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MERGERS AND ACQUISITION IN THE INDIAN BANKING SECTOR: A STUDY ON BANK OF BARODA

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ABSTRACT

In Indian banking sector Mergers & acquisitions has become well-liked trend throughout the country. A large number of public sector bank, private sector bank and other banks are affianced in Mergers & acquisitions activities in India. The Main reason behind Mergers & acquisitions in the banking sector is to harvest the advantage of economies of scales. Merger & Acquisition have played a significant role in the transformation of industrial sector of India since the Second World War era. In this present scenario, Mergers & acquisitions is one of the broadly used strategies by the banks to make stronger and maintain their position in the market. During the last two decades, the Indian banking sector has undergone a metamorphic change following the economic reform process initiated by the Govt. of India. The forces of liberalization and deregulation unleashed by the economic reforms, set in motion in 1991, have transformed the face of the Indian financial services sector landscape , including that of the Indian banking sector in a big way. State-run Bank of Baroda has now become India's second largest public sector bank after its merger with two banks i.e. Dena and Vijaya Bank respectively. The amalgamation of the two lenders with Bank of Baroda, will be effective from 1 April, 2019. This is the 1st three-way merger of the banks in India, making the combined geographical reach of 9,490 branches, and 13,400 ATMs with 85,678 employees serving in 9,490 branches and more than 120 million customers. The Banks tried to sustain their growth by increasing in various segments. There was a big signal of competition in the banking sector too. To safeguard themselves and to remain in the financial market, the banks have started to capture their competitors. This was the beginning of the merger era in the banking sector in India. The bank of baroda a, Dena Bank, Vijaya Bank would need to devise the imaginative ways to increase the income in order to garner more profits. The exposure accounting standards, an improvement of accounting standards and disclosed practices would enhance for transparency in financial market.

Keywords: *Mergers & Acquisitions, Financial Services Sector, Financial Market, Accounting Standards.*

Introduction

In Indian banking sector Mergers & acquisitions has become well-liked trend throughout the country. A large number of public sector bank, private sector bank and other banks are affianced in Mergers & acquisitions activities in India. The Main reason behind Mergers & acquisitions in the banking sector is to harvest the advantage of economies of scales. Merger & Acquisition have played a significant role in the transformation of industrial sector of India since the Second World War era. During the Second World War period Economic and political conditions give rise to effective Mergers & acquisitions (M&A). Mergers can be a large source of growth in any economy but particularly in one that's moderately stagnant and mired in deep hesitation. Mergers & acquisitions (M&A) are measured as a relatively fast and efficient approach to expand into new financial markets and slot in new technologies, the main object behind used strategy by firms to strengthen and sustain their position in the market place. Mergers & acquisitions (M&A) have played a key role for corporate restructuring & the financial services industry.

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The International Banking picture has exposed major changes in the past few years in terms of the Mergers & acquisitions. Due to the financial structure deregulation, entry of new players and products with new technology, globalization of the financial markets, changing customer behaviour, wider and better services with low costs, shareholder's wealth demands etc., have been on rise.

In this present scenario, Mergers & acquisitions is one of the broadly used strategies by the banks to make stronger and maintain their position in the market. Companies are confronted with the facts that the only big players can survive as there is a cut throat struggle in the market and the success of the merger depends on how well the two organizations integrate themselves in carrying out their operations. Banks will get the reimbursement of economies of scale through mergers and acquisition. For expanding the operations and cutting costs, Business Entrepreneur and Banking Sector is also using Mergers & acquisitions world wide as a strategy for achieving larger size, increased their market share, faster expansion, and synergy for becoming more competitive through economy of scale. The banks must follow the legal procedure of Mergers & acquisitions which is given by the Reserve Bank of India, SEBI, Indian Companies Act and Banking Regulation Act in the year 1949. Mergers & acquisitions is not a little process, it takes time to take decisions after examining all the aspects. Indian Corporate Sector had stringent control before liberalization but, the Govt. has initiated the Reform after 1991 which resulted in the adaptation of the different growth and expansion strategies by the Companies.

Landmarks in Indian Banking Sector

- The Banking System of India was started in 1770 and the first Bank was the Indian Bank known as the Bank of Hindustan.
- 1840 - Bank of Bombay
- 1843- The Bank of Madras
- 1840 - Bank of Calcutta
- 1921 - All the above banks were merged and shaped a new bank known as Imperial Bank of India.
- 1955- Imperial Bank was partially nationalized and was named as SBI (State Bank of India)
- 1969 - fourteen (14) banks were nationalized
- 1980 - six (6) more banks were nationalized
- 1993- the New Bank of India was merged with The PNB (Punjab National Bank)

Indian Banking can be Divided into Three Main Phases

- Phase I (1786 – 1969) - Initial phase of Banking in India where many small banks were set up
- Phase II (1969 – 1991) - Nationalization, Regularization and Growth marked this period
- Phase III (1991 onwards) - Liberalization and its aftermath

In post liberalization regime, Govt. had initiated the policy of liberalization and licenses were issued to the private banks which led to the expansion of the Indian Banking Sector. In the recent times, Indian Banking Industry showed a tremendous growth because of an increase in the retail credit demand, proliferation of ATMs and debit & credit cards, decreasing NPAs, improved MSME and economic condition, diversification, interest rate spreads and regulatory and policy changes.

M & As in the Indian Banking Sector

During the last two decades, the Indian banking sector has undergone a metamorphic change following the economic reform process initiated by the Govt. of India. The forces of LPG and deregulation unleashed by the economic reforms, set in motion in 1991, have transformed the face of the Indian financial services sector landscape , including that of the Indian banking sector in a big way. There has been a paradigm shift from a regulated to a deregulated environment. Earlier, the banking industry was largely a nationalized industry (since 1969). The better developments in the economies across the globe, the financial/economic disaster in 1991 & more recently the sub-prime crisis and the changing outlook of the policy makers in India have forced the pace of change of the Indian banking industry. The economic liberalization and deregulation events intiated in the 1990s have opened up the doors to foreign competition and completed the markets more efficient and competitive. Continuous modernism and keeping pace with technological change have become a must for survival of the firms in the financial services industry with the banking sector. The growth and developments in the Indian banking sector have witnessed rather a few Mergers & acquisitions (M&A).

Mainly, the banking sector in India has made extraordinary advancement since the economic reforms in 1991.The entire financial sector - the banking sector in particular is of primary importance to a developing economy of country. The Narasimham Committee report in Aug 1991 highlighted the require

for financial sector reforms and fostering competitive spirit in the banking sector of India. The statement also suggested a roadmap to achieve this financial objective. The central subject of the reforms was straight forward: providing the a lot needed platform to the Indian banks to function from a vantage point on the basis of operational flexibility and functional autonomy, productivity, profitability & thereby improving efficiency. The Govt. did not accept all the recommendations due to socio-political compulsions and the realistic difficulties in implementation.

Mergers & acquisitions are not an unknown happening in Indian Banking. Like this, the predecessor of SBI, the Imperial Bank of India was born out of consolidation of three Presidency Banks way back in 1920. In fact there were several cases of bank failures, Mergers & acquisitions which were reported in before independence period dating back to even early 19th Century. Appropriate regulation and control of banks and interference by the regulator in the event of a crisis came into being with the passing of Banking Regulation Act in 1949. Mergers & acquisitions in Indian banking sector have initiated through the recommendations of Narasimham committee II. This committee recommended that merger between strong banks/ financial institutions would make for greater economic and commercial intellect and would be a case where the whole is greater than the sum of its parts and have a “force multiplier effect”. (Narasimham committee II, chapter, para 5.13 -5.15).

Review of Literature

Prager and Hannan (1998) has studied the value effects of U.S. bank mergers that well raised native market concentration. They used the deposit interest rates provided by banks to their purchasers as their value live. And found that, over the year 1991 to 94 fundamental measure, deposit rates offered by participants in substantial horizontal mergers and their native market rivals had declined by the next share than did those offered by banks not operational in markets throughout which such mergers passed. The authors understood the results as proof to determine that these mergers LED to increased market power. Bank mergers might modify banks to achieve from new strategic business opportunities that surface following changes within the restrictive & technological surroundings.

Ricky Yee- Kwong Chan, Y.H. Yong (1999) have conducted the study on Bank generic strategies: will porter‘s theory apply in a world banking centre, it’s urged that the feasibleness in abundance depends on a bank organizing and coordinating capabilities that are developed & refined through social control commitments, learning and experiences, further as a careful assessment of varied structure activities and it‘s inhume relationships inside the whole business system.

Vennet (1996) studied the effects of Merger & Acquisitions (M&As) on the profitability and efficiency of banks. The sample of 492 takeovers during the period 1988 to1993 was taken. In domestic acquisitions, the target banks exhibits the lower performance but they are unable to remedy the situation. The post merger efficiency of banks deteriorated, so these mergers of banks do not appear to be benefited to the point of synergy effects. Study also revealed that domestic acquisitions driven by the market power motives but they exhibits domestic merger among equal sized partners considerably increased the competence and profitability in the post merger period and shows only improvement in cost efficiency in cross border acquisitions.

Mehta Jay & Kakani Ram Kumar (2006) stated that there have been multiple reasons for Merger & Acquisitions within the Banking Sector of Indian and still contains to capture the interest of a research and it just because of when the strict administration laws had LED to a wave of merger & Acquisitions within the industry and states several reason for merger within the Indian Banking sector. Where as a fragmented Indian banking structure is also fine useful to the client due to competition in banks, however at identical time to not the amount of worldwide industry, and over that merger & Acquisition is an important for the state to make few massive Banks.

Literature regarding mergers among Indian banks is proscribed mostly been attributable to the scarcity of revealed case material and therefore the confidentiality related to this activity. From the prevailing literature, it absolutely was ascertained that major studies cantered on performance and therefore the resultant implications of M&As; significantly, in connect degree business wherever “size” determines sustenance ability, the merger ought to place the banks on a stronger footing. Today, quite ever, merger inside the Indian banking sector have gained sizeable impetus for achieving consolidation.

As observed from the above studies, most of the research have been done on trends, policies and their framework but researchers was not focused on Mergers & acquisitions in the banking sector. The present article would go to investigate the details of Mergers & acquisitions (M&As) with greater

focus on the Banking sector of Indian in post liberalization period. The study will also discuss the pre & the post merger performance of banks.

Importance of the Study

This will be the problem area of my research, my study will be dedicated on "Mergers & acquisitions in Banking Sector a study on bank of baroda", an in-depth analysis of financial and operational parameters of Merger & Acquisition in Indian Banking sector will be studied. Merger & Acquisition in Indian Banking Sector are often been viewed as consolidation process in the Indian Banking sector, wherever a strong bank takes over a weak bank. Merger & Acquisition in Indian banking sector is for a financial integration, economic growth and development and financial stability. This in turn enables them to get better resource allocation like risk management and to enlarge profitability of the banks. The Merger & Acquisition in the Indian banking sector leads to interbank competitions these intends to give the beneficial effects to spread the Indian banking sector as a whole.

Objectives of the Study

The objectives of the Study are:

- To present an overview of Phase wise Mergers in the Banking Sector
- To know the present performance of the bank of board
- To know Financial Parameters after Merged Entity in bank of board

Methodology

- **Sources of Data:** The study is based on Secondary data in nature which includes the Annual Reports of the Bank of baroda, dana bank and Vijaya Bank; RBI Database, books, periodicals and research publications etc.
- **Period of Study:** The Period of the Study is from 2019.

State-run Bank of Baroda has now become India's second largest public sector bank after its merger with two banks i.e. Dena and Vijaya Bank respectively. The amalgamation of the two lenders with Bank of Baroda, will be effective from 1 April, 2019. This is the 1st three-way merger of the banks in India, making the combined geographical reach of 9,490 branches, and 13,400 ATMs with 85,678 employees serving in 9,490 branches and more than 120 million customers. From Monday onwards all the branches of Dena and Vijaya Bank will function as branches of Bank of Baroda and the customers of both banks will be treated as clients of BOB, the RBI said on recently. In addition to this, the customers will also carry on to use the same account number, IFSC Code, MICR Code along with their current cheque books and ATM cards.

Financial Parameters

Rs in Cr.

Financial Parameters	Bank of Baroda (BoB)	Dena Bank	Vijaya Bank	Merged Entity
Total Business (In Cr)	10,29,810	1,72,940	2,79,575	14,82,325
Total Gross Advances (In Cr)	4,48,330	69920	1,22,350	6,40,600
Total Deposits (In Cr)	5,81,485	1,03,020	1,57,325	8,41,830
Total Domestic Branches	5502	1858	2130	9490
Total Advance Branches	81	38	57	68
Total Deposit Branches	106	55	74	89
Total no of Employees	56360	13440	15875	85675
RoA	0.29%	-2.43%	0.32%	-0.02%
CRAR Capital Ratio	12.13%	10%	13.91%	12.25%
CET-1 Capital Ratio	9.27%	8.15%	10.35%	9.32%
Net NPA	5.40%	11.04%	4.10%	5.71%
CASA Ratio	35.52%	39.80%	24.91%	34.06%

This table shows the financial parameters of Bank of Baroda, Dena Bank, Vijaya Bank and their Merged Entity. The Total Business of Bank of Baroda was 10,29,810 cr. and it has been increased to 14,82,325 cr. after Merged with Dena Bank, Vijaya Bank. Similarly Gross Advances, Deposits (In Cr), branches, Employees, RoA, Capital Ratio, Net NPA and CASA Ratio have been increased after Merged with Dena Bank, Vijaya Bank. After this three-way merger, the combined entity will have deposits and advances of Rs.8.75 lakh crore and Rs.6.25 lakh crore respectively. Not only this, the merger also helps

Bank of Baroda (BOB) increase its reach in the Western, Southern and North-Eastern regions of India such as Maharashtra Andhra Pradesh, Karnataka, Odisha, Gujrat, Kerala, Tamil Nadu and. Well, if experts are to be supposed, the new Bank of Baroda will get better customer base, market reach, operational efficiency and a ability to offer a wider bouquet of products and services to the customers.

Acquirer Banks	Banks to be Merged	Staff Count (Approx.)	Asset Count (Crores) (Approx.)
Bank of Baroda	Vijaya Bank, Dena Bank	85,675	6,40,600

According to several reports in the media, a PSU lenders Bank of Baroda (BoB), of India would take under their umbrella some 3-4 banks to create a large entity and would have a massive distribution channel to boast of. The merger will add to the operational strength of the Bank of Baroda. So, see in the table where will the PSU banks stand if the proposed merger structure does take effect.

Conclusions

Mergers & acquisitions (M & As) have been a very essential market entry strategy as well as expansion strategy. A merger or Acquisition is the combination of two companies where one company/bank is completely absorbed by another company/bank. The less important company loses its identity and becomes a part of the more important company. The reforms of after 1991 led to a big surge in the number of private banks entering into the Indian banking sector. The ongoing process of liberalization has exposed the unproductive use of funds by the Indian corporate both in public & private sectors banks. Consolidation through Mergers & acquisitions is become one of the best ways of restructuring structure of private banks. The Banks tried to sustain their growth by increasing in various segments. There was a big signal of competition in the banking sector too. To safeguard themselves and to remain in the financial market, the banks have started to capture their competitors. This was the beginning of the merger era in the banking sector in India. The bank of baroda a, Dena Bank, Vijaya Bank would need to devise the imaginative ways to increase the income in order to garner more profits. The exposure accounting standards, an improvement of accounting standards and disclosed practices would enhance for transparency in financial market.

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