analyzed based on transaction price, cumulative average abnormal returns for large acquisitions are significantly higher than for medium-to-small acquisitions are the ones with greatest return. Finally, when acquisitions are grouped based on type, the returns on conglomerate mergers are superior to non-conglomerate mergers.

1.13 PLAN OF THE STUDY

The present study is organized into Seven chapters. They are:

Chapter-I Introduction deals with introduction, meaning, goals, benefits of M&As, types of mergers, recent changes in Indian banking sector, need for the study, objectives of the study, sources of data, statistical tools, sample design, period of study, hypotheses of the study, scope of the study, review of literature, plan of the study and limitations of the study.

Chapter-II Legal Framework for Mergers and Acquisitions in India Presents the legal framework for mergers and acquisitions in India. It covers the various legal enactments that govern the M&A activity in India.

Chapter-III Trends and Progress of Mergers and Acquisitions in India deals with sector-wise trends and progress of M&A in addition it attempts an analysis of variance of M&As, analysis of trends and progress of M&As in manufacturing and service sectors, in general and in the Indian banking sector in particular.

Chapter-IV Profile of Merged Banks covers the profile of select merged banks.


Chapter-VII Entitled Summary of Findings, Conclusions and Suggestions presents of summary of findings, conclusions and offers a few suggestions. It also highlights the contribution of the present study and identifies a few areas for further research.

1.14 LIMITATIONS OF THE STUDY

The major limitation of the present study is selection of one particular sector such as banking. Further it is confined to measurement of the physical and financial performance of select merged banks. To that extent it may be taken as a major limitation of the study. The inherent limitation is secondary data may also be acknowledged. The published data is not uniform and not properly disclosed by the organizations. The study has not attempted any comparative analysis cross sectors. This may also be taken as yet another limitation.

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