CHAPTER-II

MERGERS AND ACQUISITION STRATEGY IN INDIAN BANKING

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2.1 Introduction:

The banking scenario has seen a process of transformation and consolidation since 1991. In this scenario, banks need to be made more effective and comparable with private and foreign banks. They need to be more capitalized, automated and technology oriented in addition to strengthening their internal operations and systems. Similarly in order to make them comparable with their counterparts from overseas, it is necessary to structure the banks by way of mergers and acquisitions to achieve the requisite size and financial strength in the shortest possible time.

In the light of this, there is a need to understand the forces that have been driving Mergers and Acquisition in the banking industry. Therefore this chapter focuses on concepts of, and factors driving merger and acquisitions. The Indian experience of Merger and Acquisitions in the current scenario, benefits of mergers, creation of world class banks through mergers, threats and effects of Merger and Acquisitions, Human Resource Management in the Merger process have been ideal.

2.2. Mergers and Acquisition Conceptual Frame:

Classifications of mergers:

- Horizontal mergers take place where the two merging companies produce similar products in the same industry.
- Vertical mergers occur when two firms, each working at different stages in the production of the same goods, combine.
- Congeneric mergers occur where two merging firms are in the same general industry, but they have no mutual buyer and customer or supplier relationship, such as a merger between a bank and a leasing company. Example: Prudential's acquisition of Bache and Company.
- Conglomerate mergers take place when the two firms operate in different industries.

A unique type of merger called a ‘reverse merger’ is used as a way of going public without the expense and time required by an IPO. The contract vehicle for achieving a merger is a "merger sub".
The occurrence of a merger often raises concerns in antitrust circles. Devices such as the Herfindahl index can analyze the impact of a merger on a market and action could prevent it. Regulatory bodies such as the European commission, the United States Department of Justice and the U.S. Federal Trade Commission may investigate anti-trust cases for monopolies, or dangers, and have the power to block mergers.

**Accretive mergers** are those in which an acquiring company's Earnings Per Share (EPS) increase. An alternative way of calculating this is if a company with a high price to earnings ratio (P/E) acquires one with a low price to earnings ratio.

**Dilutive mergers** are in contrast to the above, whereby a company's EPS decreases. The company will be such a one with a low P/E acquiring one with a high price to earnings ratio. The completion of a merger does not ensure the success of the resulting organization; indeed, many mergers (in some industries, the majority) result in a net loss of value due to problems. Correcting problems caused by incompatibility—whether of technology, equipment, or corporate culture—diverting resources away from new investment, and such problems may be aggravated by inadequate research or by concealment of losses or liabilities by one of the partners. Overlapping subsidiaries or redundant staff may be allowed to continue, creating inefficiency, and conversely the new management may cut too many operations or personnel, losing expertise and disrupting employee culture. These problems are similar to those encountered in takeovers. For the merger not to be considered a failure, it must increase shareholder value faster than if the companies were separate, or prevent the deterioration of shareholder value more than if the companies were separate.

**Acquisition means:**

An acquisition, also known as a takeover, is the buying of one company (the ‘target’) by another. An acquisition may be friendly or hostile. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer. Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover.
Types of Acquisition:

- The buyer buys the shares, and follows control, of the target company being purchased. Ownership control of the company in turn conveys effective control over the assets of the company, but since the company is acquired intact as a going business, this form of transaction carries with it all of the liabilities accrued by that business over its past and all of the risks that the company faces in its commercial environment.

- The buyer buys the assets of the target company. The cash the target receives from the sell-off is paid back to its shareholders by dividend or through liquidation. This type of transaction leaves the target company as an empty shell, if the buyer buys out the entire assets. A buyer often structures the transaction as an asset purchase to "cherry-pick" the assets that it wants and leave out the assets and liabilities that it does not. This is particularly important where foreseeable liabilities include future, un-quantified damage awards such as those that could arise from litigation over defective products, employee benefits or terminations, or environmental damage. A disadvantage of this structure is the tax that many jurisdictions, particularly outside the United States, impose on transfers of the individual assets, whereas stock transactions can frequently be structured as like-kind exchanges or other arrangements that are tax-free or tax-neutral, both to the buyer and to the seller's shareholders.

The terms "demerger", "spin-off" and "spin-out" are sometimes used to indicate a situation where one company splits into two, generating a second company separately listed on a stock exchange.

Motives behind Mergers and Acquisition:

These motives are considered to add shareholder value:

1. Economies of scale: This refers to the fact that the combined company can often reduce duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit.

2. Reduce intra and inter companies’ competitions: To avoid intra and intercompany/banks competitions in the domestic economy and to strengthen their competitive potential to face the open market competition in the global market.
3. Increased revenue/Increased Market Share: This motive assumes that the company will be absorbing a major competitor and thus increase its power (by capturing increased market share) to set prices.

4. Cross selling: Banks buying a stock broker could then sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. Alternatively a manufacturer can acquire and sell complementary products.

5. Synergy: Better use of complementary resources. Deployment of surplus human resource for diversified new banking non fund bases services.

6. Taxes: A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the United States and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company.

7. Geographical or other diversification: This is designed to smooth the earnings results of a company, which over the long term smoothen the stock price of a company, giving conservative investors more confidence in investing in the company. However, this does not always deliver value to shareholders.

8. Resource transfer: Resources are unevenly distributed across firms (Barney, 1991) and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources.

9. Increased Market share which can increase market power: In an oligopoly market, increased market share generally allows companies to raise prices. It may be noted that while this may be in the shareholders' interest, it often raises antitrust concerns, and may not be in the public interest.

**However the benefits motive, through encourage mergers and acquisition.**

1. Diversification: While this may hedge a company against a downturn in an individual industry it fails to deliver value, since it is possible for individual shareholders to achieve the same hedge by diversifying their portfolios at a much lower cost than those associated with a merger.

2. Manager's hubris: A manager's overconfidence about expected synergies from mergers and acquisition which results in overpayment for the target company.

3. Empire building: Managers have larger companies to manage and hence more power.
4. Manager's compensation: In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company, the shareholders); although some empirical studies show that compensation is linked to profitability rather than mere profits of the company.

The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. In recent years, India has seen a manifold growth in mergers and amalgamations, largely encouraged by liberalization measures, which have substantially relaxed restrictions on international mergers and amalgamation transactions.

Mergers and Acquisitions are an important area of capital market activity in restructuring a corporation and has lately become one of the favoured routes for growth and consolidation. The increased competition in the global market has prompted 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 reasons to merge, amalgamate and acquire vary, ranging from acquiring market share to restructuring the corporation to meet global competition. The immediate effects of the mergers and acquisition have also been diverse across the various sectors of the Indian economy. The acquisition of market control and extension of the product ranges are one of the additional reasons for a cross-country merger apart from globalization of the corporation.

The merger of two corporations without question is the most dramatic event to transpire on the industrial landscape and has been so for the last few decades. Mergers and acquisitions count among the most spectacular and most obvious strategic demonstrations on the scale of the company. Globalization is the key feature of the new competitive landscape within which the merger and acquisitions frenzy is taking place. It is associated with a growing convergence in economy systems, culture and management practices. So, research on Mergers and Amalgamation has received increased attention and grown in popularity during the last two decades of the 20th century.

According to Wikipedia, “the phrase mergers and acquisition (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with
the buying, selling and combining of different companies that can aid, finance or help a growing company in a given industry grow rapidly without having to create another business entity.” The Oxford Dictionary defines an acquisition as ‘an outright gain of something (especially useful)’ and a merger, less rapaciously as: ‘the joining or gradual blending of two previously discrete entities.’ Acquisitions are of two types: those involving acquisition and integration. In an acquisition, one company buys another one and manages it consistent with the acquirer’s needs. In a merger, two companies come together and create a new entity. There are mergers between equals and unequal. But, in general, there are mergers of equals rather than mergers of unequal. Thus, a merger or acquisition is a combination of two companies where one corporation is completely absorbed by another corporation. The less important company loses its identity and becomes part of the more important corporation, which retains its identity.

The main objective of Mergers and Acquisition transaction is as follows:

1. Proper utilization of all available resources.
2. To prevent exploitation of unutilized and underutilized assets and resources.
3. Forming a strong human base.
4. Reducing tax burden.
5. Improving profits.
6. Eliminating or limiting the competition.
7. Achieving savings in monitoring costs.

It is an indispensable strategic tool for expanding product portfolios, entering into new markets, acquiring new technologies and building new generation organizations with power and resources to compete on global basis. The last few decades have seen a spate of mergers and amalgamations on a global scale involving major corporations and billions of dollars. The rapid growth of the global economy with liberalized economic and legal environments has resulted in restructuring of commercial entities along more profitable lines so as to withstand global competition and to strengthen the business with the objective to maximize shareholder value. Indian corporations were not free from this scenario. Business consolidation by large industrial houses, consolidation of business by multinationals operating in India, increasing competition amongst domestic companies and competition against imports have all combined to spur mergers and acquisition activities in India. Importantly, Mergers and Acquisition take the form of:
1. Open offers.
2. Substantial sale of equity.
3. Sale of distressed assets by financial intermediaries.
4. Schemes of arrangement by companies, etc.

Many global Multi National Corporations (MNCs), used to take over Indian companies in the past. During the pre-liberalization era foreign companies were on the offensive mode to take over Indian companies. Post liberalization, things have changed for the better for the Indian Industry. The Indian economy has looked up and is becoming a robust economy. As a result, the Indian industry changed its stance from being defensive to offensive.

The Indian industry has huge appetite for mergers and acquisition ever since the economy opened up due to liberalization, globalization and privatization. The world is watching the Indian Industry very closely and it seems that there would be many M&As in the near future. Indian entrepreneurs are looking for North American and European markets to make their presence felt and also to encash the existing opportunities across the globe.

In India, the Companies Act, 1956 in the statute book is the largest legislation in India but still probably inadequate in terms of dealing with cross border mergers and acquisitions in the era of globalization. Corporate restructuring has been provided for in six sections from section 390 onwards in the Indian Companies Act, 1956. Therefore an important question arises as to what kind of law India requires in order to deal with such a situation. Further, cross border mergers have become an ever increasing phenomenon in the global commercial marketplace. Thus, what happens when an Indian company wants to invest abroad or a foreign company wants to invest in India. The legal regime in India provides no suitable answer to such an important question and is therefore in constant search for an answer to such a question. Globalization has enabled third world countries to become global giants, and they have been competing with western MNCs like never before. A strong legal regime dealing with cross border mergers is required if there has to be a more equitable spread of world economic power. This is because western MNCs are and will continue to remain global leaders in certain industries but the resurgence of third
world MNCs cannot be ignored if one looks at the rise of MNCs from third world countries.

The phenomenon of global commercial activity has been enhanced and is dependent on the legal or regulatory mechanism in any country. There are commercial activities of various kinds and one amongst them is the buying and selling of business corporations all over the world. Domestic as well as transnational corporations restructuring involves host of legal issues and the parties’ choice of carrying out the transaction becomes easy when there are well codified laws guiding their conduct. For India, corporate restructuring is not a new phenomenon and it has been further boosted by takeovers of foreign firms by large Indian Multinationals abroad. This well for our country but the important questions that arise here is whether India has sufficient laws to deal with cross border mergers and acquisitions. Surely there are no provisions in the Indian Companies Act, 1956 dealing with domestic mergers and acquisitions, but is there any legislation or part of it which is concerned with cross border mergers and amalgamations exclusively? The answer is no.

Further, the Indian Companies Act, 1956 which is called a carbon copy of the English Companies Act proves its effectiveness in providing immense flexibility both in the conceptual as well as procedural aspects of amalgamation. It is easy to say that Indians can globalize easily by following the seven sections of the Indian Companies Act, 1956 but is it really enough? An analysis of the position prevalent in other countries proves that Indian law will not find favour with the foreign community if it is implemented within the length and breadth of the cross border merger scenario. In case of any cross border merger or acquisition, a host of legal issues are involved touching upon subjects of corporate taxation, the applicable company law and the relevant competition regime. Different security laws are yet other issues to be dealt with. Thus, in today’s commercial world, the concepts of mergers and acquisitions involve merging companies in different legal jurisdictions.

Thus, an effective law on the point could be regarded as an antidote which may allay all fears related to creation of monopolies and its consequential adverse effect on competition. Global commercial activity demands effective regulation which in turn
depends on the domestic legal mechanism influencing the international nature of transactions.

2.3 Mergers and Acquisitions in Indian Banking Sector:

Mergers and Acquisitions are not a new strategy in the Indian banking sector. It dates back to the beginning of banking in India. In 1921 the Bank of Bengal, the Bank of Bombay and the Bank of Madras were merged to form the Imperial Bank of India, which subsequently was converted as the State Bank of India in 1955 when the Government took over control of its operations. Today ‘Mergers and Acquisitions’ are terms which are hardly used in the banking industry as business deals, but are perceived as a strong strategy which can be trusted upon for long run survival and sustenance. It is always taken in a negative sense instead of considering it as business potential. In the past, whenever the Government felt that a commercial bank had become weak, either financially or managerially, a decision was taken to merge it with some strong bank. Such mergers include Hindustan Commercial Bank and New Bank of India with Punjab National Bank and Laksmi Commercial Bank with Canara Bank. Besides, mergers of State bank groups with SBI, were an attempt to consolidate and strengthen the financial position and to increase the market share of Indian banking.

After economic reforms, in the name of globalization, liberalization and privatization, India has opened its markets for global competition. This situation has put Mergers and Acquisitions in to a desperate search for a survival strategy. This is hardly surprising as stiff competition is implicit in any bid to integrate the national economy with the global economy. The ongoing process of liberalization has exposed the unproductive use of capital by the Indian banking industry both in public and private sectors. Consolidation through mergers and acquisitions is considered as one of the best ways of restructuring to effectively the competitive pressures. It is a search for strength and synergy through size. Size is undoubtedly important and a number of benefits can be reaped through the size of operations.

Mergers in Different States:

Merger of Grameena banks in Bihar has totally changed their operational sizes, some of which had a very poor track record. Out of 16 Grameena banks, 15 were now merged. In one case,
as many as 7 banks merged into one. The number of banks has come down to 5. Gujarat is one of the few states, where all the existing Grameena banks are re-organized; their number has come down to 3 from 9. Rajasthan has 14 Grameena banks and their number is expected to be reduced to 6 through mergers. In Haryana, the number of Grameena banks has come down to 2 after the amalgamation of 3 banks. The single bank left untouched is Gurgaon Grameena Bank, sponsored by Syndicate Bank. It is one of the financially sound Grameena banks since its inception. Operating in the national capital region, it has 123 branches and handled a total business of Rs.1290 crore. The net profit earned was Rs.28 crore in FY2005. It can be a stand-alone bank. Kalinga Gramya Bank came into being in Orissa with the merger of 2 Grameena banks of UCO Bank. This amalgamation would provide a new lease of life to Balasore Gramya Bank, which was financially weak since its inception. The state has 7 more Grameena banks, which financially were not very strong. The 4 sponsoring banks to decided on the future shape of these banks. Uttar Pradesh, which has one of the largest number of Grameena banks (36) witnessed only a partial merger of 23 banks into 7 banks. With this re-organisation, the state continued to have 20 Grameena banks (7 new banks and 13 old banks), a good number of which were yet to establish their viability. One prominent exception is that of Prathama Bank, the first Grameena bank in India sponsored by Syndicate Bank. It has carved out for itself a place of pride among the Grameena banks, proving to be a successful rural credit agency. In the process of mergers, it remained untouched. Its fundamentals are stronger than even a couple of private sector banks of the older generation. The schemes of mergers initiated by the Government of India, the major shareholder of Grameena banks, are yet to cover the other states. Conspicuous among them is Madhya Pradesh having 19 Grameena banks, some of which require immediate restructuring for their survival. State Bank of India has sponsored 30 Grameena banks in different states. But according to the information available, it has merged only two Grameena banks so far. Central Bank of India is the other bank, which has sponsored 23 Grameena banks and only 10 among them have been merged.

**Twenty five RRBs merged in first nine months**

As part of the consolidation in the Regional Rural Bank (RRB) segment, 25 such entities were merged into 10 during the first nine months of the current fiscal. “Restructuring of RRBs by amalgamating geographically contiguous RRBs sponsored by different banks within a state is in progress,” an official said. Up to January 7, 25 RRBs were amalgamated into 10 RRBs in seven states. As a result, the number of RRBs reduced from 82 as on April 2012 to 67 in the first week of January. The consolidation was aimed at improving efficiency and helping RRBs achieve scale of economy. The amalgamation also helped in optimizing the use of modern technology. “Post amalgamation, there has
been no disruption in delivery of services by the RRBs and merged entities have been discharging their functions properly,” the official added. States where the mergers took place are Bihar, Karnataka, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and Uttarakhand. RRBs have a network of about 16,000 branches spread across the rural and semi-urban centers of the country. Consolidation of RRBs has been going on in a phased manner since 2005. The number of RRBs came down to 133 in 2006 from 196 at the end of March 2005. It further came down to 105 and subsequently to 82 at the end of March 2012. As on March 2012, of the total RRBs, 79 were profit-making while the remaining three had registered losses. In order to boost the capital base of RRBs, the government on the recommendation of a panel headed by RBI Deputy Governor K. C. Chakrabarty decided to recapitalize 40 selected RRBs in 21 states. The Centre holds 50 per cent stake in RRBs, while 35 per cent and 15 per cent are with the sponsor banks and state governments, respectively.

2.4 Government Approaches towards Mergers and Acquisition Strategy

The government wants Indian banks to look and behave like global banks. The Finance Ministry has indicated in the recent times that it will encourage mergers of public sector banks to create strong entities which can compete with the world class banks. The Government will not force the banks to go in for merger but will create a favourable environment for facilitating mergers to help banks to consolidate. The Government is also of the view that while initiating the process of mergers, the banks should take into account the regional and ethnic considerations and maximize synergies in regional balances, address HR issues and ensure asset synergies.

Mergers and Acquisition strategy is highly successful in the field of production, manufacturing, and marketing areas. It has also succeeded in the case of private and foreign banking. The UPA government headed by Dr. Manmohan Singh had adopted the National Common Minimum Programme and Globalization with a humanistic approach as suggested by the Left parties. Therefore, instead of privatizing the public sector banks the economic policy lays emphasis on the merger and acquisition of public sector banks. This was done mainly to instill confidence in the minds of the general public and to facilitate an effectively functioning public sector banking system in the globalized market.
Prime Minister of India, Dr. Manmohan Singh, called for mega mergers of Indian banking to achieve the challenges of the present economy more effectively at the global level, Centenary Jubilee celebration meet of.

The then Finance Minister, P. Chidambaram had flagged off the issue of banking consolidation during the Indian Banks’ Association (IBA) annual general meeting last August 2012. He reiterated the point while delivering his speech all the time the public sector banks consolidated their status of its position in the global banking is possible only through mega mergers and Acquisition process. He called upon the banks it is the time for breakfast, if you want good dinner and sound sleep go for merger and acquisition without delay.

The Left parties have been opposing bank mergers. The Prime Minister's Office decision, in effect, deals a blow to consolidation in the banking industry. The government had proposed to merge the Mumbai-based Union Bank of India and Bank of India, to create India's second largest commercial bank after the State Bank of India. The new entity, to be christened Union & Bank of India, was expected to be launched on April 1, 2013.

**RBI:** The RBI has indicated that consolidation must take place to tackle challenges before the system. IBA (considering the complexities involved in consolidation on account of requirement of complying with various laws), has suggested the corporation of Public Sector Banks to simplify the process of consolidation in its report ‘Consolidation in Indian Banking System – legal, regulatory and other issues’. It had suggested that if this option is not acceptable, certain amendments such as modifying the definition of a banking institution to include RRBs can be carried out, to facilitate mergers of any banking institutions by the Central Govt.

**IBA:** Indian Bankers Association has played a significant role in the operation of the banking sector in India directly though management participation and tuning the employer’s mindset by providing education, training, motivation, knowledge about the status of banking operation in the global market and welfare of the employees through its primary factions.
The chairman of a large public sector bank said the consolidation of state-owned banks should be encouraged as "we need big banks to compete with foreign banks when they will be allowed to take over local private banks a few years down the line."

2.5 Review of Committee Reports on Mergers and Acquisition:

The study has made an attempt to review some of the committee reports as under.

Monopolies Enquiry Commission Report (1969). The commission observed that, merger and acquisition which often provides the way to monopoly have been comparatively few in India. Horizontal merger and acquisitions are often an essential mode to improve efficiency and to achieve economies of scale, while vertical mergers and acquisitions may also help cut costs. They are also of the opinion that the merger and acquisition per se are harmful to public interest.

Sachar Committee Report (1977) In August, 1977, the Government of India appointed a Committee under the chairmanship of Justice of Rajinder Sachar to review Company Act, 1956 and the Monopolies and Restrictive Trade Practices Act, 1969. The committee suggested that since amalgamation and reconstructions had become a reality of life, powers of regulating should be given even to the District court in the case of small companies. However, in the case of the companies registered under the MRTP Act, no change was suggested in the existing procedure.

Report of the Working Group on Companies Act (1996) The Working Group on Companies Act was constituted in August 1996 at the behest of Mr. P. Chidambaram, the then Union Finance Minister, to rewrite the Companies Act and present it for public debate by early 1997.

Raghavan Committee Report on Competition Law (1999) The Competition Law Committee was set up under the Chairmanship of SVS Raghavan on October 26, 1999. The Committee suggested a framework for supervising mergers and acquisitions besides examining the overlapping of the MRTP Commission and consumer redressal forums. Cartel formation and other activities that would ultimately hamper consumer interest were brought under the purview of the Competition Law. The committee has suggested the
formation of a separate two-member Merger Commission within the Competition Commission of India (CCI) to take care of the mergers issues. And it stipulates mandatory pre-notification to the proposed CCI for all cases of merger where the assets to the merged entity exceeds Rs.500 crore or if the assets of the business group (group defined under the MRTP Act) to which the merged company belongs to exceeds Rs2000 crore (assets defined as per section 20 to 26 of the MRTP Act). Within 90 days from the date of notification, the commission may either accept or reject the merger. Thus the Competition Law seeks to stop unhealthy takeovers, mergers and acquisitions, jacking up of prices by mutual understanding between firms, so as to ensure free and fair competition in the Indian economy.

**Narasimham Committee Report II (1994)** One of the important recommendations of the Narasimham Committee II recommendations on economic reforms states "There is clearly a need for consolidation of structure which could be brought about essentially through a process of negotiation rather than imposed merger on profitability consideration and also for reasons of business strategy." (Singh) It is clear from the above statements that there is a need for merger of two or more strong banks on commercial considerations, which is market driven to maximize synergies. The idea is the strong bank can absorb the shocks and survive in difficult times.

**Narasimham Committee- I** In its first report in 1991 the Narasimham Committee recommended measures to restructure the Indian banking system. The committee recommended that the number of public sector banks should be reduced through M&A. The committee made the following important recommendations.

1. There should be 3 to 4 large banks of global character.
2. Eight to ten banks of national character in the country should be engaged in universal banking
3. Some local area banks whose area of operation is confined to some specific region should be there.
4. Some rural banks including the Regional Rural Banks whose main function would be to finance the credit requirements of agriculture and allied activities in rural areas should be present.
5. The committee recommended the merger of strong banks in public and private sector between themselves and in some cases even with development financial institutions and non-banking institutions.

Narasimham Committee II The second report of The Narasimham committee (April 1998) on banking sector on structural issues made many recommendations. Merger between banks and Domestic Financial Institutions and Non Banking Financial Institutions need to be based on the synergies and location and business specific complementarities of the concerned institutions and must obliviously make sound commercial sense.

Iradi Committee Report (2002). The Government of India constituted a Committee under the chairmanship of Justice V. Balakrishna Iradi, to review the law relating to insolvency and winding up of companies and other laws like the Sick Industrial Companies (special provision) Act, 1985 (SICA) etc. With the objective of expending revival or rehabilitation of a sick company, the committee made various recommendations. And these recommendations were incorporated in the companies (Amendment) bill, 2001 and became the Companies (Amendment) Act 2002. Consistent with the above underlined objectives the companies (second Amendment) Act 2002 provided for setting up of the National Company Law Tribunal which dealt with all matters relating to companies which earlier was handed by various High courts. Company Law Board for Industrial financial Reconstruction (BIFR).

Justice P. N. Bhagwati, Committee Report (2002) The SEBI appointed a committee headed by former Justice of India P.N. Bhagawati, to review the provisions of the SEBI takeover code. And the committee submitted its report and draft amendment to the SEBI (substantial acquisition of shares and takeover) Regulation, 1997. Among other key recommendations are those ensuing greater disclosure at various levels of holding by the acquire, and a provision that the acquirer would not undertake substantial asset stripping unless prior approval of the target company’s shareholders is secured. The committee has also said banks and financial institutions should be encouraged to finance the takeover. It also suggested that, an offer should always be 20percent or above but the offer may be subject to an acceptance level of less than 20percent. Takeover of companies is a well accepted and established strategy for corporate growth. International experience of takeovers and mergers and amalgamations has been varied. Nonetheless, one of its
important lessons is that, its appeal as an instrument of corporate growth has usually been the result of an admixture of corporate ethos of a country, shareholding pattern of companies, existence of cross holdings in companies, cultural conditions and the regulatory environment.

**Irani Committee Report (2004)** The Government of India constituted an expert committee on Company Law on December 2, 2004 under the chairmanship of J.J.Irani. The committee suggested giving statutory recognition to mergers without court intervention. The committee also suggested the use of single-window concept to approve mergers and acquisitions in an effective time-bound manner. The concept of deemed approval was also suggested when the their job was not done within a reasonable time.

**Thingalaya Committee Report:** The expert group on RRBs in 1997 (Thingalaya Committee) held that very weak RRBs should be viewed separately and the possibility of their liquidation be recognized. They might be merged with neighbouring RRBs.

Since 1992 the RBI and the Government initiated several steps to strengthen the banking system. Several committees were also appointed by the government which gave several proposals for the same purpose.

**Varma Committee Report** on bank mergers in February 1999. The RBI also appointed a “Working Group on Restructuring of Weak Public Sector Banks “under the chairmanship of Shri M.S. Varma, which was to identify weak public sector banks and to suggest schemes for the restructuring and strengthening of weak banks. For identifying weak banks the committee developed important parameters, which were essential for a financially strong bank. The group submitted its report in October 1999, and recommended the following seven parameters for identifying weak banks

1. Capital Adequacy Ratio
2. Coverage Ratio
3. Return on Assets
4. Net Interest Margin
5. Ratio of operating profits to average working funds
6. Ratio of cost to income
7. Ratio of staff cost to net interest income plus all other incomes.
On the basis of the above parameters public sector banks were classified into three categories- i) the banks which meet all the above parameters ii) the banks which meet none of the parameters. iii) The banks in which some of the parameters were present. The Working Group made an exhaustive case by case examination of the financial strength and weakness of all Public Sector Banks and the Group also suggested a two-stage operation for restructuring of weak banks. The Group opined that the option for merger or privatization would be relevant only after enhancing the operational efficiency of the banks. The committee recommended that the privatization or merger of weak banks should be considered as the last option. During the first stage the operational, organizational, financial and systematic restructuring should be undertaken. The operational efficiency could be attained only by adopting modern technology, reducing costs of operations, reducing the level of NPAs, improving practices of corporate governance, change of legal system, adopting staff rationalization measures, enhancing the efficiency and involvement of bank management etc. In its recommendations the Working Group estimated that in the next three years the overall cost of restructuring the weak banks would be Rs. 5500 crore. Of which Rs.3000 crore. will be the capital infusion, Rs. 1000 crore. Would be the NPA buyout, staff rationalization measures would cost another Rs. 1100 to 1200 crore. And the technology upgradation will cost Rs. 300 to Rs. 400 crore. The Group also recommended the constitution of Financial Restructuring Authority. For speeding up the recovery process in weak banks, the committee recommended the setting up of Debt Recovery Tribunals to take their cases on a priority basis. But in the budget of 2000-01 the then Finance Minister announced the constitution of a Financial Restructuring Authority(FRA) for each weak bank instead of a single Authority for all weak banks. Under the proposed framework, the statutes governing public sector banks would be amended to provide for the suspension of board of directors on the basis of recommendations of RBI and constitution of a FRA comprising experts and professionals. The amendments would also enable the FRA to exercise special powers, including all powers of the Board of the bank. The Government would also consider recapitalization of the weak banks to achieve the prescribed Capital Adequacy Norms.

2.6 Summary:

Consolidation through Merger and Acquisitions may be the requirement of the future. Merger and Acquisitions in the future should aim at creation of a strong entity and
to develop ability to withstand the market shocks instead of protecting the interests of depositors of weak banks. The Merger and Acquisitions in the banking sector should be driven by market related parameters such as size and scale; geographical and distribution synergies and skills and capacity. The emerging market dynamics like falling interest rate regime which makes the spread thinner; increasing focus on retail banking, enhanced quest for rural credit, felt need for increasing more profits especially from operations, reduction of NPA's in absolute terms, need for more capital to augment the technology needs, etc are the major drivers for mergers and acquisitions in the banking sector.

Merger and Acquisitions are no substitute for poor assets quality, lax management, indifference to technology upgradation and lack of functional autonomy and operational flexibility. The banking system will have to be managed by competent and independent people having adequate power and full operational autonomy. While the merger process is certainly a change initiative, the human element is more vital for its success. Without a positive mind set of human resources no change initiative can be a successful venture. In order to achieve the desired results of the merger exercise, especially in banks, it is necessary to recognize the complexities and to draw and implement a viable plan for change in the collective behaviours, attitude and mind set of the workforce which translates such merger plans into workable solutions.

With increasing globalization, attaining size advantages will become critical for Indian banks. Combined with the need to attain higher capital standards under Basel II Accord, consolidation in the Indian Banking industry will become imminent. However, the issues that need to be addressed include maximizing synergies in terms of regional balance, network of branches, HR culture, assets commonality and legacy issues in respect of technology. In the present scenario, we must develop a small number of large banks of global size instead of large number of smaller banks as we are having now.