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STUDY OF MERGER AND ACQUISITION IN BANKING SECTOR

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ABSTRACT

The present study is a work undertaken with the object to analyse the trend of merger and Acquisition of the Indian Banks and to make a simultaneous evaluation of success of such Mergers and Acquisition in the Banking Sector. The banking service sector in general and the banking assiduity in particular in numerous developing countries have seen drastic changes along with material alterations and turns in approach of running a Bank with the object of establishing an effective system for running the Banks. One important aspect of this banking service sector reform is the entry of new private sector banks, which includes foreign banks and also the relinquishment of a further liberal station towards these foreign banks. It's generally observed that these banks hold out a advanced position of productivity because of their sophisticated technology and effective human resource planning, which enable them to enhance their total banking business per unit of capital. This is markedly reflected in their competitive edge over their Indian counterparts. On the other side the public sectors Banks of India with their comparatively less advanced technology are impelled to contend with the new emergence of the various private sector Banks. The public sector banks are more frequently than not needed to be invested with injections of fresh capital, automation and better technology to make them more effective and effective so that they're suitable to face and contend with their new rivals. It's also true that the present competitive business environment is making the public sector banks largely client 2 acquainted and forcing them to separate their presence in the request by adopting different commercial restructuring practices.

Keywords: *Technology, Competitive, Financial, Globalization, Profitability, Efficiency, Automation.*

Introduction

Since 1990s, liberalization and banking sector reforms, which are the product of globalization have rebounded in bringing to the fore the issue of profitability and effectiveness of the banks. The violent competition among the banks and the contemporaneous drop in the interest periphery has created an immense pressure on the profitability of the banks. With entry of private and foreign banks, deregulation of interest rates and a high position of competition, the business of the banks is no longer confined to that of simply accepting deposits and advancing them at administered rates. In such a changed profitable script as this, only those banks which are ready to borrow applicable cost control medium and client acquainted approach would be suitable to survive. This deregulated environment calls for an increased use of ultramodern threat operation tools, disquisition of avenues of enhancing then on-fund grounded income, control of the charges and increased use of information and communication technology to insure viability and survival in an atmosphere of violent competition. It's

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precisely in this environment of a largely competitive business environment that Mergers and Acquisition have assumed an extremely vital part as an important commercial strategic instrument for adding the competitiveness of the banks.

What is Merger and Acquisition

The present globalised frugality encourages Mergers and Acquisition (M&A's) of the commercial realities each over the world to enhance the competitive station of the enterprises by exploiting the husbandry of scale to increase their request share, expanding the investment portfolio to minimize their business threat and also enter new requests and topographies. Though remaining small may be beautiful in a lyrical sense, getting big carries sense from a profitable viewpoint. Increase in volume would harness the husbandry of scale and therefore would lead to increased cost effectiveness. Therefore heftiness for increased power is the underpinning principle behind the commercial restructuring strategy of Mergers and Acquisition. In this current script of emphasis on core faculty, every organisation is floundering hard for survival and thus M&A's are considered as an important mode of growth. This miracle has been gaining instigation in both developed and developing husbandry of the world. The banking sector reforms initiated by the government of India in 1991 have brought about a massive metamorphosis and structural change in the Indian frugality. The commercial realities have taken expedient to this restructuring strategy to vend off their noncore units and to assert significant presence in their main areas of business interest. M&A s have therefore redounded in being one of the most effective styles of the business restructuring process and also getting an integral part of the unborn business strategy of commercial India.

Wave of Mergers and Acquisitions of Banks in India

The necessity to reduce inequalities between different regions and groups came pivotal during the immediate post-independence period. At that stage, there were only many banks with better character and also there were some other banks which were seeking hard to continue their actuality under severe pressure. As it was a tremendous task to rally acceptable coffers for development to exclude indigenous inequality, a proper banking system, especially the well worked banking system, was the necessity along with better service to its guests and through them better service to the nation. This all was causing due to the decision of the then prime minister of India Smt. Indira Gandhi where she decided to make nationalization of the Leading Banks of country of that time. The Reserve Bank of India controls the affairs of all the nationalized banks with the assurance of guarantee on safety and security. The Government nationalized the banks with the intention to achieve the following objects videlicet elimination of control by many rich realities, provision of acceptable credit installation in the precedence sector including husbandry, small scale diligence and exports, give stimulant to the new budding entrepreneurs and to inseminate a professional station to the bank operation. These nationalized banks, by spreading its branches in the pastoral areas offers along with banking backing proper advice and guidance on significant problems affecting the pastoral people and the economically backward sections in the villages can avail numerous advantages out of it. It has been set up that during the last two decades there has been a metamorphic metamorphosis in the banking system in India following the profitable reform process initiated by the Government of India.

The financial service assiduity including the banking assiduity realized that nonstop enhancement and invention along with advanced technological change is a prerequisite for survival. The developments in the banking sector in India have been followed by a significant increase in the number of Mergers and Acquisitions from 1990 onwards.

Why Merger and Acquisition is Important

When world has seen liberalization which arise due to globalization in the earlier of 90, world has also felt a need of the urgency in the commercial world to make assessment of restructuring forms and strategies for the better performance of the organisations. In the alternate phase of the exploration, an attempt is made to test the effectiveness of the Indian Share world as a result of the popularization of the Banking Sector of India by applying relevant Event Study Method. If the prices of securities completely incorporate the return imputation of particular information also it can be assumed that the capital request is effective with respect to that information. In an effective request, with the appearance of new information in the request, its revaluation counter accusations for security returns are presently and unbiasedly reflected in the current request price. Data Envelopment Analysis (DEA) has been used, in the third phase, to cipher the relative specialized effectiveness of banks that shared in M&A conditioning. The specialized effectiveness for this purpose is reckoned under both common and separate frontier with the supposition of constant as well as variable returns to scale.

Mergers and Acquisition – A Tool for Restructuring of Banks

Mergers and Acquisitions (M&A) as a tool of ultramodern commercial restructuring medium have been decreasingly espoused in the present competitive business terrain to enjoy different forms of strategic earnings which will lead to cost effectiveness, value maximization of the stakeholders, etc. Financial inventions have also acted as a catalyst in the connection conditioning. Marketable banks worldwide have resorted to M&A with the anticipation to increase effectiveness earnings through similar admixture strategies. Several studies like (Berger et al. (1999)) estimated merger related benefits in the banking sector. The motives of M&A's have depended on the individual characteristics of the establishment similar as size or the structure of the organisation across parts, or required for every kind of the business for a particular trade. In all the developed countries it is observed that forces of the market are the major factors which for every kind of connection in the market. Globalisation and deregulation have played a very important role in decrease in Bank Branch expansion and that is why the profitability of Banks has decreased. To enjoy the benefit of Economies of scale and Scope and also to neutralize the drop in profitability, there weren't only Mergers between banks but also between bank and nonbanking realities. It has also been set up that forced M&A's by government have taken place in the banking sector of numerous EMEs, with the motive of restructuring the banking assiduity. M&A's are justified by the synergistic benefits they produce. There are the following five factors of community

- **Economies of Scale:** Merger & Acquisition has given a benefit of reduced cost and hence increase in saving due to Economies of Scale. It can be achieved in 2 ways. First the use of redundant capacity to minimize the cost as use of two resources for same work is not required. Then using other resources for opening of new branches. Second way to make expansion of product capacity so that additional resources acquired by merger or acquisition can be utilised.
- **Benefits of Scope:** benefits of cost can also be taken by the company who has acquired other company. This can be done by diversification. This is because it is difficult to produce various products concurrently rather than making their production independently. Common product may help in the reduction of cost per unit.
- **Economies due to competition:** Competition position is basically an opportunity. Any establishment may enjoy the various opportunities using weak points of their competitor. Diversification in the business will be helpful in the establishing the competitive advantage to the entity. This will be in long term helpful for the business.
- **Benefit of corporate position:** with the merger and acquisition of two entities gives an advantage of financial integration. It creates a nexus between two companies and by merging their technology and proper use of their strength which will give long term benefit. This will also give a long term advantage.
- **Economies due to financial strategy:** M&A's may give the occasion to the acquiring company to have increased access to capital request for backing.

Deregulation, developments in information and communication technology, globalization, pressures of the stakeholders etc are the various factors which have encouraged connection medium of the picture of the financial position. Though increased fixed costs is associated with advanced technologies, they're suitable to give a wide range of product or services to maximum consumers covering the wide geographical area, not only with the highest speed but with better quality of communication and information processing. Further, sophisticated methods of financial restructuring such as various items out of the balance sheet or derivative contracts may be helpful in the management of the risk in more effective manner dealt with by large organizations. In this context, it is worth mentioning that the central bank of the country, the Reserve Bank of India, had played a dominant role by promoting the merger process, if required wherever. Reserve Bank of India has started making the nationalization of large private Banks under section 45 of the Banking regulation Act, in the public interest. The main intention was to help those banks which are financially not sound by making their merger with large Banks. This would not be possible unless private banks would have nationalised because such private banks will not allow merge of loss making banks in their banks. It has also resulted in safeguarding the depositor's interests, avoidance of any possible financial contagion that may be the outcome of failure of small individual banks and to cover up the same by synergy benefit. This was not like that of many other EMEs, wherein the Governments had taken an active role in the consolidation process resulting in forced M&A's. On the other hand, India resorted to a different approach for M & A. However, with the passage of time the competition becoming more severe because of privatisation as well as entry of the foreign banks in India. It is mostly the market forces consolidation which is becoming dominant.

Conclusion

The present empirical study has revealed significant improvement in the capital adequacy and the asset quality of the merged banks after consolidation. The inability of the merged banks in ensuring the optimum utilization of their assets to increase their earnings and thereby their profitability, post merger, is evident in the ratios used for reflecting on the management efficiency and earnings quality of the merged banks. The liquidity position of any banks does not at all changes the position even after the merger but it undoubtedly shows the capacity of the banks in payment of their dues on time. When the concept of merger and acquisition of banks has begin, it was not at all liked by the industry and was found to be negative for acquiring bank as it was giving loss to them. The major reason was that acquiring banks acquire a bank which is having lot of losses. The acquisition is order to protector depositor of acquired Banks but it gives a loss to Investors to acquirer bank. Later on however investors realised that there are some synergy benefits which can be obtained by merger and merging the capacity of both the banks. The stock market was also negative in the beginning of merger concept in case of acquirer banks. However with the merger of financial weak bank with financially strong bank has improved the position of weak bank and both banks becomes financial strong and their synergy has also given a long term benefit has relieved the shareholders very much. The relative technical efficiency scores of the majority of the banks that participated in the restructuring strategy improved post merger and they were able to achieve either total or partial success.

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