Merger and Acquisition in Banking Industry

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Abstract

Mergers and acquisitions are the important process in the banking industry to make financial gains enormously. Main aim of merger and acquisition in the banking sectors is to improve the economies of scale. A merger means combination of two companies into one company. During the merging process one company survives and the other company loses their corporate existence. On the other hand acquisition means takeover. Mergers and acquisitions are these days common choices for business survival and development. They imply the difference of enterprises to new conditions being one in every of them, the mixing of the enterprises concerned within the deal. That integration is achieved through strategic actions in structure processes and structures, in addition as through the management of the subjective conditions that support human performance. One in every of these conditions is that the individual and team identities. The identity plays a vital mediating role within the adaptation and integration as a result of the mutual acknowledgment of the self and therefore the different in any social interaction has the facility to influence the social interaction. Mergers and acquisition bank not only gets new brand name, new structures, product offerings but additionally give opportunities to cross sell the new accounts acquired. The process of mergers and acquisition is not new in the banking industry. This paper deals with the mergers and acquisitions, types of merger, legal framework, approval of Reserve Bank of India and historical perspectives of banks M&A, impact of mergers and acquisition in banking industry.

Key Words: Acquisition, banking, economic, merger and takeover.
1. Introduction

Merger can be defined as a method of unification of two players into single entity. Merger is also a way of mixing two business entities below the common possession. Bank merger is a happening once previously distinct banks are consolidated into one institution. A merger happens once an independent bank loses its charter and becomes a neighborhood of an existing bank with one headquarter and a unified branch network. The word acquisition, conjointly called a takeover or a acquisition, is that the shopping for of one company (the ‘target’) by another. a sale is also friendly or hostile. The method of mergers and acquisitions was importance in today’s world. In India, the idea of mergers and acquisitions was first initiated by the govt bodies and few accepted financial firms, organizations conjointly took the specified initiatives to restructure the company sector of India by process of the mergers and acquisitions policies. The industry could be a vital space throughout that mergers and acquisitions do build immense monetary gains.  

2. Aim of the Study

- To study about the purpose and procedures in merger and acquisition.
- To know about the merger between HDFC and Centurion Bank of Punjab.

3. Materials and Methods

The present research is conclusive, descriptive. The study was conducted on secondary source of data books, articles, journals, e-sources and the relevant case laws.

4. Review of Literature

Conceptual Frameworks of Merger and Acquisition

This framework contains a introduction about merger and acquisition, its concept, definition of merger and acquisition, history of merger and acquisition, reason for merging of firms, theories of merger, varieties of merger, its process, its different aspects, legal and regulatory framework, its impacts, its managing risk, failure of merger and acquisition.

1 http://shodhganga.inflibnet.ac.in/bitstream/10603/93167/7/07_chapter%202.pdf
2 http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/Mergers___Acquisitions_in_India.pdf
Mergers & Acquisitions in India 2016, Nishith Desai Associates

This paper is broadly classified into 7 chapters including the introduction and conclusion. Introductory chapter contains overview of the merger and acquisition market, conceptual overviews such as merger and amalgamation which are of horizontal, vertical, congeneric, conglomerate, cash and triangular, further it also says about acquisition and joint ventures. Second chapter is about merger and amalgamations: key corporate and securities laws considerations which deals with company law based on procedure under the merger provisions, applicability of merger provisions to foreign companies, security law combines with takeover code, listing regulations. next chapter explains about acquisitions: key corporate and securities laws considerations deals with company law based on acquisition shares, other security laws such as securities and exchange board of India, takeover code, listing regulations, insider trading, Company Act 2013. Further chapter is about exchange control which is foreign Direct investment in a holding company, indirect foreign investment, investment in a holding company on acquisition of rights shares/bonus shares, issue of shares under merger.

Mergers and Acquisitions in India: a Strategic Impact Analysis for the Corporate Enterprises in the Post Liberalisation Period
Rabi Narayan Kar

This paper analysis has substantiated the fact that Indian companies have adopted M&As as a strategic choice for growth and expansion in general and particularly more prominently during the difficult period of 1996-97 and 1997-98. The analysis of M&As trends for the entire period gives two distinct phases of M&As for the different sectors of the Indian industry, that is the period from 1990-91 to 1995-96 and 1996-97 to 2000-01. from this paper it is known that during the first period, there have been 68 M&As whereas in the second phase 1318 M&As have been found. That is why the second phase can safely be called as the first M&A wave in India. M&As have been found to be beneficial in the sense that Indian companies grew in size, and attain better market share. Profit after tax and book value of the companies increased after M&As during the time periods 1994-98 and 1994-99 respectively. After that there was no significant change of M&As on these variables. The nature and pattern of M&As strategies adopted by the Indian companies reveal mostly horizontal and vertical types. From this paper it is to the knowledge that Indian companies are focusing on their core areas and expanding mostly in related areas of strength which is helpful in realization of synergistic benefits. Further, it has been observed that M&As in India are strategic in nature that motives range from growth and expansion to high quality of human resources, strong brand presence and global identity and leadership. The study has ignored the impact on target companies due to the typical constraints of obtaining Indian M&As data as stated in the study.
Merger & Acquisition in India: An Analytical Study-Harpreet Singh Bedi

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. Till recent past, the incidence of Indian entrepreneurs acquiring foreign enterprises was not so common. The situation has undergone a sea change in the last couple of years. Acquisition of foreign companies by the Indian businesses has been the latest trend in the Indian corporate sector. The Indian IT and ITES sectors have already proved their potential in the global market. The other Indian sectors are also following the same trend. The increased participation of the Indian companies in the global corporate sector has further facilitated the merger and acquisition activities in India. The various factors that played their parts in facilitating the mergers and acquisitions in India are favorable government policies, buoyancy in economy, additional liquidity in the corporate sector, and dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India. Even though mergers and acquisitions (M&A) have been an important element of corporate strategy all over the globe for several decades, research on M&As has not been able to provide conclusive evidence on whether they enhance efficiency or destroy wealth. There is thus an ongoing global debate on the effects of M&As on firms. This article seeks to explore the trends and progress in M&As India.

Determinants of Mergers and Acquisitions in Indian Pharmaceutical Industry-Vidhisha VYAS, Krishnan NARAYANAN, A.RAMANATHAN

M&A turned out to be significant form of corporate restructuring in post globalization period in Indian industries. The phenomenon is considered to be the most important strategy for gaining competitive advantage for firms. This study attempts to find out the determinants of M&A in Indian pharmaceutical industry. We use the PROWESS database provided by the Center for Monitoring Indian Economy for the period of 2001-2010. The results of the Logit analysis suggests that large and multinational affiliated firms are investing more in M&A activities.

Similarly, firms reporting excess capacity and high R&D investments are relying heavily on M&A to and consolidate their position in the industry.
Mergers And Acquisitions: The Evolving Indian Landscape

This paper is broadly classified into 3 sections. Section 1 is M&A – the Indian landscape M&A – a catalyst in the current scenario The global scenario M&A – the India story What can go wrong in M&A deals Section 2: M&A essentials Cross-border M&A – dissolving boundaries Why due diligence Structuring deals Succession planning Section 3: Developments impacting M&A transactions Treaty under metamorphosis – recent developments GAAR – testing the substance of arrangement REITs and InvITs – redefining the funding strategy BEPS – impact on M&A Indirect transfers – lifting the veil.

Mergers and Acquisitions in the New Era of Companies Act, 2013

This is broadly divided into 3 chapters. 1st chapter is Companies Act 2013: M&A landscape second chapter deals with Companies Act 2013: impact on transactions Companies Act 2013: mergers, compromises and arrangements . third chapter is about Companies Act 2013: capital structuring and other M&A related aspects.

Mergers and Acquisitions

Mergers and acquisitions (M&A) have emerged as an important tool for growth for Indian corporates in the last five years, with companies looking at acquiring companies not only in India but also abroad. Understanding the complexities of the various financing structure, including LBO financings, proper due diligence procedures & managing cross-cultural HR issues are crucial for the success of an M&A deal. This paper highlights the M&A activity in the world and India. It also discusses the new Competition Act framed by the Competition Commission of India. This is followed by the outlook on the M&A activity in India.

Mergers & Acquisitions in India: A Sectoral Analysis
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Globalization, deregulation and technological improvements have resulted in increase in M&A across the globe. There is enormous literature existing in the advanced economies. However, very little information is available regarding M&A in India. Various sectors have witnessed differential involvement in M&A activity indicating higher participation by some. Particularly, certain sectors such as financial services and pharmaceuticals demonstrate higher M&A activity. To emphasise differential importance of sectors in M&A activity, it is necessary to conduct a sector-wise analysis. Accordingly, this study attempts to investigate the differential representation of various sectors in M&A. Further, it explores the role played by India in the rising global M&A activity. In light of this, it specifies the factors driving consolidation in the financial sector globally.

An Overview of Mergers and Acquisition - CA. Sanjeev Kumar Gupta
Dr. Sambit Kumar Mishra

Mergers and acquisitions (M&A) and corporate restructuring are a big part of corporate finance world. M&A which bring separate companies together to
form larger ones. This paper highlights on the various ways of the M&A and regulatory implications on the M&A entities.

**Mergers and Acquisitions in India and its Impact on Shareholders Wealth**

Amish Bharatkumar Soni.

This paper has shareholders wealth analysis for short-term investment. For the same, it is analyzed with top 10 (Value wise) mergers and acquisition by Indian companies, in which it is found the market return and script return of the companies and Index pre merger and post merger with the help of the regression line.

**Institutional Laws, and Mergers and Acquisitions in India: A Review/ Recommendation**

K. Srinivasa Reddy

The paper intends to review, summarize and discuss various institutional laws refer to mergers and acquisitions (M&A) in India, and thereby recommend fruitful policy guidelines for institutions and managers participating in foreign investment and acquisition deals. Further, they also show the market for value of foreign inbound and outbound deals representing India for the period 2004 through 2013. The major observations include, higher valuation inbound-deals had delayed or failed due to weak financial infrastructure, erratic nature of government officials and political intervention, and the newly elected government has aimed to attract higher inflow of investment from other developed and emerging markets by easing investment rules and offering tax holidays. The study eventually would help policy makers, M&A advisors, legal consultants and investment bankers in assorted issues, and private equity firms and multinational firms intending to invest in Indian business.

**Merger and Acquisition**

This paper contains reasons and rationale for mergers and acquisitions, gains from mergers or synergy, accounting for amalgamation, problems for M & A in India. It also deals with mergers in specific sectors, acquisition and takeover, Takeover by reverse bid. Further it explains about the acquisition process defending a company in a takeover bid, legal aspects of M & A, due diligence, target valuation for M & A. This paper gives knowledge about corporate restructuring, financial restructuring, merger failures or potential adverse competitive effects, acquiring for shares, cross border M & A, Decade of corporate churning and change.

**Mergers and Acquisitions from A to Z Kindle Edition - Andrew Sherman**

The definitive guide to getting deals done right. More than ten thousand mergers and acquisitions occur annually in the US, many among small- and mid-sized companies. These complex transactions can be an effective growth strategy, but they carry significant risk. Mergers and Acquisitions from A to Z helps guard against costly mistakes. Expert advice, case studies, checklists, and
sample documents walk through every step of the process-from valuation to securities laws to closing and successful integration. Covering the latest trends and regulatory developments, the fourth edition explains how to: Prepare for and initiate a deal, Create a letter of intent, Conduct due diligence, Structure profitable deals, Calculate the purchase price, Raise capital, Keep transactions on track, Understand the roles and risks for boards, Manage post closing challenges, And more When done properly, mergers and acquisitions let companies eliminate rivals, extend territory, and diversify offerings. This resource delivers the strategic and legal guidance one need to make the most of every deal.

Expensive Mistakes When Buying & Selling Companies Kindle Edition by Richard G. Stieglitz PhD

Selling or buying a business can be a lucrative but risky transaction. It's all too easy to sell yourself short or to overpay as the buyer. If a person want to avoid the costly mistakes that many business owners make in M&A transactions, this book is for such person. It provides valuable guidance on how to prepare for and negotiate the deal, and how to leave the bargaining table with more money in their pocket!

5. Types of Mergers

A vertical merger is completed with an aim to mix two corporations that are within the same worth chain of manufacturing identical sensible and repair, however the sole distinction is that the stage of production at that they're operational. as an example, if a clothing store takes over a textile mill, this might be termed as vertical merger, since the business is same, i.e. clothing, however the stage of production is different: one firm is works in territory sector, whereas the opposite works in secondary sector. These varieties of merger are typically undertaken to secure provide of essential merchandise, and avoid disruption in provide, since within the case of our example, the haberdashery store would be rest assured that garments are going to be provided by the textile mill. it's conjointly done to limit provide to competitors, therefore a bigger market share, revenues and profits. Vertical mergers conjointly supply price saving and a better margin of profit, since manufacturer’s share is eliminated.(Ivanova and Podsiadlowski 2002)

Horizontal Combination

Horizontal mergers happen when an organization merge or takeover another company that gives constant or similar product lines and services to the ultimate shoppers, which suggests that it's within the same trade and at constant stage of production. Companies, during this case, are typically direct competitors. for instance, if an organization manufacturing cell phones merges with another company within the trade that produces cell phones, this might be termed as horizontal merger. The advantage of this type of merger is that it eliminates competition, that helps the corporate to extend its market share, revenues and
profits. Moreover, it additionally offers economies of scale thanks to increase in size as price decline because of higher production volume. These sorts of merger additionally encourage value potency, since redundant and wasteful activities are aloof from the operations i.e. varied body departments or departments such as advertising, getting and selling.

Circular Combination

Firms manufacturing distinct product for merger to share equal distribution and to analysis facilities to urge political economy by eliminating the costs of duplication and promoting market enlargement. The deed company obtains benefits at intervals the sort of political economy of resources sharing and diversification.

Conglomerate Combination

Its merger of 2 companies engaged in unrelated industries like Hyundai and hdfc. the essential purpose of such merger remains utilization monetary resources and enlarges debt capability through reorganizing their money structure so on service the shareholders by raised investment, lowering value of capital and thereby raising gift price of the outstanding shares. Mergers enhance the steadiness of the non inheritable company and build balance at intervals the company’s total portfolio of diverse product and production processes.

6. Acquisition

Acquisition normally sense is acquiring the possession within the property. In the context of business combos, an acquisition is that the purchase by one company of a interest within the share capital of another existing company (Hasegawa 2000).

Methods of Acquisition:

An acquisition is also affected by:

● Agreement with the persons holding majority interest within the company management like members of the board or major shareholders commanding majority of vote power;
● Purchase of shares in open market;
● to make takeover provide to the final body of shareholders;
● Purchase of recent shares by personal treaty;
● Acquisition of share capital through the subsequent sorts of concerns viz. means that of money, issue of loan capital, or insurance of share capital.

References:

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7https://www.researchgate.net/publication/228241213_Merger_Acquisition_in_India_An_Analytical_Study
9http://www.ejbe.org/EJBE2012Vol05No09p079VYAS-NARAYANAN-RAMANATHAN.pdf
7. Changes in Banking Scenario

Like all business entities, banks need to safeguard against risks, as well as exploit obtainable opportunities indicated by existing and expected trends. M&As in the banking sector are on the increase within the recent past, each globally and in India. During this background of emerging world and Indian trends within the banking sector, this article illuminates the key problems encompassing M&As during this sector with the focus on India. It seeks to clarify the motives behind some M&As that have occurred in India post-2000, analyse the advantages and costs to each parties concerned and the consequences for the integrated entity. A look at the future of the Indian banking sector, and a few key recommendations for banks, follow from this analysis. 

The International banking situation has shown major turmoil within the past few years in terms of mergers and acquisitions. Deregulating has been the most driver, through three major routes - dismantlement of interest rate controls, barriers that has been leads to disintermediation, investors hard-to-please high returns, price cutting war, reduced margins, falling spreads and competition across geographies forcing banks to appear for brand new ways. 

Consolidation has been a serious strategic tool for this and has become a worldwide development, driven by apparent edges of scale-economies, geographical diversification, lower costs through branch and workers rationalisation, cross-border enlargement and market share concentration. The new metropolis II norms have additionally diode banks to ponder M&As. M&As that have happened post-2000 in India to grasp the intent (of the targets and to boot the acquirers), succeeding synergies (both operational and financial), modalities of the deal, harmony of the strategy with the vision and goals of the involved banks, and to boot the long haul implications of the merger. The article additionally analyses rising future trends and recommends steps that banks have to be compelled to think about, given the forecasted situation.

8. Purpose of Mergers and Acquisition

The basic purpose of merging the company is to achieve faster growth in the corporate world. Faster growth of the company may be shelf through product improvement and other purpose for acquisition are given below:

7 http://www.rainmaker.co.in/IntroductoryProgrammes/IntroductionMergersAcquisitions.pdf
Procurement of Supplies

The company by the way of merging and acquisition can safeguard the sources of supplies of raw materials and to obtain economies of purchase in the form of discount, saving cost of transportation costs, overhead costs in buying department etc. The companies get merged to achieve this purpose. (Charkham and Simpson 1999)

Revamping Production Faculties
- To achieve the economies of scale by amalgamating production facilities is more intensive utilisation of plant and resources.
- To obtain improved production technology and knowhow from the offered company.

Market Expansion and Strategy
- To eliminate competition and protect existing market.
- To reduce the cost of advertising and to improve the public image of the offeree.

Financial Strength
- To improve the liquidity and have direct access to the cash resources.
- To utilise the tax benefits.
- To dispose of surplus and outdated assets for cash out of combined companies.

General Gain

The company is said to improve its own image and attract superior managerial talents to manage its affairs by the way of merger and acquisition. The most general purpose of merging is to offer better satisfaction of product to the consumers or uses of the product.

Strategic Purpose

The company View the merger to achieve strategic objectives through different types of combinations which may be horizontal, vertical, product expansions other specific unrelated objectives depending upon the corporate strategies. Thus, these types of combination distinct from each other in their nature and are adopted to pursue the objectives.  

Corporate Friendliness

Although it's rare but it's true that business homes exhibit degrees of cooperative spirit despite fight in providing rescue to each completely different from hostile takeovers and cultivate things of collaboration sharing goodwill of each various to realize performance heights through business combination. the corporate aim at circular combos by following this objective.

11. http://ijbed.org/admin/content/pdf/i-5_c-58.pdf
Procedure of Banks Merger and Acquisition

- The procedure for merger either voluntary or otherwise is printed within the several state statutes/the banking rules act. The registrars, being the authorities United Nations agency are unconditional with the responsibility of administering the provisions, are going to be guaranteeing that the due process of law prescribed within the statutes been complied with before they look for the approval of the run.

- While choosing the merger, the approved officers of the exploit bank and therefore the merging bank sit on and it discuss concerning the procedural modalities and financial terms. Once the discussion was finished, a theme was ready to include all the small print of each the banks and therefore the space terms and conditions. Once the theme was finalised, it's been tabled among the meeting of board of administrators of banks. The board discusses concerning the theme and accords its confirmation if the proposal was found to be financially viable and useful in end of the day.

- After the board approval of the merger proposal, an additional normal general meeting of the shareholders of the several banks is converted to debate the proposal and look for their approval.

- After the board approval of the merger proposal, a registered appraiser is appointed to evaluate each the banks. The appraiser valuates the banks on the premise of its share capital, market capital, assets and liabilities, its reach and anticipated growth and seeks their approval.

- Once the valuation is accepted by the several banks, they send the proposal beside all relevant documents like board approval, shareholders approval, valuation report etc to reserve Bank of India and alternative restrictive bodies such security and exchange board of India for his or her approval.

- At last when getting approvals from all the establishments, approved officers of each the banks then they sit along to debate and settle share allocation proportion by the exploit bank to the shareholders of the merging bank.

- After finishing higher than procedures then it'll signed by the banks.

Provisions Relating to Merger, Acquisition and Amalgamation of Banks

Mergers-banking Regulation Act,1949

- Section 44A of this act talks about the procedures for voluntary mergers of banking companies.

- Section 45 of this act talks about the compulsory amalgamation of banks.

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12 http://mujournal.mewaruniversity.in/JIR2/12.pdf
14 https://mpra.ub.uni-muenchen.de/63410/1/MPRA_paper_63410.pdf
Companies Act
- Selection 230 and 232 of the Companies Act, 2013 relates with the mergers and amalgamation.

State Bank of India, 1955
- Section 35 states acquisition of business of other banks by State Bank of India.

HDFC Bank Acquired Centurion Bank of Punjab may 2008
HDFC Bank is merged with centurion bank of Punjab. After merging this two banks its named as HDFC bank itself. The will strengthen HDFC Banks distribution network in the northern and the southern regions. For HDFC, this merger provided an chance to add scale, geography and management bandwidth. In addition there was a potential of business synergy and cultural fit between two organization For warrior bank of geographical region, HDFC bank would exploit its below utilized branch network that had the requisite experience in retail liabilities, dealings banking and third party distribution. The combined entity would improve productivity levels of centurion bank of Punjab branches by leveraging HDFCs bias towards high rated corporate entities. The deal created an entity which provided massive scale economies and improved distribution with branches and ATMs. There are significant crossing dealing in short term. But there were certain drawbacks in this merged entity that it will not lend home loans given the conflict of interest with parent HDFC and may eve sell down Centurion bank of geographical region consumer credit book thereto. The retail portfolio of the united entity can have additional by manner of unsecured and 2 Wheeler loans. Which have come under pressure recently.

9. Conclusion
The concept of merger and acquisition between two or more companies can turn out to be a successful merger and acquisition. The merging and the acquisition process is accepted in India by the Companies Act, 2013 and for the company to get merge with another company, it is important, for the company to follow the procedure explained in the same Companies Act, 2013. When the company acquire merger and acquisition it depends upon its planning and strategies whether they will profitable or in losses. India has many cases through which they proved its not lagging in this aspect of merger and acquisition from worldwide. The concept of merger and acquisition can also be a risky process which has to be adopted, as it may bring various problems to the company in terms of the management, it working, etc.,

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