Chapter No 2

Review of Literature

2. Introduction

With a view to evaluate the objectives of the study, it was considered desirable to have an idea of the findings of some earlier researches and the methods adopted for arriving at the same. It is hoped that such a review of literature connected with the main objective of the study would provide a basis either for confirming the earlier findings or for contradicting the same and thereby to suggest points of departure for further studies. Hence the present study has conducted to analyze the impact of M&A on the banks performance can be classified as pre and post studies. Pre studies assess the effect of the merger on bank performance by analyzing the financial and operational performance. In M&A’s considered in the following are the categories for the present study.

Table No 2.01: Review of Literature for the present study.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Forms of literature review</th>
<th>Total Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.</td>
<td>Doctorial thesis on M&amp;A.</td>
<td>15</td>
</tr>
<tr>
<td>2.2.</td>
<td>Newspaper publications on M&amp;A.</td>
<td>13</td>
</tr>
<tr>
<td>2.3.</td>
<td>Research papers on M&amp;A and articles</td>
<td>40</td>
</tr>
<tr>
<td>2.4.</td>
<td>Books &amp; periodicals</td>
<td>05</td>
</tr>
<tr>
<td>2.5.</td>
<td>Committee Reports on Mergers and Acquisitions</td>
<td>03</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>76</td>
</tr>
</tbody>
</table>

2.1. Doctorial thesis on M&A

There are 15 doctorial thesis submitted on M&A to the different universities. The researcher found the said reports are collected from University of Pune, Bangalore University, Karnataka University, Dharwad, Mangalore University, Indian Institute of Management (IIM), Tata Institute of Social Sciences Mumbai, Saurashtra University, Rajkot, Jawaharlal Nehru Technological University Hyderabad, Mahatma Gandhi University Kottayam, Cochin University Of Science And Technology Kerala, Uttar Pradesh Rajarshi Tandon open university Allahabad and Tezpur University, Tezpur to critically analysed the Ph.d thesis and identified the research gaps.
2.1.1. Khatter Ram Chandra (1994) the author of the Ph.D thesis titled “Management problems of Corporate Acquisitions and Mergers in India” submitted to University of Pune has studied the overall acquisitions and mergers in India by case study base with core on Human resources and finance part. The researcher has taken sick units from SSI’s under the study. 15 is a sample size and examine the problems posed by the regulated business regime to the encouragement of acquisition and merger activity. Researcher try to give his option about acquisition and merger in SSI unit and what are the problems faced by the management while acquisition and mergers in the unit.

2.1.2. Thomas Za Charias (1996) in his Ph.D thesis titled “Performance Effectiveness Of Nationalized Banks: A Case Study Of Syndicate Bank” submitted to Cochin University Of Science And Technology, Kerala. He has studied on growth and development of banking industry in India. To what extent of achievement of Syndicate Bank in relation to Capital adequacy, quality of assets and profitability, Social banking growth, Productivity and customer service. The performance effectiveness of Syndicate Bank in relation to the rest of the nationalized banks is studied. The researcher has used six broad parameters in this study to evaluate and assess the performance of Syndicate Bank and other nationalized banks in India are Capital adequacy and quality of assets, Profitability, Social banking, Growth, Productivity and Customer service. The Performance of Syndicate Bank is capable of showing improvement only if the Bank takes earnest efforts of enhance its performance in areas such as internal management, asset management, technology upgradation, customer service and so on. This could go a long way in improving its overall performance.

2.1.3. Rekha. H. G. (2002) the author of the Ph.D thesis titled “Mergers and Amalgamation in Corporate Sector” submitted to Bangalore University has studied actual motives for mergering in each of the cases to assess the overall all performance of the company before and after the merger with particular reference to operating efficiency and profitability of the company. The merger impact on the market value of share as well as market capitalization before and after the merger of the company. M&A of the company by taking 3 years pre and post mergers case study analysis is done with financial parameters like current asset ratio, Debt equity ratio,
expenditure to sales ratio and earnings after tax, return on capital employed, EPS, DPS and return on total asset is done on case by case basis. The important findings of the study are the mergers have occurred due to family reasons and also within the group which has resulted only in book adjustments. Such mergers have to be thoroughly scrutinized by the shareholders of the company and the intention behind merger properly investigated as such merger have failed to provide better returns to the shareholders and other participants in the company.

2.1.4. Shah Harish B (2005) the author of the Ph.D thesis titled “Examine the suitability of acquisition and merger as a form of growth under the contemporary legal environment with reference to some units in western India” submitted to University of Pune has studied the M&A as a viable alternative way of corporate growth particularly with reference to various laws, rules and procedures applicable under various provisions that followed by analyzing the practical cases in the western region of the country. And also know the legal and procedural problems to complete the process and find ways and means to overcome such legal problems so as to make the process easier. The research is a descriptive in nature and sample size of 10 mergers and acquisitions are taken for the study. M&A are promoted with the support of various stakeholders like shareholders, managers and promoters of the combining companies. The research study covers the tax, accounting for amalgamation and accounting standard for the same for M&A along with ratio analysis of the two companies which are going to merge. The factors which are the motives for shareholder and managers to lend support to these combinations and the result and consequences they have bear out in the M&A process.

2.1.5. Shivaprasad H.N. (2005) the author of the Ph.D thesis titled “Human aspects of Post merger integration process case study of selected Indian companies” submitted to Karnatak University, Dharwad has studied the determinants of Human Resources responses to merger. The main objective of this study is that the identify the determinants of HR response in the merger context and to examine the effect of determinants of HR response. Based on the main research objective of cultural differences between the merged entities, tolerance for multiculturism of the constituent organization and what the degree of HR management intervention in the organization. A multi method approach was adopted
for data collection. Respondents for the study were drawn from firms that have undergone mergers and acquisition during the period 1992-2002. The study brings out the important effect the changes in HR systems and HER process interventions have on the HR responses evoked. The key finding from this study is not the fact of differences between merging organization that are material, no is the quantity of HR systemic changes but the degree of HRM interventions, which play a critical role as a determinant in facilitating the merger process. So while there will be negative reactions when changes in systems are brought about, those can be addressed by suitable process interventions.

2.1.6. V. P Thomas (2007) of his Ph.D thesis titled “The Deposits And Lending Of Commercial Banks In Kerala - A Comparative Study With Co-Operative Banks” submitted to Mahatma Gandhi University, Kottayam. He has done the research on evaluate the various deposits and lending schemes of commercial and co-operative banks in the Karla State. And compare the performance efficiency of commercial banks with that of co-operative banks in the State by analyzing the profitability with Credit-Deposit ratio in order to ascertain the deposit lending pattern. The impact of NPA on commercial and co-operative banks. The role played by commercial and co-operative banks for the economic development and customer satisfaction in the banks. Commercial and co-operative banks are to be considered not merely as dealers in money but also as the leaders in development. They are not only the storehouses of the country’s wealth but also are the reservoirs of resources necessary for economic development. The commercial and co-operative banks performing more or less the same commercial banks are under the control of the Banking Regulation Act and the guidance of the RBI, and co-operative banks are under the control of the respective State governments and State Co-operative Laws and enjoy government patronage and subside. Thus the commercial banks are facing stiff competition from co-operative banks in all fields ranging from deposit mobilization to granting of loans to general public.

2.1.7. Nayk Panduranga (2009) the author of the Ph.D thesis titled “Corporate M&A in India: An evaluation of financial performance” submitted to Mangalore university has studied the stock price response of acquiring company to the announcement of a merger or takeover. The wealth effects of merger on the
combined firm by comparing post merger financial performance of the merged firm with pre merger combined firm performance relative to the industry performance as a benchmark, and also assess the sources of operating performance gains to the merged firm. The event study methodology to assess the stock price performance of the companies. The operating performance of the merged companies is evaluated by using the financial parameters. The financial performance involves the use of important financial parameters and statistical tools like median, average, weighted average, standard division, regression analysis and analysis of variance. The financial aspect of the merger to judge whether merger resulted in improved performance or not.

2.1.8. Bajaj Hema (2009) of her Ph.D thesis titled “HR Integration In Mergers And Acquisitions: A Study Of The Process And Its determinants” submitted to School of Management and Labour Studies in Tata Institute of Social Sciences, Mumbai has studied the type and rationale of merger/acquisition, relative standing of two combining organizations and their cultures and leadership locating new factors which impact the integration strategy, components for integration strategy and the degree of integration. The study is focused on Process of HR integration will include people integration through integration of soft issues like cultural integration, communication and facilitation of learning/ training in the organization. HR practices and policies like structure and staffing, compensation and employee relations in unionized workforce. The study is based on banking sector in India. Researcher concluded that the HR issues and their solutions is concerned, one can keep in mind that determinants and their effects, select the best suited approach and interventions to the organization it will help these existing and proposed approaches and interventions may be considered as an anthology of suggestions and solutions, out of which the best way to integrate should be chosen and modified based upon the unique determinants identified.

2.1.9. Ransariya N Shailesh (2009) of his Ph.D thesis titled “Financial Growth Indicator of Merger and Acquisition in Indian Corporate Sector” submitted to Saurashtra University, Rajkot has studied measure the impact of mergers and acquisitions on financial growth in Indian Corporate Sector. The researcher has evaluated the impact of merger and acquisitions on the liquidity, profitability and
leverage position of selected 10 units for the study. The potential investor the performance of profitability is one of the yardsticks to evaluate their investment of funds. The measurement of profitability in different ways and there is no perfect method or technique is available for this purpose. The researcher is based on 15 ratio analysis.

2.1.10. Bansal Disha (2010) in her Ph.D titled “Impact Of Liberalization On Productivity And Profitability Of Public Sector Banks In India” submitted to Saurashtra University, Rajkot. The researcher studied profitability and productivity of PSBs in the post-liberalization period to identify the various factors affecting the profitability and productivity of PSBs. Also study the contribution of various factors towards the profitability and productivity of PSBs in the post liberalization period in India. 27 nationalized banks are taken for the study. RBI and Government of Indian had initiated the process of banks sector reforms by setting up Narasimhan Committee-I in 1991 and Narasimhan Committee-II in 1998. The bank reforms heralded the beginning of implementing prudential norms consisting of capital adequacy ratio, asset classification, income recognition, and provisioning. The banking sector reforms in India have been concerned with improving. The Indian bank sector has come from a long way from being a sleepy business institution to a highly proactive and dynamic entity. In order to identify appropriate competitive strategies, PSBs will have to make a careful study of the market and segment customers into various categories based on their expectations, the extent of competition, customer profitability etc.

2.1.11. Sinha Ashutoshkumar (2011) the author of the Fellow Programme in Management thesis titled “Essay on M&A in emerging Economy context, premia, motives and valuation consequences”. Submitted to Indian Institute of Management (IIM), Bangalore has studied the demotic merger motives and cross border merger motives. Only limited number of merger motives drawn from domestic M&A. The motives behind cross border M&A have mostly drawn from the efficiency theory (synergy). In his study he has address the issues relating to premium paid for mergers/acquisitions influenced by the level of development of the acquire or target counties or origin? Are the emerging economy firms paying a premium that is significantly different from the rest of the acquirers, how the domestic
acquisitions compare to cross border acquisitions in this context of development and what is the role of different determinants of premium in the acquisitions takings places. Ascertaining whether the quantum of premium paid by the acquiring firm was influenced by the level of development of acquire or target firms counties of origin, findings indicate that the both the cross border deals as well as for the combined dataset of domestic and cross border deals, the emerging economy acquirers paid lower premium for targets located in the emerging economies compared to all other groups. Cash deals were associated with a higher premium compared to stock deals that could indicate the tendency of acquirers to avoid issues associated with regulatory delays that arise from a non cash mode of payments.

2.1.12. Kagalkar Samir K (2011) the author of the Fellow Programme in Management thesis titled “Essay on Competition in the Indian Banking Industry” submitted to Indian Institute of Management (IIM), Bangalore has studied the how the onset of economic reforms changed the nature of the banking industry, especially during the period of 1996 -2007. Indian PSBs wake up to the reality of new players who had no baggage but had technology on their side entering the market in a big way. And also impact of market structure, competition, changing scenario in the Indian Banking sector. Challenge to implement of Basel II recommendations in terms of having capital support for operational risk, along with credit and market risk. The research reveals that the product diversification being greatly influenced by competitive pressure. Banks has to generate non-interest income and cost reduction in the banks can be used to increase performance of the banks.

2.1.13. Prasad D. Subrahmanya (2011) of his Ph.D thesis titled “Mergers And Acquisitions In The Indian Banking Sector: An Analytical Study” submitted to Jawaharlal Nehru Technological University, Hyderabad has study done from 1994-2009, (post liberalization period) has been selected to focus on major commercial bank mergers in India while providing sufficient data to compare/evaluate the pre and post-merger corporate performance/financial performance of the acquiring Indian commercial banks. The availability of three-year pre and post-merger data of the acquiring banks. The present study has 10 samples. A detailed study has taken at the most widely used indicators of quality and quantity of bank performance before
and after merger. The post-merger performance of selected commercial banks of India. The evaluation is based on performance of bank- profitability, productivity and risk. It will also cover the post-merger changes in the other bank performance parameters which have gained after the merger and acquisitions. The assets acquired were of such quality that they did not contribute to improved performance of the acquiring banks in general. The argument is that many commercial bank mergers in India before 1999 period were triggered by the weak financials of the target banks. The target banks were much smaller in size as compared to the acquirer’s banks to be able to make a perceptible impact on their performance of the acquiring banks. It can be seen that the acquiring banks have exploited the financial synergies after mergers and acquisition. The researcher also heighted the financial and operational performance of acquiring and acquired banks in this study.

2.1.14. Mishra Murari Krishna (2011) in his Ph.D titled “Financial Performance Of Indian Banks In Post Liberalization Era: A Study Of Public And Private Banks” submitted to Uttar Pradesh Rajarshi Tandon open university, Allahabad. The study has done on the financial performance of public and private sector banks in Post Liberalization era by using CAMEL model. The selection of sample for the research work consist of one public sector bank namely State Bank of India and one from private sector bank i.e. ICICI bank. The financial performance public and the private sector banks for the period of 2000 to 2009. The Banking sector reforms in India has opened up new avenues for the banks; operating in public, private and foreign collaboration. Due to the changing economic environment in the country the banking scenario is also changing. In order to improve the efficiency, profitability and asset quality. The banks should reduce their NPA by adopting various measures within the constraints of regular guidelines. The banks should give the thrust area for loans and advances. Banks should give more importance to earning assets if they have minimum investment in fixed asset and low NPA’s. The overall finding in post liberalization era with respect to the Indian banking sector with regard to the efficiency it has shown remarkable growth with more deregulation in the banking sector. The commercial banks in India would need to devise the imaginative ways to increase the income in order to more profits. The reporting accounting standards, an improvement of accounting standards and disclosed practices would enhance for transparency in financial market.
2.1.15. Deb Nilanjana (2011) in his Ph.D titled “Indian Banking: a Transition towards Universal Banking Framework” submitted to Tezpur University, Tezpur. The study has done on position a bank in terms of the Universal Banking and to examine the risk exposure of banks. To critically analyze the Universal banking in the context of the samples study of commercial bank with respect to ICICI Bank - the first Indian Universal Bank, this would help the concerned banks to know where it stands with respect to Universal Bank in India. The Indian banks are not sound as far as their financial health is concerned. However, the new generation private sector banks like the Axis Bank, HDFC Bank, ICICI Bank and Kotak Mahindra Bank each had elevated themselves to a good rating as compare to public sector banks. The Indian commercial banks are in a transition stage of becoming a Universal bank; utmost care should be taken so that only those banks that are financially strong make the transition. Universal Banks happen to be larger banks when compared with other commercial banks or specialized bank as such failure of a Universal Bank is going to trigger the emergence of systemic risk in the Indian banking sector.

2.2. Paper Publications on M&A

There are 13 news paper publications collected from different news papers; they are Economic Times, Business Standard, Business Line, Deccan Herald etc., and critically analyzed the news paper articles and identified the research gaps from the same.

2.2.1. Killawala Alpana (2005) The banking sector in India is robust and its standards are broadly in conformity with the international standards. The efficiency and stability to the best global standards a two tracks and gradualist approach will adopt. The consolidation of domestic banking sector in both public and private sector can result in gradual enhancement of the presence of foreign banks in a synchronized manner. The Foreign Institutional Investor and foreign banks are allowed to set up their banks in India.
2.2.2. **Kumar Pawan (2007)** The main focus on Indian banking sector is to explore inorganic growth options in order to face ‘significant’ challenges emanating from large –sized foreign banks to be known for their deep pockets, advanced technology and skilled personnel. He also emphasizes on cross-country evidence to indicate that inorganic growth is one of the best ways to compete with foreign banks.

2.2.3. **H N Sinor. (2007)** The Indian banking industry is growing as the economy is growing need for scale and size. The merger of State Bank of Saurashtra with State bank of India is a good example of such consolidation process in the Indian Banking Sector. The same thing may also take place in some of the other private sector banks in India.

2.2.4. **P.K. Gupta. (2007)** The author stresses more on the mandate for a bank should be clear from the Government about offering different services in different places that should not be compared with banks offering service in the South and West. The performance of the banks should be compared in terms of geographies and people coverage not as merger proposal.

2.2.5. **Leeladhar V. (2007)** The author cautions Indian banks about the two major challenges viz the shrinking margin and liquidity management. Indian Banks should be ready to gear up to face challenges ahead with adoption of a standardized approach towards data management, new services and products, product proliferation through Web based interface which was not possible, security issues, customer relations management and business continuity planning in the Indian Banking Sector are the major issues for Indian Banks.

2.2.6. **Vagesh N.S. (2007)** The issues towards global best practices and India and its booming economy is the toast of the world. RBI and the government of India is discussing a pleasant growth of Gross Domestic Product (GDP) of 8.5 -9 per cent. Indian banks should make use of the same; it leads to credit growth as well as for the requirement of BASEL II, a global standard that prescribed standards for the capital adequacy and risk management. The banks profit margin is less than 5 per cent says **Aditya Puri (2007)** the banks should maintain bear cost on Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) and other requirements, for every deposit
banks take, banks have to reserve 7.5 per cent as CRR for which banks are no interest, on the other hand banks have to keep SLR at 25 per cent on that banks earn less interest. If the GDP of a country grows at 8–9 per cent, credit could grow at 3 times the GDP growth rate in the country.

2.2.7. Dr. Nitsure Rege Rupa (2007) The Indian banking sector is at the threshold of exponential growth at this stage. After post reforms periods, Indian banks have overhauled in the most effective manner. There has been considerable improvement in asset quality, capital adequacy, and return on assets. The ratio of banking sector asset has increased to 67.1 per cent to 86.9 per cent. The Indian banking industry enjoys stable outlook and good rating from all major global ratings agencies. The main idea is to compare the performance of Indian banks with global best practices in a scientific manner. Indian banks have to understand trends in global best practices that will define the direction of Indian Banking sector in the near future.

2.2.8. Rao. M.B.N. (2008) Canara Bank is examining the possibility of acquisition and they are working on different alternative particularly in North and West India. It would prefer a bank that has a good footprint in these areas to develop a Canara Bank base in that part of India.

2.2.9. Mukherjee Pranab (2009) It is necessary to improve the state of competitiveness of Indian banks globally and also to reduce the risk to financial stability. He wants banks to provide credit at reasonable rates to push growth as a financial intermediary. The banks have to standby to provide credit at reasonable rates and Public Sector Banks should look at consolidation as a serious option in order to reduce risk to financial stability and to face competition.

2.2.10. Mahajan. A.C (2009) The Government is asking state owned banks to look at creating a few big banks through mergers and acquisitions. Canara Bank is looking at buyout opportunities in Maharashtra and Gujarat where it does not have a presence of Canara Bank, which leads Canara Bank to an inorganic growth in the Indian banking sector.
2.2.11. Thingalaya N.K. (2009) The author made remarks on **mergers will not add to the competitive strength of banks** if rural branches from a significant proportion of the merged entity. It is better to have the rural branches into separate professionally managed banks. Instead of ad hoc bank mergers, a banking commission should be set up to formulate a roadmap for banks mergers in Indian banking sector. The editor has addressed the issues raised by the Narasimham committee which went into the whole gamut of financial sector reforms. Finance Minister has to set up the Banking Committee for looking after such kind of issues in the financial sector.

2.2.12. Bansal Kaveri & Bansal Mona (2009) The issues relating to the Indian banking sector and M&A as a means for inorganic growth are increasingly being used in the world to overcome to undertake restructuring of leading business enterprises. In this publication they have used the (Strength, Weakness, Opportunities & Threats) SWOT analysis for Indian banking sector. Liquidity has been traditional strength of the Indian Banking system. Banks are required to keep a stipulated proportion of their total demand and time deposit in the form of liquid asset which affect their liquidity position. RBI compelled all the Indian banks to maintain SLR & CRR, which creates a sound banking system in India, which is the strength of the Indian Banking system. They identified competition from foreign banks which will create intense competition for Indian Banks. In India there is a high level of fragmentation, especially among cooperative banks, as compared to some of the advanced economies of the world. Lack of product differentiation, low penetration and no competition at international level are the major weaknesses of Indian Banking system. On the other hand, Indian new generation private sector banks and foreign banks are technologically more advanced in terms of management information system and delivery mechanism. In Indian banks, all have implemented Basel norms II and other cost cutting majors will lead to cost efficiency and profitability. Alignment of technology, assimilation of systems and process, customer dissatisfaction, integration of people, Marginalization of small customers and rise of monopolistic structure lead to threats of Indian Banking sector. Consolidation will positively amplify the Indian banking sector prospects in the domestic as well as international market place. On the other hand, Mr. Pranab Mukherjee (2009), Finance Minister, Government of India said that the “**Govt not forcing public Sector banks on consolidation**”, but if the public sector banks are taking initiative should come from the management and the
government is ready to help such types consolidation in the Indian Public sector banking.

2.2.13. Beniwal Vrishti (2010) The government has to decide not to take any fresh initiatives to discuss M&A among the public sector banks in India. Till date no bank has approached the government with any mergers plan or target yet. Only some big banks are open to the idea, but nothing can happen unless there is some political will and consensus among the Indian banks. On the other hand government is not forcing any banks to go for consolidation, but if the M&A happens government will put forth the issues and forward the same to M&A in Indian Banks.

2.3. Research Publications on M&A

The research articles from various magazines have been collected for the present study to critically analyse the research articles and to identify the research gaps from the same.

2.3.1. L M Bhole (1992) The attempt is made to critical appraisal of the Report with a view to place the recommendations in a proper perspective and also to generate some thinking on the emerging issues. The Narasimham Committee Report has made a number of recommendations regarding the structure, organization, functions and procedures of the Indian financial system, but the researcher has made some more in this regard. The Government of India introduced the policy of liberalization, globalization and privatization in the economy at a very large scale in June 1991. A nine-member High Level Committee on the Financial System was set up to examine all aspects relating to the structure, organization, functions, and procedures of the financial system. The Committee headed by Narasimham, submitted a summary Report to the Government of India on November 8, 1991, and the Main Report on November 16, 1991 (RBI, 1991). This Report has generated considerable expectations as well as apprehensions regarding the direction of change in the Indian financial system and has been prepared in order to generate some critical thinking on the issues emerging from the recommendations in this regards. The development of financial sector is underlying the Narasimham Committee and is pretty obvious to any discerning analyst. The model being proposed will bring the kind of outcome envisaged by its proponents and is not borne either by the diagnosis employed by the
Committee or by the experience of other third world countries which have experimented with the model.

2.3.2. **Block Stanley (1997)** The mergers become increasingly important in the financial services industry, the need for proper sensitivity analysis to assess the financial impact of the merger is essential, unlike in industrial mergers; there is almost always initial dilution in a bank merger. The homogenous nature of bank P/E ratios and the high premium over book value that is typically paid to the acquirer. The problem of dilution was further compounded by a Security Exchange Commission; USA (SEC) ruling in March of 1996 that restricted the repurchase of outstanding shares for two years after merger under a pooling of interests in financial recording, by those factors, the initial dilution can only be overcome by more rapid post merger earnings growth by the holding company. The factors that affect the growth rate after merger it and indicates the relative importance of the premium paid the by size of the merging institutions, the absence or presence of synergy and a number of other variables impact on mergers.

2.3.3. **Pawaskar Vardhana (2001)** elucidates the impact of mergers on corporate performance. It compares the pre- and post-merger operating performance of the corporations involved in merger to identify their financial characteristics. The effect on merger-induced monopoly profits is identified by looking at the persistence profile of the profits. Taking a sample of 36 cases of merger between 1992 and 1995, it has been observed that there are no significant differences in the financial characteristics of the two firms involved in merger and acquisitions. The mergers seem to lead to financial synergies and a one-time growth. The analysis of the regression to norm shows that there is no increase in the post merger profits. The competitive process is not impeded with merger even when no strong anti-trust laws are present in the country.

2.3.4. **Beitel Patrick and Schierech Dirk (2001)** The European banking sector has experienced a profound restructuring since the mid 1980’s and still is substantially changing. The value implications of 98 large national and international mergers and acquisitions of exchanged listed European acquiring bank. M&A in associated sectors such as insurance and securities are considered as a sample for the study.
European acquiring banks in large deals have experienced significant negative cumulated abnormal returns. More number of cross border transactions of European banks seem to be value destroying in the banking sector.

2.3.5. Pandey Ajay (2001) The developed countries have consistently pointed out substantial valuation gains for target firms particularly in case of successful takeovers. It has been found that higher for tender offers compared to mergers and proxy contents. The enactment of takeover enabling regulations in 1997 in India, takeovers and substantial acquisition of shares necessitate making open offer to the investor. Till 1994, a suitable regulatory framework to facilitate takeovers in India financial market is only through tender or open offer. Takeovers or change in control have been frequently taking place in India, the only after SEBI regulations 1997. From 1997 to April 2001 there are 268 open offers have been made, under three heads i.e, control, substantial acquisition and consolidation of the company. The researcher has used event study methodology to assess the impact of open offer announcements on the target firms stock return, for this 51 to 150 days estimated periods have been used. The result of the study is consistent with the argument that private value placed at control is quite high in such transaction and capital market does not place as high value on the firm. In Indian SEBI currently a minimum size of open offer has been kept 20 per cent of the aggregate share holdings. The industry wants bidders to be forced to buy out all the shareholders.

2.3.6. Joseph Mathew & Nitsure Rege Rupa (2002) The globalization of trade under the WTO has provided India with a new opportunity as well as a necessity to strengthen the efforts at reforming their domestic financial sector, particularly banking. The real issue before India is how to obtain the best deal for India in the current round of negotiations while seeking to reform Indian financial sector. They are six major issues that will come up for consideration in this round of World Trade Organization (WTO) negotiations and recommendations made for India’s response strategy by appropriately drawing lessons from the global experience in the opening up of the banking sector in India. The consolidation of domestic banks in India could prevent a large-scale entry of foreign banks. This is illustrated in the case of Brazil whose banking sector is now dominated by six retail banks of which five (the big three private and two government) are domestic. Brazil has now only about 150 banks
against 750 banks in early 1970s and the consolidation is continuing with smaller banks, both private and public, being taken over by the big three private banks, Bradesco Itau and Unibanco.

2.3.7. Chummar John Mathew and Dr. G. Raju (2002) The author has examined with objective of synergy analysis between the banks by taking profitability, efficiency of branch and working funds. A researcher has examined Compounded Average Growth Rate (CAGR) of profitability, CAGR of business income after merged banks, deposit mobilization efficiency, CAGR of working fund and share holding pattern after merger of the bank. For his study, he has taken the data of the last 3 years and has done the research on secondary data. One of the major finding was that the merger deal did not result in a huge dilution of ownership as the Times group prompters got only a 7% stake in the newly merged entity.

2.3.8. KV Kamath et.al Chairman & Managing Directors of ICICI Bank Ltd (2003) The financial sector reforms with specific reference to Indian Banking sector focusing on implications to the existing, new and multinational players and their impact on consumer behaviour. The authors of this article highlighted the points with reference to new and emerging opportunities, competitions, challenges with reference to restructuring, automation, product delivery; process reengineering, product engineering, product design and audit. They have also addressed issues related to governance, regulation and HR related issues like Voluntary Retirement Scheme (VRS), compensation, education and training, empowerment and career plan. The Indian banking sector is going towards future scenario with exciting point in its evaluation. The opportunities to enter new business and new markets and to deliver higher levels of customer services are main concern for the Indian Banks. Indian banks position themselves as a service provider by refining a banking business in the system. Technology and competitive advantages can be achieved through harnessing the potential available in the employees by creating a positive work culture and enlisting the support of all the employees to the organizational goals. Indian banking is requires four major things in the system that is consolidation, globalization of operations, development of new technologies and universalisation of Indian banking industry. Finally the banks need to think out of the box where box is the representation of all the tested, tried things that always worked in the past. Indian
banking should think beyond the current practices, products, services organization and industries that will help the customers which are looking for banking needs.

2.3.9. Barua K Samir and Varma R Jayanth (2003) The Governor of the RBI has given more autonomy. The possibility of the RBI being given more autonomy leads to several changes in the operations of the RBI functions. In his papers the rationales for the changes have been suggested by the RBI Governor and other changes required for effective functioning of the RBI. Any changes in the financial markets have got the implications in the financial services industry and corporate managers. The banking reforms in India started with abolition of Ad Hoc Treasury Bills and it leads RBI lending money to government through use of ad hoc treasury bills, whenever the government runs out of cash, RBI creates money and lends it to the government. It is automatic monetization of the government’s deficit. The implication of this is control of the bank on supply is to totally undermine. The Government should borrow not from the RBI but from the capital market. This would not prevent the government from running deficits; rather it would prevent the deficit. Controls the inflation and the battle against inflation is an ongoing process, which will control the price stability in the market. The autonomous monetary policy would bring the government securities market, it will reduce the SLR (Statutory Liquidity Ratio) and it would be the broad base the government debt market. The RBI should also look for autonomous Exchange Rate policy. The wide range of policy options available is exemplified by the fact that the US monetary policy has got more high degree of autonomy. The interest rates on government debt are market determined and all the interest rates can be freed in the market and at the same time RBI can influence the general level of interest rates in the economy. The interest rates on corporate debenture were freed and the financial institutions moved to market determined lending rates. An active monetary policy would also tend to increase the volatility of interest rates in the market. Indian corporate managers too will soon have to go for accustomed to watching M1 and M3 targets, which leads to money supply announcements and it may start rivaling it in terms of viewer interest. As a result of the above changes it leads to interest rates, inflation rate, exchange rate and new intuitions in the private sector in Indian financial market.
2.3.10. Dr. Shrestha K. Manohar, Dr. Pradhan S. Radhe & Dr. Manandhar D. Kamal (2004) The companies that have been acquired by the private parties such as Bhrikuti Pulp and paper factory, Leather age Bansbari Tannery and Shoes factory, Nepal Film Development Corporation, Harisidhi Brick and Tile factory, Tobacco Development Corporation, Nepal Lube Oil Limited, Balaju Textile Industries, Bitumen and Barrel Industries Limited, Raghupatu Jute Mills, Nepal Bank Limited, Agriculture Tools factory, etc. The amalgamation of weaker companies, banks, service industries and other non-bank financial institutions to stronger ones. How the public companies, which were merged and taken over by private sector in different modalities had successfully raised the additional external equity capital through the issue of ordinary shares and contributed to the capital market development in Nepal. The companies after merger and acquisition have brought positive impact in terms of investment, production, sales, product diversification, technological improvement, employment, borrowing, and earning potential while many other could not do better for the achievement of benefits of merger and acquisition. After merger and acquisition, the market price per share is found correlated positively with EPS. It is revealed that after merger and acquisitions, the different companies have been able to increase net worth per share by increasing EPS. The end result is increase in market capitalization contributing to the stock market by way of increasing their investment, achieving operational and managerial efficiency.

2.3.11. Abdulrasheed Abdulraheem (2004) Indian banks have continuously struggled to make their shareholders happy by justifying the confidence reposed in them through better performance and higher profit margin in the sector. The ratio Analysis as a measure of performance in the Banking Industry, is taking up a Case Study of Selected banks. The data were collected from their Annual reports and Accounts and various financial ratios were employed to analyze the data obtained. A cross sectional and trend analysis was also carried out.
2.3.12. Sathye Milind (2005) The efficiency and performance of public sector banks in India is a key objective of economic reforms. It is believed that private ownership helps to improve the efficiency and performance. The Indian government started diluting its equity in PSBs from early 1990s in a phased manner. Has the partial privatization of Indian banks really helped to improve their efficiency and performance? The researcher could readily obtain publications for five years i.e., 1998-2002; his analysis is, thus, restricted to these five years. The financial performance of the banks was measured using the standard financial performance measures such as return on assets; efficiency of banks was measured using accounting ratios, e.g., deposits per employee. ‘Synchronic’ approach in which the performance of state-owned firms is compared with the firms that were privatized or with the firms that were already in private ownership. The ‘Historical’ approach, in which ex-ante and ex-post privatization performance of the same enterprise is compared. In this study, partially privatized banks have continued to show improved performance and efficiency in the years after privatization. Indian strategy of gradual privatization has succeeded.

2.3.13. Sathye Milind (2005) Increasing efficiency and performance of public sector banks in India is a key objective of economic reforms in India. From the research it is proud that private ownership helps in improving efficiency and performance of the banks. The Indian government is diluting its equity in Public sector banks from early 1990s. The present paper has taken a period of five years i.e, from 1998 to 2002 by taking return on assets, deposit per employee and etc. There are two main approaches generally used to evaluate the performance of the firm are synchronic and historical approach. The performance of the state owned firms is compared with the firms that were privatized or with the firms that were already in private ownership and pre and post privatization performance of the same enterprises is compared. The financial performance of the banks were measured using standard measures like return on asset (ROA), working funds ratio, loan to deposit ratio, NPA to Net Advance and the efficiency of the bank was measured using deposit to staff ratio, profit per employee, net profit per employee and profit to per branch. The study examines the impact of privatization on banks performance and efficiency using data of banks in India for the five year period. From the research, the author comes to know that there are three groups of banks that is partially privatized, fully stable and those already in the
private sector. The fully privatized banks have performed better as compared to the full public sector banks in respect of certain financial performance and efficiency parameters.

2.3.14. Knapp, Gart Alan & Becher David (2005) Today’s banking industry is experiencing as extensive merger and acquisition activity to reduce costs, get more revenue and expand the market, increase market share and diversify the risk. The researcher has taken 80 material mergers valued in excess of $25 million and mergers happened between 1987 and 1998. The 14 mergers have historical data for the first three year post merger years. As a result of this sample size declined to 30. The analysis has been done for pre and post mergers with t-test, regression, correlation analysis and event study is done. Profitability and explanatory ratio are calculated for the sample. The material acquisitions are high risk proposition on an average the acquire underperforms the industry in the post merger period. The result of a few poor mergers and half of the mergers in the sample underperform the industry in the post merger period.

2.3.15. Dutordoir Marie, Roosenboom Peter and Vasconcelos Manuel (2005) in their research paper focus the determinants and stock price impact of voluntary synergy disclosures by U.S. acquiring firms, using a hand-collected sample of synergy disclosures over the period 1995-2008. The synergy disclosure decision is mainly driven by the wish to reduce asymmetric information problems associated with the M&A deal as well as by strategic considerations. The document that both the decision to disclose synergies and the value of the synergy is expected to accrue to have a significantly positive impact on the abnormal stock returns of the acquiring firm at the time of the announcement of the deal. There is no evidence that disclosure is used to increase the likelihood of successfully completing the deal or to reduce competition for the target.

2.3.16. Mehta Jay & Kakani Ram Kumar (2006) In their working research they say that the banking sector in India often indicates that it is slowly but surely moving from a regime of `large number of small banks' to `small number of large banks'. They are various motivations for bank mergers and acquisitions in Indian Banking sector. The, literature is reviewed to look into the various motivations behind the
merger and acquisition event. The research also takes us through the international mergers & acquisitions scenario comparing it with the Indian scene. The increasing role of the economic power in the turf war of nations, the significant role of the state and the central bank in protecting customer’s interest’s vis-à-vis is creating players of international size. The mergers & acquisitions in the Indian Banking Sector both from an opportunity and as imperative perspectives have been studied.

2.3.17. A.S. Ramasastri and Samuel Achamma (2006) Banking sector in India is currently passing through an exciting and challenging phase. The reform measures have brought about sweeping changes in this vital sector of the economy of the country. The study trends important banking indicators for the 25-year period from 1980 to 2005. Analyzing the data from balance sheets of banks, the important conclusions for the banking sector as a whole as well as for different banking groups have been studied in this research article. The study has clearly brought out the positive effects of the reform measures on the banking industry in general. A comparative analysis of various bank groups with respect to different variables has also identified certain specific problem areas of the respective groups. The pace of the reform process is sometimes a cause for concern and criticism and is the great wisdom in this gradualism. The Indian approach to financial sector reforms is based on panchasutra or five principles- cautious and proper sequencing; mutually re-inforcing measures, complementarily between reforms in the banking sector and changes in fiscal, external and monetary policies, developing financial infrastructure and developing financial markets.

2.3.18. Confederation of Indian Industry’s 2nd International Banking Tech summit (2007) Dr. R. B. Barman, Executive Director Reserve Bank of India and John Garvey, Partner, Financial Services leader PricewaterhouseCoopers Pvt Ltd. Comparing the international scenario to the Indian scenario, when it came to best practices, there are some areas where the Indian banks were in harmony with international trends, but there are some areas where they were not represented to an opportunity when you like international banks. The technology allows a lot of innovative services to be provided to customers. The electronic banking systems are now accounted for 60 per cent of number of transaction, but it was just 25 per cent when measured in volume. It leads to less dependence on cheque transactions in the
system. Indian Banking sector should adopt Basel II norms as a regulatory norms as it will increase banking business in efficient manner that will help banks better manage risk in the system. Mr. Deepak Ghaisas said that “Expanding horizons through technology”. Mr. O. P. Bhatt, Chairman, State Bank of India said, “Mergers and Acquisitions do size matter”. Whether bigger was indeed better, leading on the emerging trend of M & A and role of size in M&A. Banking is a service industry and what we sell is a service. Does a larger size bank guarantee better service? Technology is needed for banks to provide best services to their customers. India should be ready to update its regulatory norms for smaller banks to look at M&A so as to get the bigger size derived cost advantage benefit. The RBI is allowing easier access to foreign banks which would enter the Indian market with heavy pockets and latest technology with wide range of products. Foreign banks will target the top customers of existing banks in India. Mr. Manish Khera, Chief Executive officer, financial Information Network & operations Pvt. Ltd, told on “raising the bottom of the pyramid – tapping rural demand”. In India there was a huge demand at the bottom of the pyramid which banks were unable to meet the demand of credit. The bottom of the pyramid was not exclusively rural it is an urban area too. The share of non-agricultural output exceeds agricultural output in the rural economy. The banking sector is unable to penetrate this segment of the market. There is a mismatch in demand and supply of credit; it means what the customer in this segment wanted and what the actual response of banks was. The banking sector need to have a second look at this point that is delivery model and regulations. He suggested that Indian Banks need to further emphasize on methodologies which could be employed in tapping rural demand and stress more on important aspect on how the bottom of the pyramid could be pushed up in the system.

2.3.19. Limeng Song (2007) The banking industry’s recent M&As to explore what corporate governance characteristics are associated with managers acting in shareholders’ best interests. The sample of publicly traded banks at year-end 2000 in different countries and a variety of empirical methods, in contrast to existing research on industrial firms, the relation between corporate governance, particularly board ownership, and M&A in the banking industry between 2001 and 2003 that board structure does not help determine which sample banks sell. Neither the fraction of outsiders on a bank’s board nor having an outside-dominated board differentiates the
target banks in our sample. Instead of outside directors/shareholders and blockholders appear to be primarily responsible for encouraging bank managers to accept an attractive merger offer. To find a greater frequency of outside blockholders in the banks that become targets, suggesting that large non-director shareholders can also encourage banks to act in shareholders’ best interests.

2.3.20. Anand Manoj and Sign Jagandeep (2008) The study reveals that the five mergers in the Indian Banking sector have to capture the returns to shareholders as a result of the merger announcement using the event study methodology. The author has used single and two factor model for Capital Adequacy Ratio (CAR) with a sample of 5 banks where mergers have taken place in Indian banking system. There is a short term shareholders wealth effect of the Indian bank merger during the period of 1999-2005, it emerges that merger announcement in the Indian banking industry is positive and significant shareholders wealth effect both for the bidder and target banks.

2.3.21. Kumar B Rajesh, Panneerselvam S (2009) The study covers the objective of stockholder wealth maximization; the appropriate test of the success of a merger is its effect on stock prices of the company. In the efficient capital market, the investor’s expectation of the mergers future benefit should be fully reflected in the stock prices by the date of the merger announcement. In some cases mergers are the investment, it follows the incentive for the shareholders of the acquired firms which increases the variability of the firms cash flow. The merger can be enhanced in the positive synergistic effects due to the effective integration of productive facilities and distribution network. Present paper they have taken up a study period from 1974 to 2005 with the objectives to explore the stock market reaction to event uncertainty to M&A announcements on a comparative basis, to also study the aims to find out whether acquisition or merger announcements lead to greater abnormal returns. The present study examines the effect of mergers on the wealth of the shareholders of the acquirer and target firms and market efficiency involved in M&A. M&A could imply gains for acquiring firms, some evidence for M&A programme which are consistent with value maximizing behavior by management. This will give more value to the shareholders of acquiring firms gain more as compared to target firms in acquisitions.
2.3.22. **Mann Sigh Jit Bikram & Kohli Reena (2009)** The Private sector banks in India initiated the process of market driven mergers to strengthen its business operation in terms of scale, geographical, size and market share. In this research paper the researcher has pointed out important points regarding growth, profitability, efficiency and productivity of merged entity. The event study along with Abnormal Returns (ARs) and Cumulative Average Abnormal Returns (CARs) for a particular time taken for the study. HDFC Bank will help in getting the branch network in the said merger with Centurion bank of Punjab (CBoP), that will help HDFC Bank to nationally. HDFC Bank merger with CBoP enhances its size and the scale of its operation by providing a diverse range of products and value added services as well as banking services as it would be able to derive better value for its shareholders in future.

2.3.23. **Kaur pardeep & Kuar Gian, (2010)** The cost efficiency measures of banks are examined under both separate and common frontiers. The study was undertaken for the period of 1990-91 to 2007-08. The author has used parametric and non-parametric test for his research. Both the approach require a few assumptions about the estimated frontier and does not assume a specific functional form to represent the cost and production function. The main objective of this article is cost efficiency for individual commercial banks in India and impact of mergers on the cost efficiency of merged banks. The overall results indicate that M&A led to higher level of cost efficiencies for the merging banks and strong banks did not yield any significant efficiency gains to participating banks. Forced M&A among these banks succeed in protecting the interest of depositors of weak banks but shareholders of these weak banks have not exhibited any gains from M&A.

2.3.24. **Owen Sian & Yawson Alfred (2010)** The impact of corporate life cycle on takeover activity from the perspective of acquiring firms. There is a high significant positive relation between firm life cycle and likelihood of becoming a bidder. The life cycle has a negative impact on the abnormal returns generated on the announcement of deals. The research has been done on US firms over the period of 1989-2005. The life cycle of the firm is used by finding the ratio of retained earnings to equity and to total assets. The descriptive statistics and correlation analysis was used to find the impact of firms life cycle on the likelihood of becoming a bidder. In their
research they find the life cycle stage attained by a firm which affects its likelihood of becoming a bidder and tender offers and negotiated deals are affected by the bidder firms life cycle on the method of payment. The firms with high retained earnings in their capital structure have a high propensity to make acquisitions.

2.3.25. Dr. Bihari Chandra Suresh (2010) the researcher, highlighted the different forms of restructuring business, types of mergers and motives for the same. The past acquisition of ICICI bank has been investigated to see its capability in handling the mergers and how ICICI bank will get benefit in the long run which acquires Bank of Rajasthan. Regarding motives taking advantages of awareness that a company is undervalued, opening new markets for present products or services and other are main motives for the same. The research was also done on restructuring committees in India. ICICI bank has prior experience of taking over of Bank of Madura and Sangali Bank, which would help them to acquire bank of Rajasthan smoothly.

2.3.26. Kumar B. Rajesh and Suhas K.M (2010) The Banking mergers in India examines the impact of mergers on both the stock market wealth creation and operating performance. The study also analyses the performance of the merged banks in relation to a control group based on financial ratios. The results of cumulative abnormal returns analysis signify that merger announcements are value-creating activities for the acquirer banks. The merger announcements erode shareholder wealth for the target banks. The study was done on pre-merger and post-merger comparison of the operating performance of the acquirer banks based on three models whereby the cash flow was deflated by market value of assets, book value of assets, and income. The study examines the banking mergers in terms of wealth creation by studying both the stock price and operating performance. M&As related gains are measured using both the accounting based and stock price performance approach. It also examines the effect of mergers on the wealth of shareholders of both acquire and target banks involved in banking mergers and the whether the operating performance of the merged entity have improved after the merger. The stock market reaction to the merger announcement is examined for the present study. In the efficient capital market, there is certainty about the scope, timing and success of a bank’s merger program and then the entire net present value of a merger program should be capitalized when the program is first announced.
2.3.27. Liu Ting-Kun (2010) Researcher has used factor analysis for the difference of performance between holding company banks and ordinary banks after merger. The empirical results show that according to the performance scores there are six banks of holding company on the top ten lists. This reveals that the merger between financial institutions has improved the merger synergy.

2.3.28. Kanoria V. Madhav (2010) The Competition Commission of India has a general body that monitors M&As across industries and sectors and it may not have the necessary technical expertise to decide bank M&As. Any delay or fault in decision-making could have a direct impact on the public who deposit money in these banks. The basic mechanism of the Competition Commission of India is the market economy and it encourages the companies to provide consumer products that require. It encourages innovation, and pushes down prices Competition policy, as the government policy concerning competition. The importance of competition and competition policy makes competition law being called economic constitution in market economy country. The history of anti-monopoly law is the history of American anti trust law. This legal system still has profound influence on the development of anti monopoly law of other countries.

2.3.29. Prof Ndung’u, Njuguna (2010) Governor of the Central Bank of Kenya, addressing the conference on “Consolidated Bank of Kenya’s new look” in Nairobi, Consolidated Bank of Kenya has come a long way since it was incorporated in 1989 under the financial sector reform program established by the Government of Kenya with the objective of taking over and re-structuring various troubled institutions. The Government of Kenya unveiled the blue print of development of country “Vision2030” in 2008. The vision for the financial sector is to “Create a vibrant and globally competitive financial sector, driving high levels of savings and financing Kenya’s investment needs” To achieve this, the Banking Sector is expected to increase efficiency and banking services reach especially to rural areas to help drive increased domestic savings. The Central Bank and indeed the Government of Kenya will continue to pursue policies that create a conducive environment for growth of the financial sector and encourage the provision of banking services to majority of the un-banked Kenyan population at affordable cost. There is a need to
support strong institutional growth and remove underlying constraints that inhibit growth and financial reach.

2.3.30. **Prajapati Sadhana (2010)** be tones the essentials of M&A in Indian Banking System scenario comparing it with the Indian scene. Given the increasing role of the banking condition after the significant change in the role of the state and the central bank in protecting customer’s interests vis-à-vis creating players of international size. The mergers & acquisitions are in the Indian Banking Sector both from an opportunity and as imperative perspectives. The consolidation and emergence of strong entities and providing an avenue for non-disruptive exit of weak/unviable entities in the banking sector, it has been decided to frame guidelines to encourage merger/amalgamation in the banking sector in India. Although the Banking Regulation Act, 1949 the Reserve Bank to formulate a scheme with regard to merger and amalgamation of banks, the State Governments have incorporated in their respective Acts a provision for obtaining prior sanction in writing, of RBI for an order, inter alia, for sanctioning a scheme of amalgamation or reconstruction.

2.3.31. **Kaur Pardeep and Kaur Gian (2010)** underscores the cost efficiency of Indian commercial banks by using a non-parametric Data Envelopment Analysis Technique. The cost efficiency measures of banks are examined under both separate and common frontiers. The impact of mergers on the cost efficiency of banks that have been merged during post liberalization period. The unbalanced panel data was covered over the period 1990-91 to 2007-08. The efficiency differences between public and private both parametric and non-parametric tests are employed. The entire study period average cost efficiency of public sector banks was found to be 73.4 and for private sector banks is 76.3 percent. The findings of this study suggest that to some extent the merger programme has been successful in Indian banking sector. The Government and Policy makers should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks, as it will have adverse effect on the asset quality of the stronger banks.

2.3.32. **Dr. Goyal K.A. and Joshi Vijay (2010)** highlight the motives of banks for mergers and acquisition with special reference to Indian Banking Industry. The samples of 17 mergers (post liberalization) of Banks has been taken for the present
study. The main motives for the merger and acquisition are the number of branches, geographical penetration in the market and benefits. M&A in banking sector has provided evidences that it is the useful tool for survival of weak banks by merging into larger bank. Some private banks used mergers as a strategic tool for expanding their horizons. There is a huge potential in rural markets of India which is not yet explored by the major banks. ICICI Bank Ltd has used mergers as their expansion strategy in rural market. They are successful in making their presence in rural India. It strengthens their network across the geographical boundary, improves customer base and market share.

2.3.33. Ravichandran K, Mat-Nor Fauzias and Mohd-Said Rasidah (2010) illuminate the efficiency and performance using CRAMEL–type variables, before and after the merger for the selected public and private banks which are initiated by the market forces. The study reveals that the mergers did not seem to enhance the productive efficiency of the banks as they do not indicate any significant difference. The financial performance suggests that the banks are becoming more focused on their retail activities and the main reason for their merger is to scale up their operations. The Total Advances to Deposits and the profitability are the two main parameters which are to be considered since they are very much affected by the mergers. The profitability of the firm is significantly affected giving a negative impact on the returns. The post-merger performance suggests that banks are becoming more focused on their high net interest income activities and the main reasons for their mergers are to scale up their operation.

2.3.34. Jayadev M & Sensarma Rudra (2010) clarify the critical issues of consolidation in Indian banking with particular emphasis on the views of two important stake-holders viz. shareholders and managers. First the trends in consolidation in global and Indian banking, and then to ascertain the shareholders views on the same. The event study analysis of bank stock returns which reveals that in the case of forced mergers, neither the bidder nor the target banks shareholders have been benefited. But in the case of voluntary mergers, the bidder banks shareholders have gained more than those of the target banks. The absence of any gains to shareholders of bidder banks, a survey of bank managers strongly favours mergers and identifies the critical issues in a successful merger as the valuation of
loan portfolio, integration of information technology (IT) platforms, and issues of human resource management. The need for large banks by arguing that imminent challenges to banks such as those posed by full convertibility, Basel-II environment, financial inclusion, and need for large investment banks are the primary factors for driving further consolidation in the banking sector in India.

2.3.35. Shim Jungwook & Okamuro Hiroyuki (2011) manifest that the family is the dominant type among listed corporations worldwide, the differences in merger decision and the consequences between them by using a unique data set from a period of high economic growth. There is a positive relationship between pre mergers family ownership and probability of mergers and this leads to ownership structure and it is important determinant of mergers. The main objective of the research is to investigate the differences between family and non family firms during 1955 to 1973. The regression is used to analyze the data with family and non family firms that went public between 1949 and 1965 out of which 80% of the merger between independent firms from 1955 to 1973. In this research paper, the distinct differences between the corporate strategies of family and nonfamily firms specifically in the propensity and effects of mergers have been elaborated.

2.3.36. Dr. Baser C. Narayan And Dr. Brahmbhatt Mamta (2011) have detailed The impact of merger on the financial performance parameter of bank with the help of a case study of merger of Centurion Bank of Punjab with HDFC Bank. The study is to analyze the pre and post merger financial performance of the HDFC Bank in terms of changes in various financial parameters like EPS, DPS, Deposits, Advances and Profit After Tax.

2.3.37. Qureshi Abdul Hafeez and etl (2011) discuss the effects of mergers and acquisition on the financial performance of Banks in Pakistan. The operating performance, capital adequacy and solvency measures were compared for 3-years of pre and post-merger from the financial statements of the HMB (Habib Metropolitan bank) and NIB (National Investment Bank). The study showed that return on asset (ROA) and return on equity (ROE) of HMB did not indicate significant improvement but on average it can be concluded that overall performance of the bank improves as a result of M&A activity. The acquisition activity of PICIC, PICIC Commercial Bank
and National Investment Bank indicates the same result that ROA and ROE decreased but the other financial performance indicators showed significant improvement during post-merger period.

2.3.38. Dhond A Arvind & Dr. Kaptan S.Sanjay (2011) The researcher has investigated the relationship between accounting numbers and stock returns. Traditionally, the main studies have focused on accounting profits, earnings and accruals, and the residual income has attracted the attention. The significance of EVA, a trademarked variant of residual income, is an innovative parameter for shareholders’ wealth measurement. They have studied the financial performance of four Indian banks i.e. SBI, BOI, ICICI and HDFC for three consecutive financial years (FY) 2006-07 to 2008-09. The role of a traditional banker has been replaced with financial services provider for the clients. The Public Sector Units (PSU) and private sector banks in our country have already started looking at their portfolio of service offered and what they should do in the future for remaining competitive in the banking industry in India. As public sector banks are likely to undergo major consolidation, many Indian banks have sought a sudden change.

2.3.39. Haque Imamul et.l (2011) The Service quality in Indian Banking Sector is considered as important parameters to its customer and their satisfaction. The banking sector in India was mainly dominated by nationalized banks. In the pre-liberalized era, the nationalized banks did not pay much attention on the service quality performance and customer satisfaction. After liberalization and implementation of the Narasimham Committee Report, Indian banking sector is facing tough competition from the new private and foreign banks observing International Banking Standard. These new generation banks were characterized by the usage of modern information technology network and modern banking services, like Automated Teller Machine (ATM), debit card, online banking facilities and other products. The Customer has a wide range of banking services offered and delivered by modern private sector banks and foreign banks. The need of hour for the Indian banking sector is to enhance their quality at service. The attempt is being made to focus on the Service quality in Retail Banking and highlight the dimensions of quality banking service in the private sector banks and public sector banks in India.
2.3.40. Kovela Serhiy & Skok Walter (2012) The exploratory study is to understand the key issues associated with integrating Information Technology (IT) in banking after mergers and acquisitions (M&A). The study reveals that reviewing a number of high-profile cases and interviewing the IT practitioners who managed the corresponding processes. The result is a comprehensive review of a poorly understood and researched area providing insights into the significance of the IT-related elements in the M&A integration and specifics of the M&A IT integration process. To conclude that formulating a blueprint layout and integration model describing the timescale, stages, and principles of efficient IT integration are the layout model and can be used by organizations to guide and facilitate the execution of their future banking M&A transactions.

2.4. Books and periodicals on M&A

The various books on M&A have been collected from different publishing Houses and critically analysised the books and identified the research gaps from the same.

2.4.1. Weston Fred J and Weaver. Samuel C (2002) show the pace of merger activity which rose to unprecedented levels. The sustained economic growth and rising stock prices facilitated the transactions. The capacity in a number of industries had developed and sales and profit disappointments begin to widen. Internet companies and high tech industries have been sharply revised downward results in M&A has started and accounting for merger is scheduled to be abolished and large and small business firms face new challenges. The two third of M&A were failures in the sense that they did not earn the required cost of capital for the product market activity involved. The book contains 10 chapters and each chapter is related to the M&A. The authors have tried to provide framework for achieving M&A activities that add the value to the firm.

2.4.2. Sudarsanam Sudi (2003) The author has divided books into four parts. The part one provides overview of M&A’s and process, historic overview of M&A and success of M&A in the US and Europe countries companies and the framework for competitive strategic and the place of M&A in those strategies. The corporate is
restructuring through divestiture and leverage and management buyout. The fundamentals of M&A deal structuring and negotiation and valuation model and accounting rules. The next part deals with the organizational and human aspects of acquisitions. The organizational challenge is to change management and create organizational processes and a system to ensure organizational learning about M&A.

2.4.3. Vadapalli Ravindhar (2007) The author has focused more on business valuation in the context of M&A and takeover. The main objective behind this book is to give practitioners an insight to relevant theoretical developments and relate those to the practical issues of listed and unlisted companies and valuation of sick companies. The cases, applications and problems are more relevant to Indian companies.

2.4.4. Boeh Kevin K & Beamish Paul W (2007) The book is published on the basis of Ivey Business School’s case collection. Levy has a large collection of decision oriented field based business cases. The book contains text and cases. It has 10 chapters and each chapter is related to the M&A. The M&A is more dealt with the help of cases. The cases of all Multi National Corporations (MNCs) have been discussed in the book. This adopts a cross enterprise perspective that bridges all the traditional functions and is of major relevance to the senior leadership of every organization.

2.4.5. Machiraju H R (2008) The Mergers and acquisitions are governed more or less by economic reasons. The other two factors are insider trading and competition policy in the market. In the first chapter author discussed the perspective of mergers, acquisitions, amalgamations, takeovers and different Act applicable to M&A in the system like, Competition bill 2002, closely held companies, Holding companies and tax considerations in the industry. The second chapter discusses the corporate, market and governance control. In the next chapter the author discussed the buyback of shares and method of the same with examples. Takeover tactics followed in the organization have been discussed in the next chapter. In fifth chapter different committee report with related to the M&A have been covered along with salient features of takeover regulations in the next chapter. The valuation of the company and methods of valuations have been dealt with in the next chapter. The impact of
mergers, takeovers and tender offers, leverage buyout, accounting aspects of mergers and taxation for M&A have been the focus in the later chapters.

2.4.6. Godbole G Prasad (2009) In this book author provides a view of the basic concepts of corporate restructuring followed by various forms of corporate structuring in Indian companies. The M&A motives, synergies and activity and various tactics are involved therein. Further he has explained the main accounting and taxation norms relating to M&A. The Accounting and taxation has been explained with the help of examples. Important laws and regulations governing M&A and corporate or capital are restructuring. In next chapter we find funding of acquisition, mobilization of borrowed funds, management buyout and process of target company valuation. The nine mini cases have also been included in boxes in the different chapters to help the reader to understand the concepts clearly.

2.4.7. Ray Ghosh Kamal (2010) M&A are a century old phenomenon in the Indian Corporate history. Many M&As and corporate control are the headlines of business and general newspapers. All over the world many M&A have become the news towards strategy for growth only. The book contains 19 chapters and each chapter is related to the subject. The said book covers the causes, strategies, valuation, synergy, financing, accounting, legal and integration aspects in the M&A. It also covers the aspect related to valuation in the context of IFRS (International Financial Reporting System). The M&A have been explained with the help of cases studies of Indian Corporates.

2.4.8. Kumar Rajesh B (2013) Mergers and acquisitions in industrial and corporate restructuring have become the topic of importance in the global world. The wide phenomena to achieve strategic and financial objective, many firms have no other alternative but to merge, acquire or to be acquired. The M&A is different in industry focus, transaction type, capital structure, presence and absence of hostile takeover and mega deals. It deals a hit which is an all time high in the year 1996 with $4 trillion globally, the large number of M&A happened in the worldwide I 2007-08 largely due to uncertainty in the global credit market and fall in share market around the world. In India it is late starter in the M&A events due to regulations, even after their large number of cross border deals which are happening faster. From 2000-2007 India
witnessed Indian Multinational companies acquiring 594 overseas acquisitions with value of $ 51.2 billions. It was seen in the past that Indian firms acquiring foreign firms, due to Outward Foreign Direct Investment (OFDI). Indian firms allowed for global financial markets, increasing bilateral trade and investment treaties. In the year 2010, only 134 announced M&A transactions a 55.8% increase from the prior year. In first chapter global M&A discussed and focused on emergence of M&A in India. In second chapter there is significance of economic, financial and strategic perspective of M&A. Economic theories have been discussed in the third chapter. Types of mergers and acquisitions and characteristics are the main topics. The following chapter discusses the valuations and valuation models used for M&A process. The accounting issues for merger have been explained discussed in the next chapter. In ninth various corporate control mechanisms and types of takeover are disused. The post merger issues understand the different aspects related to the integration process. The regulatory and legal issues related to M&A are in the following chapter. The author has done an empirical research on M&A for studying the trends and characteristics in the last century. He has conducted the event study on M&A announcement for shareholders value. He has also highlighted the M&A activities in major sectors in India like pharma, banking, IT, Business Process & Outsourcing (BPO), consumer goods, airlines, telecom, cement, auto, oil and energy and metal. He also discussed the high profile case study like Tata and Corus, Vodafone controlling stake in Hutchison and Essar and Arcelor-Mittal merger and story of General Electric Company (GE) acquisitions.

2.4.9. Godbole G Prasad (2013) states the significance of M&A and he says corporate restructuring cannot be overemphasized in changing economic environment. The book is divided in to six sections and each section deals with a particular concept relating to M&A. The chapters 1 to 6 have basic concepts of corporate restructuring following various types of corporate restructuring and motives behind M&A activity and various tactics involved in it. The chapters’ 7 to 11 focus on some important laws and regulations related to M&A and corporate restructuring. Chapters 12 and 13 elaborate some of the accounting and taxation norms relating to M&A. The chapter 14 to 16 explains the funding of acquisitions, mobilization of borrowed funds and management buyouts. The concepts have been explained with the help of case studies and live examples.
2.5. Committee Reports on M&A

The different committees submitted their reports to the Government of India on M&A. The committee has given recommendations relating to M&A in India and critically analysed those recommendations and identified the research gap.

2.5.1. Shri. Bhagawati P. N. (2002) Committee Report on substantial acquisition of shares and takeovers) constituted by Security Exchange Board of India (SEBI) in the year 2002. The committee was constituted of representatives from Chamber of commerce and industry, investor associations, legal experts, Merchant bankers, Institute of chartered Accountant in India and SEBI. The committee after discussion and deliberations submitted the reports on Substantial acquisition of shares and takeovers to SEBI on 8\textsuperscript{th} May 2002. Some of the recommendations of the committee are that the change in Control can be brought about only pursuant to a special resolution passed by the shareholders in a General meeting and postal ballot should be allowed in respect of such meetings. The present exemption for preferential allotment is continued subject to the condition that any resolution for preferential issue should provide for postal ballot to enable greater shareholder participation. The offer should always be for 20 per cent or above, the offer may be subject to an acceptance level of less than 20 per cent. The acquirers or person acting in concert are all jointly and severally responsible for fulfillment of obligations under the regulations. Voting right which is not defined in the regulations would carry the meaning as per the definition in the companies Act 1956. If the acquirer may be allowed to enter the management after the period of competitive bidding is over. Any changes may be allowed only when 100 per cent of consideration payable, it is assumed that full acceptance and cash is deposited in escrow account. The acquirer crosses the limit of 5 per cent, 10 per cent or 14 per cent; it should be disclosed by the acquirer. Financial institutions should be encouraged to consider financing takeovers. The acquisition of shares in breach of regulation 10, 11, or 12 of the takeover regulations shall be null and void. The exemption under regulation 3 is not available for any reasons whatsoever and acquisition is made in breach of regulations 10, 11 or 12 such kind of acquisition shall be null and void. Any profit made in the process should be put in the Investor protection Fund. If the SEBI is satisfied that as a result of acquisition of any shares, violation of regulations relating to consolidation of holdings 15 per cent of share as
acquisition of control and change of control without public offer is likely to take place, SEBI may direct the target company or the depository not to give effect to transfer of any such shares and not to permit the acquirer or any nominee or any proxy of the acquirer to exercise any voting or other rights attaching to such shares. The non compliance with the disclosure requirement in Regulation 6,7 and 8 the SEBI may have the power to direct disinvestment of such share as are in excess of the trigger point for reporting requirement as well as to impose monetary penalty on the company.

2.5.2. Proposals for Financial Sector Reforms in India: An Appraisal (1992). The Narasimham committee Reports has made a number of recommendations regarding the structure, organizations, functions and procedures of the Indian financial system. The Indian Government introduced the policy of liberalization and globalization in the real sector of the economy in very big way in June 1991. The committee was wide ranging and they related to the entire financial system rather than to any one its parts. Indian Banking system invests a sizable portion of its resources in government and government guaranteed securities which are owned by the government.

2.5.3. Report of the working Group on Restructuring Weak Public Sector Banks (1999). The Reserve Bank of India, in consultation with the Government of India, set up the present Working group under the chairmanship of Shri M. S Verma, former Chairman, State Bank of India, and Presently Honorary Adviser to the Reserve Bank of India, to suggest the measures for weak public sector banks in India. The Restructuring of weak public sectors banks in India and how they can be revivable in present situation. He has suggested a strategic plan of financial, organizational and operation restructuring of weak public sector banks in India.
2.6. Critical Research Gaps

The literature review related to research on M&A’s in Indian Banking sector has pointed to the conclusion that financial and operational performance are as important tools of M&A’s. It is also evident that if we attempt to operationalise financial and operational performance we need to carefully view the following variables which have been identified in the literature study.

- Target objective of the study was not accomplished.
- Literature reveals that, till today most of the researchers neglected to consider for the study on appropriate and relevant variables like **Non Performing Assets (NPA)**, **liquidity ratios**, **profit per employees and profit per branch**, etc hence the present study intended to consider for the present study.
- Adequate data for longer period (5 to 7 years) with regard to financial and operational variable were neglected by the researcher for their past study.
- Study is intensified only to the financial and operational or human resources variables in the selected samples.
- Selection of research problem, customer respondents and contract method were neglected methodologically justified to enhance usefulness of research findings.
- Very less M&A sample were taken for the study in the research.

This phase of the research study is an attempt to fill the gap in published literature about the M&A of bank in India. Hence there is a need for further research on financial and operational in banks M&A. Such studies are considered as a benchmark for further studies. A cumulative result of such research could be a working model for banks M&A that would have both theoretical and managerial appeal. To summarize, the central theme in this part of the research is to examine the M&A and how operational and financial parameters are taken in the context of consolidation of Indian banking sector in post liberalization era. This research follows logically from the research gaps reported in the academic and practitioner literature reviews and it is expected to be an important venture in filling the demonstrated research needs.
2.7. Conceptual Frame Work of Mergers And Acquisitions

Banking sector in India has witnessed a paradigm shift in the post-economic reform period. It has become strong, stable and vibrant with a dominating share in gross financial assets. It has continued to be the principal purveyor of finance and its all-pervasive intermediation has not been challenged by any other financial entities. It has become more entrenched and diversified having made forays into insurance and investment banking. Banks have become tech-savvy and competitive as well. They are profitable and stable with impressive performance indices. The Indian banks represent a massive structure with over 65,000 branches of 19 government banks, 21 old private sector banks and 9 new private sector banks in addition to 36 foreign banks. The market share in terms of total assets of public sector banks was reduced from 90 per cent in 1991 to 75.7 per cent in 2003, with the advent of new private sector banks which accounted for 11.3 per cent of assets while old private sector banks accounted for 6.3 per cent. The Foreign banks have not significantly enlarged their market share during this period having improved only to 6.8 per cent in 2003 from 6.3 per cent in 1991.

The Liberalization, Privatization and Globalization process which was started in early 1990s has brought many changes in the economic scene of the country. Mergers and acquisition (M&A) have become the principal tools for corporate restructuring. There has been a sharp increase in both the number and size of the M&A in the last two decades. M&A and restructuring have become a major force in the financial and economic environment all over the world. M&A, essentially an American phenomenon till the mid-1970s, have become dominant global business themes since then. As David Sinclair puts it: “It was once thought that states too sophisticated to fight each other would make war through sport. They do not. The real international battle ground these days is the boardroom. The weapon is takeover”\textsuperscript{6}. Closer home, too, Corporate are seriously looking at M&As as strategic management tools, which have become ubiquitous. The use and intensity with which corporate restructuring is practiced has grown at tremendous pace since the beginning of the liberalization era, 1991, thanks to greater competitive pressures and a more

\textsuperscript{6} Corporate valuation and value creation by David Sinclair, chapter No 17, page number 17.1
liberal environment. A large number of M&A’s of the 1990’s are standing examples of WTO rule driven activities. In most of these cases, the manufacturers tried to circumvent the export restrictions, quotas and local content barriers by acquiring small to medium companies operating locally in the country of their interest.

The Indian Banking Industry has observed a great change since the onset of economic reforms in 1991. But the banking sector reforms have started from 1993. This process of economic reforms has brought competition not only from India but also from overseas. In order to compete with these competitors, Indian corporate sector has tried to reorganize and restructure the companies by adopting various strategies. These strategies include Mergers, Acquisitions, Joint ventures, Spin off, divestitures, etc. Restructuring can be broadly classified into three types. And they are portfolio restructuring, financial restructuring, and organizational restructuring. If a firm is reshuffling its assets by selling some of its existing production facilities or acquiring some new facilities to produce the feeding raw–material for the main product, it is called portfolio restructuring. In financial restructuring the composition of debt and equity are shuffled. In the process of organizational restructuring, Organizational Structure is revisited and changes are made. All these restructurings are aimed to achieve better results for the company. The key driving force for merger activity is severe competition among firms of the same industry which puts focus on economies of scale, cost efficiency, and profitability. The other factor behind bank mergers is the “too big to fail” principle followed by the authorities.

M&A are a significant form of business strategy today for Indian Corporates. A large number of M&A deals are making headlines all over the world. One may wonder as to what it is that necessitates M&A deals. One may be interested in knowing the main objectives behind such deals. It may take different shapes. Simply, a merger is a transaction involving two or more corporations, swapping stocks, but only acquiring firm survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. Acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. “Mergers and acquisitions are means by which corporations combine with each other. They occur when two or more corporations become one. To protect shareholders, state law provides procedures for the merger. A vote of the board of
directors and then a vote of the shareholders of both corporations is usually required. Following a merger, the two corporations cease to exist as separate entities. In the classic merger, the assets and liabilities of one corporation are automatically transferred to the other. The shareholders of the disappearing company become shareholders in the surviving company or receive compensation for their shares”\(^7\).

M&A refers to a combination of two or more firms into one firm; it may involve acquisition or consolidation. “A merger is a transaction involving two or more corporations in which stock is exchanged, but from which only one corporation survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. The resulting firm is likely to have a name derived from its composite firms. Acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring corporation”\(^8\). In absorption, one firm acquires one or more other firms. In consolidation, two or more firms combine to form a new entity. The success of M&A is critical from the point of view of overall economy. Through every other aspect of M&A needs to be examined in detail, the productivity of such effort is higher in case of study on financial and operational aspects. The point of view is a significant factor which can have positive impact on the overall synergy analysis of M&A.

2.8. Types of Mergers and Acquisitions

Mergers are of many types. They may be differentiated on the basis of activities, which are added in the process of the existing product or service lines. They can be a distinguished into the following four types:-

a. Horizontal Merger
b. Vertical Merger
c. Conglomerate Merger
d. Concentric Merger

2.8.1. Horizontal merger

Horizontal merger is a combination of two or more corporate firms dealing in same lines of business activity. It is a co-centric merger which involves combination

\(^7\) [http://www.answers.com/topic/mergers-and-acquisitions#ixzz2xKe8TVFu](http://www.answers.com/topic/mergers-and-acquisitions#ixzz2xKe8TVFu)  
\(^8\) Strategic Management and Business policy, Ninth Edition by Thomas L. Wheelen and J. David Hunger, Page number 139.
of two or more business units related to technology, production process, marketing research, development and management. Elimination or reduction in competition, putting an end to price cutting, economies of scale in production, research and development, marketing and management are the motives underlying such mergers.

**For Example:**

(a) The formation of Brook Bond Lipton India Ltd. through the merger of Lipton India and Brook Bond.

(b) The merger of Bank of Mathura with ICICI (Industrial Credit and Investment Corporation of India) Bank.

(c) The merger ACC (erstwhile Associated Cement Companies Ltd.) with Damodar Cement.

2.8.2. Vertical Merger

Vertical merger is the joining of two or more firms in different stages of production or distribution that are usually separate. Its chief gains are identified as the lower buying cost of material. Minimization of distribution costs, assured supplies and market increasing or creating barriers to entry for potential competition or placing them at a cost disadvantage are the motives underlying such mergers. In this context, an organization may choose to acquire a supplier (backward integration) or a firm that could distribute its products (forward integration).

**For Example:**

(a) ICICI Ltd. with ICICI Bank Ltd.

(b) Time Warner Incorporated, a major cable operator, and the Turner Corporation which produces CNN, TBS and other programming.

(c) Merger of Usha Martin and Usha Beltron

2.8.3. Conglomerate Merger

Conglomerate merger is the combination of two or more unrelated business units in respect of technology, production process or market and management. In other words, firms engaged in the different or unrelated activities are combined together. Diversification of risk constitutes the rational for such merger moves. The rationale usually cited for such acquisitions is that the combination opens entry into an attractive business or industry and spreads the risk of the company.
For Example:
(a) Walt Disney Company and the American Broadcasting Company.
(b) ICICI Ltd is merged with Mahindra tractor Ltd.
(c) Reliance Industries Ltd merged with Reliance Petroleum Ltd.

2.8.4. Concentric Merger

Concentric merger is based on specific management functions where as the conglomerate a merger is based on general management functions. If the activities of the segments are brought together, are so related that there is carry over on specific management functions, such as marketing research, Marketing, financing, manufacturing and personnel.

For Example:
(a) Citigroup (principally a bank) merged with Salomon Smith Barney, an investment banker/stock brokerage operation

2.9. Difference between Mergers and Acquisitions

Merger and acquisition is often known to be a single terminology defined as a process of combining two or more companies together. The fact remains that the so-called single terminologies are different terms used under different situations. Though there is a thin line difference between the two but the impact is completely different in both the cases. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the companies share equal profits in the newly created entity. When one company takes over the other and rules all its business operations, it is known as acquisitions. In this process of restructuring, one company overpowers the other company and this decision is mainly taken during downturns in economy or during declining profit margins. Among the two, the one that is financially stronger and bigger in all ways establishes its power. The combined operations then are run under the name of the powerful entity who also takes over the existing stocks of the other company. In acquisition, usually two companies of different sizes come together to combat the challenges of downturn and in a merger two companies of same size combine to increase their strength and financial gains
along with breaking the trade barriers. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forceful or a helpless association where the powerful company either swallows the operations or a company in loss is forced to sell its entity. In case of a merger, there is a friendly association where both the partners hold the same percentage of ownership and equal profit share.

2.10. Significance of Mergers and Acquisitions.

The significance of mergers and acquisitions as strategy decisions impacting long term profitability and shareholder wealth has led to accumulation of substantial amount of literature on mergers and acquisitions. The business combinations, corporate restructuring and corporate reorganizations are the terms used to cover M&A. Mergers and Acquisitions can generate cost efficiency through economies of scale, can enhance the revenue through gain in market share and can even generate tax gains. The healthy expansion of business firms, as they evolve pares the way for successive stages of growth and development. Generally M&A represent a process of allocation and reallocation of resources by firms in response to change in economic conditions and technological innovations.

2.11. Before & After Liberalization Period of M&A in Indian banking sector.

In India the companies’ Act 1956 and the Monopolies and Restrictive Trade Practices Act (MRTP), 1969 are statutes governing mergers among companies. In the Companies Act, as procedural has been laid down, in terms of which the merger can be effectuated. Sanction of the company court is essential requisite for the effectiveness of a scheme of merger. The other statute regulating mergers was the hitherto monopolies and restrictive trade practices Act. After the amendments, the status does not regulate mergers. The regulatory provisions in the MRTP Act were removed through the 1991 amendments with a view to giving effect to the new industrial policy of liberalization and deregulation, aimed at achieving economies of scale for ensuring higher productivity competitiveness. In the 1990s, the then Shri. P. B. Narasimha Rao government embarked on a policy of liberalization and gave licences to a small number of private banks, which came to be known as New Generation tech-savvy banks which included banks such as UTI Bank, ICICI Bank
and HDFC Bank. This move, along with the rapid growth in the economy of India, kick started the banking sector in India which evidenced a rapid growth with strong contribution from all the three sectors of banks, viz. government banks, private banks and foreign banks. The next stage for the Indian banking has been setup with the proposed relaxation in the norms for Foreign Direct Investment where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%. The new policy shook the Banking sector in India completely. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more. M&A encouraged banks to gain global reach and better synergy and allow large banks to acquire the stressed assets of weaker banks. Merger in Indian banks that is between weak/unviable banks should grow faster so that the weak banks could be rehabilitated providing continuity of employment with the working force, utilization of the assets blocked up in the weak/unviable banks and adding constructively to the prosperity of the nation through increased flow of funds.

Following list of banks merged since 1961 to 1990 is reproduced from RBI Newsletter and other sources.

Table 2.02: List of banks merged from 1961 to 1990 is reproduced from RBI Newsletter and other sources are considered as before liberalization era

<table>
<thead>
<tr>
<th>SL. No</th>
<th>Name of Bank Merged</th>
<th>With whom Merged</th>
<th>Date / Year of merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prabhat Bank Ltd.</td>
<td>National Bank of Lahore Ltd.</td>
<td>09-03-1961</td>
</tr>
<tr>
<td>2</td>
<td>Indo-commercial Bank Ltd.</td>
<td>Punjab National Bank Ltd.</td>
<td>25-03-1961</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Napur Ltd.</td>
<td>Bank of Maharashtra Ltd.</td>
<td>27-03-1961</td>
</tr>
<tr>
<td>4</td>
<td>New Citizen Bank Ltd.</td>
<td>Bank of Baroda Ltd.</td>
<td>29-04-1961</td>
</tr>
<tr>
<td>5</td>
<td>Trivancore Forward Bank Ltd.</td>
<td>State Bank of Trivancore Ltd.</td>
<td>15-05-1961</td>
</tr>
<tr>
<td>6</td>
<td>Bank of Kerala Ltd.</td>
<td>Canara Bank Ltd.</td>
<td>20-05-1961</td>
</tr>
<tr>
<td>7</td>
<td>Bank of Poona Ltd.</td>
<td>Sangali Bank Ltd.</td>
<td>03-06-1961</td>
</tr>
<tr>
<td>8</td>
<td>Bank of New India Ltd.</td>
<td>State Bank of Trivancore Ltd.</td>
<td>17-06-1961</td>
</tr>
<tr>
<td>9</td>
<td>Venadu Bank Ltd.</td>
<td>South Indian Bank Ltd.</td>
<td>17-06-1961</td>
</tr>
</tbody>
</table>

Table continued ……. 
<table>
<thead>
<tr>
<th>SL. No</th>
<th>Name of Bank Merged</th>
<th>With whom Merged</th>
<th>Date / Year of merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Wankaner Bank Ltd.</td>
<td>Dena Bank Ltd.</td>
<td>17-06-1961</td>
</tr>
<tr>
<td>11</td>
<td>Seasia Midland Bank Ltd.</td>
<td>Canara Bank Ltd.</td>
<td>17-06-1961</td>
</tr>
<tr>
<td>12</td>
<td>Kottayam Orient Bank Ltd.</td>
<td>State Bank of Travancore Ltd.</td>
<td>17-06-1961</td>
</tr>
<tr>
<td>13</td>
<td>Bank of Konkan Ltd.</td>
<td>Bank of Maharashtra Ltd.</td>
<td>19-06-1961</td>
</tr>
<tr>
<td>14</td>
<td>Poona Investors Bank Ltd.</td>
<td>The Sangali Bank Ltd.</td>
<td>28-06-1961</td>
</tr>
<tr>
<td>15</td>
<td>Bharat Industrial Bank Ltd.</td>
<td>Bank of Maharashtra Ltd.</td>
<td>01-07-1961</td>
</tr>
<tr>
<td>16</td>
<td>Rayalaseema Bank Ltd.</td>
<td>Indian Bank Ltd.</td>
<td>01-09-1961</td>
</tr>
<tr>
<td>17</td>
<td>Cuttack bank Ltd.</td>
<td>United bank of India Ltd.</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>18</td>
<td>Pie Money Bank Pvt Ltd.</td>
<td>Syndicate Bank Ltd.</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>19</td>
<td>Moolky Bank Ltd.</td>
<td>Syndicate Bank Ltd.</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>20</td>
<td>Merchants Bank Ltd.</td>
<td>TajorePermant Bank Ltd.</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>21</td>
<td>Tezpur Industrial Bank Ltd.</td>
<td>United Bank of India</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>22</td>
<td>G Raghunathmull Bank Ltd.</td>
<td>Canara Bank Ltd.</td>
<td>04-09-1961</td>
</tr>
<tr>
<td>23</td>
<td>Satara Swadeshi Commercial Bank Ltd.</td>
<td>United Western Bank Ltd.</td>
<td>06-09-1961</td>
</tr>
<tr>
<td>24</td>
<td>Catholic Bank Ltd.</td>
<td>Syndicate Bank Ltd.</td>
<td>11-09-1961</td>
</tr>
<tr>
<td>25</td>
<td>Phaltan Bank Ltd.</td>
<td>Sangli Bank Ltd.</td>
<td>07-10-1961</td>
</tr>
<tr>
<td>26</td>
<td>Jodhpur Commercial bank Ltd.</td>
<td>Central Bank of India Ltd.</td>
<td>16-10-1961</td>
</tr>
<tr>
<td>27</td>
<td>Bank of Citizen Ltd.</td>
<td>Canara Banking Corporation Ltd.</td>
<td>17-10-1961</td>
</tr>
<tr>
<td>28</td>
<td>Karur Mercantile Bank Ltd.</td>
<td>Laxmi Vilas Bank Ltd.</td>
<td>19-10-1961</td>
</tr>
<tr>
<td>29</td>
<td>Peoples bank Ltd.</td>
<td>Syndicate Bank Ltd.</td>
<td>14-11-1961</td>
</tr>
<tr>
<td>30</td>
<td>Pratap Bank Ltd.</td>
<td>Lakshmni Commercial Bank Ltd.</td>
<td>11-12-11961</td>
</tr>
<tr>
<td>31</td>
<td>Unity Bank Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>20-08-1962</td>
</tr>
<tr>
<td>32</td>
<td>Bank of Algapuri Ltd.</td>
<td>Indian bank Ltd.</td>
<td>14-08-1963</td>
</tr>
<tr>
<td>33</td>
<td>Metropolitan Bank Ltd.</td>
<td>United Industrial bank Ltd</td>
<td>06-02-1964</td>
</tr>
<tr>
<td>34</td>
<td>Cochin Mayar bank Ltd.</td>
<td>State Bank of Travancore Ltd.</td>
<td>08-02-1964</td>
</tr>
<tr>
<td>SL. No</td>
<td>Name of Bank Merged</td>
<td>With whom Merged</td>
<td>Date / Year of merger</td>
</tr>
<tr>
<td>--------</td>
<td>---------------------</td>
<td>------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>35</td>
<td>Salem Shri Kannikaparameshwari bank Ltd.</td>
<td>Karur Vysya Bank Ltd.</td>
<td>01-06-1964</td>
</tr>
<tr>
<td>36</td>
<td>Unna Commercial Bank Ltd.</td>
<td>Bareilly Corporation Bank Ltd.</td>
<td>12-08-1964</td>
</tr>
<tr>
<td>37</td>
<td>Latin Christian Bank Ltd.</td>
<td>State Bank of Travancore Ltd.</td>
<td>17-08-1964</td>
</tr>
<tr>
<td>38</td>
<td>Southern Bank Ltd.</td>
<td>United Industrial Bank Ltd.</td>
<td>24-08-1964</td>
</tr>
<tr>
<td>39</td>
<td>Shri Jadeya Shankarling Bank Ltd</td>
<td>Belgaum Bank Ltd.</td>
<td>26-10-1964</td>
</tr>
<tr>
<td>40</td>
<td>Bearilly Bank Ltd.</td>
<td>Benarus State bank Ltd.</td>
<td>16-11-1964</td>
</tr>
<tr>
<td>41</td>
<td>Thiya Bank Ltd.</td>
<td>Lorad Krishna Bank Ltd.</td>
<td>16-11-1964</td>
</tr>
<tr>
<td>42</td>
<td>Allahabad Trading &amp; Bkg. Corp. Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>25-08-1965</td>
</tr>
<tr>
<td>43</td>
<td>Vettaikaran Padur Mahajan Bank Ltd.</td>
<td>Bank of Madura Ltd.</td>
<td>01-09-1965</td>
</tr>
<tr>
<td>44</td>
<td>Malnad Bank Ltd.</td>
<td>State Bank of Mysore Ltd.</td>
<td>06-10-1965</td>
</tr>
<tr>
<td>45</td>
<td>Josna Bank Ltd.</td>
<td>Lord Krishna Bank Ltd.</td>
<td>13-10-1965</td>
</tr>
<tr>
<td>46</td>
<td>Amrita Bank Ltd.</td>
<td>State bank of Patiala Ltd.</td>
<td>03-02-1968</td>
</tr>
<tr>
<td>47</td>
<td>Chawla bank Ltd.</td>
<td>New Bank of India Ltd.</td>
<td>23-04-1969</td>
</tr>
<tr>
<td>48</td>
<td>Bank of Behar Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>08-11-1969</td>
</tr>
<tr>
<td>49</td>
<td>National Bank of Lahore Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>20-02-1970</td>
</tr>
<tr>
<td>50</td>
<td>Miraj Sate Bank Ltd.</td>
<td>Union Bank of India Ltd.</td>
<td>20-07-1985</td>
</tr>
<tr>
<td>51</td>
<td>Lakshmi Commercial Bank Ltd.</td>
<td>Canara Bank Ltd.</td>
<td>24-08-1985</td>
</tr>
<tr>
<td>52</td>
<td>Bank of Cochin Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>26-08-1985</td>
</tr>
<tr>
<td>53</td>
<td>Hindustan Commercial Bank Ltd.</td>
<td>Punjab National Bank Ltd.</td>
<td>19-12-1986</td>
</tr>
<tr>
<td>54</td>
<td>Traders Bank Ltd.</td>
<td>Bank of Baroda Ltd.</td>
<td>13-05-1988</td>
</tr>
<tr>
<td>55</td>
<td>United Industrial Bank Ltd.</td>
<td>Allahabad Bank Ltd.</td>
<td>31-10-1989</td>
</tr>
<tr>
<td>56</td>
<td>Bank of Tamilnad Ltd.</td>
<td>Indian Overseas Bank Ltd.</td>
<td>20-02-1990</td>
</tr>
<tr>
<td>57</td>
<td>Bank of Thanjavur Ltd.</td>
<td>Indian Bank Ltd.</td>
<td>20-02-1990</td>
</tr>
<tr>
<td>58</td>
<td>Parur Central bank Ltd.</td>
<td>Bank of India Ltd.</td>
<td>20-02-1990</td>
</tr>
<tr>
<td>59</td>
<td>Purbanchal Bank Ltd.</td>
<td>Central bank of India Ltd.</td>
<td>29-08-1990</td>
</tr>
</tbody>
</table>

Table continued ……..
Table continued from previous page ……

<table>
<thead>
<tr>
<th>SL. No</th>
<th>Name of Bank Merged</th>
<th>With whom Merged</th>
<th>Date / Year of merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>New Bank of India Ltd.</td>
<td>Punjab National Bank Ltd.</td>
<td>04-091993</td>
</tr>
<tr>
<td>61</td>
<td>Bank of Karad Ltd.</td>
<td>Bank of India Ltd.</td>
<td>1993-1994</td>
</tr>
<tr>
<td>62</td>
<td>Kashinath Seth Bank Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>1995-1996</td>
</tr>
<tr>
<td>65</td>
<td>Bareilly Corp. Bank Ltd.</td>
<td>Bank of Baroda Ltd.</td>
<td>03-06-1999</td>
</tr>
<tr>
<td>66</td>
<td>Sikkim Bank Ltd.</td>
<td>Union Bank of India Ltd.</td>
<td>22-12-1999</td>
</tr>
<tr>
<td>67</td>
<td>Times Bank Ltd.</td>
<td>HDFC Bank Ltd.</td>
<td>26-02-2000</td>
</tr>
<tr>
<td>68</td>
<td>Bank of Madura Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>March 2001</td>
</tr>
<tr>
<td>69</td>
<td>ICICI Limited Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>2002</td>
</tr>
<tr>
<td>70</td>
<td>Benaras State Bank Ltd.</td>
<td>Bank of Baroda Ltd.</td>
<td>20-07-2002</td>
</tr>
<tr>
<td>71</td>
<td>Nedungadi Bank Ltd</td>
<td>Punjab national Bank Ltd.</td>
<td>01-02-2003</td>
</tr>
<tr>
<td>72</td>
<td>Industrial Development Bank of India Ltd.</td>
<td>IDBI Bank Ltd.</td>
<td>2004</td>
</tr>
<tr>
<td>73</td>
<td>South Gujarat Local Area Bank Ltd.</td>
<td>Bank of Baroda Ltd.</td>
<td>2004</td>
</tr>
<tr>
<td>74</td>
<td>Global Trust bank Ltd.</td>
<td>Oriental Bank of Commerce Ltd.</td>
<td>24-07-2004</td>
</tr>
<tr>
<td>75</td>
<td>Centurion Bank Ltd.</td>
<td>Bank of Punjab Ltd.</td>
<td>20-06-2005</td>
</tr>
<tr>
<td>76</td>
<td>The Ganesh Bank of Kurundwad Ltd.</td>
<td>The Federal Bank Ltd.</td>
<td>02-09-2006</td>
</tr>
<tr>
<td>77</td>
<td>United Western Bank Ltd.</td>
<td>IDBI Bank Ltd.</td>
<td>03.10.2006</td>
</tr>
<tr>
<td>78</td>
<td>Lord Krishna Bank Ltd.</td>
<td>Centurion Bank of Punjab Ltd.</td>
<td>2006</td>
</tr>
<tr>
<td>79</td>
<td>Bharat Overseas Bank Ltd.</td>
<td>Indian Overseas Bank Ltd.</td>
<td>31.03.2007</td>
</tr>
<tr>
<td>80</td>
<td>Sangali Bank Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>19-04-2007</td>
</tr>
<tr>
<td>81</td>
<td>Centurion Bank of Punjab Ltd.</td>
<td>HDFC Bank Ltd.</td>
<td>23-05-2008</td>
</tr>
<tr>
<td>82</td>
<td>State Bank of Saurashtra Ltd.</td>
<td>State Bank of India Ltd.</td>
<td>14-08-2008</td>
</tr>
<tr>
<td>83</td>
<td>Bank of Rajasthan Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>August 2010</td>
</tr>
</tbody>
</table>

Sources: (Compiled from various publications from RBI)

In all there are 83 M&A have taken place between 1961 to August 2010. It indicates 1993 -2010 that only 24 M&A have taken place in post liberalization period.
Indian Banking sector in India has witnessed a paradigm shift in the post economic reform period. It has become strong, stable and vibrant with a dominating share in gross financial assets. Banking sector has continued to be the principal purveyor of finance and its all-pervasive intermediation has not been challenged by other financial entities. It has become more entrenched and diversified having made forays into insurance and investment banking. Banks have become tech-savvy and competitive as well. They are profitable and stable with impressive performance indices.

Table 2.03: Bank mergers and acquisitions in India

<table>
<thead>
<tr>
<th>Period</th>
<th>Number of Mergers and Acquisitions</th>
<th>Per cent of Mergers and acquisitions (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre nationalization of Banks</td>
<td>46</td>
<td>55</td>
</tr>
<tr>
<td>(1961 -1968)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nationalization period</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>Post reforms period</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>(1993 – 2010 )</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total number of mergers</strong></td>
<td><strong>83</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Sources: Compiled from various publications from RBI

From the above table 3.2 it is clear that 55 per cent mergers and acquisitions have taken place between 1961-1968 which accounts for nearly more than 50 per cent of the total M&A. 29 per cent of the M&A have taken place in the post reforms period i.e, 1993 -2010. And only 16 per cent of M&A between 1969 to 1992. Indian Banking sector in India has witnessed a paradigm shift in the post economic reform period. It has become strong, stable and vibrant with a dominating share in gross financial assets. Banking sector has continued to be the principal purveyor of finance and its all-pervasive intermediation has not been challenged by other financial entities. It has become more entrenched and diversified having made forays into insurance and investment banking. Banks have become tech-savvy and competitive as well. They are profitable and stable with impressive performance indices. Banking sector has continued to be the principal purveyor of finance and its all-pervasive intermediation has not been challenged by other financial entities. It has become more entrenched and diversified having made forays into insurance and investment banking. Banks have become tech-savvy and competitive as well. Indian Banks provide finances industries, trade, retail sector, agriculture and small-scale sector. The banks have a strong presence in rural and semi urban areas too.
2.12. Benefits of Consolidation to Banks

M&A involves a marriage of two or more banks in the banking sector. It is generally accepted that M&A promote synergies. The basic idea is that the combined entity will create more value than the individual bank working individually in the segment. It is phenomenon of the 2+2 = 5 efforts brought about by the synergy. The economies of scale is lower operating costs arising from spreading the fixed costs over a wider scale of production or services and scope refer to the utilization of skill assets employed in the services in order to provide similar services in the segment. The combined entity gains from operating and financial synergies in the segment. Additional financial synergies refer to the effect of an M&A on financial activities of the resulting banks. The cash flows arising from the M&A are expected to present opportunities in respect of the cost of financing and investment. Following are the benefits of consolidation of banks in Indian banking sector.

2.12.1. Greater efficiency

Banks are often able to operate more cost effectively by increasing their size. The costs of many functions do not double when the scale of operation doubles as a result of M&A are one way to keep costs and prices below control.

2.12.2. Leveraging technology

Banks and their customers have become increasingly accustomed to the advantages of new and expensive technologies. Many of these technologies are too expensive unless costs can be spread over a large number of customers. M&A are often necessary to all banks to introduce and maintain the technologies customers increasingly demand.

2.12.3. Changing laws

Laws which had prevented many Indian banks from operating in more than one state recently have been removed or overridden. The advent of interstate banking and branching means more opportunities for banks operating in different states to M&A with each other in the banking sector.
2.12.4. Diversification

One effective method of controlling risks inherent in bank lending is to diversify the operations across different geographic regions and different types of customers. M&A can help diversify such risks.

2.12.5. Border array of services

M&A may give banking sector an opportunity to offer a broader array of services. These of two banks with different expertise can result in a combination more to the linking of customers looking for one stop services for their financial requirements.

2.13. Consolidation in Indian Banking Sector

Financial sector reforms set in motion in 1991 have greatly changed the face of Indian Banking system. The banking sector has moved gradually from a regulated environment to a deregulated market economy. The pace of changes gained momentum in the last few years. Globalization would gain greater speed in the coming years particularly on account of expected opening up of financial services under WTO. Banks in India are gradually going for consolidation, globalization of operations, development of new technology and universalisation of banking system in India. The international banking scenario is being dominated by larger banks and it is important that India too should have a fair number of large banks which could play a meaningful role in the emerging economics. The top twenty banks in the emerging economics India has only one bank whereas china has five, and Brazil has six banks in the list. The performance of banks in India indicates that certain performance characteristic is not restricted to a particular bank. The consolidation of banking industry in India is critical from several aspects. The main reason for M&A can include motives for value maximizations well non value maximization. The M&A mainly include technological progress, excess capacity, and emerging opportunities, consolidation of international banking markets and deregulations of geographic, functional and product restrictions. The policy inducements such as the government’s incentives that could accrue to the top managers are also other important factors which may determine the pace of consolidation.
In all major economics banking industry undergoes some sort of restructuring process. The economy which delays this process leads to stagnation. It is important that consolidation process should be given prime attention from the point of view of long term prospective of the economy. The major gain perceived from bank consolidation is the ability to withstand the pressures of emerging global competition to strengthen the performance of the Indian banks to effectively absorb the new technologies and demand for sophisticated products and services to arrange funding for major development products in the realm of infrastructure, telecommunication and other sectors which require huge financial outlays and to streamline human resources function and skills in tune with emerging competitive environment. The international experience reveals a wide range of processes and practices involving consolidation and their impact on the banking system and the trends in post M&A performance of banking institutions in the country. These experiences could provide useful inputs to the banking policy in Indian banking sector. It has been seen from the past that M&A between big and small banks led to greater gains as compared to M&A between equal sizes. From the past experiences the M&A follows business aided by appropriated technology and diversified product range that will lead to greater gains for the banking industry as a whole. M&A increases the market power and does not cause any damages to the availability of services to small and large customers.

The evaluation of banks carried out by individual banks reveals that higher capital adequacy and lower nonperforming assets (NPA) explain to a greater extent the growth, profitability and productivity of banks since increase in capital and steep reduction in nonperforming asset cannot be entirely left to the individual banks in the present scenario. The consolidation of Indian Banking industry is a great relevance to the economy. A high degree of variations is found in the performance of the domestic banking in India. The public sector banks account for the large scale of banking assets and the lower performance ratio reflect the entire Indian Banking sector. The suitable consolidation process may be initiated at the earliest so that the efficiency gain made by the large number of banks of other groups will be reflected which could lead to a positive impact on the image of banking sector in India. The consolidation is considered critical from the point of view of quantum of resources required for strengthening the ability of banks in assets creation. The restructuring in Indian banking system may not be viewed from the point of particular group rather it can be
revolved across the bank groups. Indian banking has a unique character in displaying similar characteristics of performance despite consisting of different size and ownership. This will substantiate the scope for consolidation across banking groups in India. The Basel committee in 2003, suggests that every bank should keep a capital requirements by 12 per cent for developing countries on implementations of Basel II Accord norms. The RBI has set up an experts committee to implement Basel II accord norms by 2006 to strengthen the financial health of banks by adopting globally accepted norms for capital adequacy. The RBI also wants banks to keep Rs. 300 crores over the next three years; which will help for the large number of acquisitions in the Indian Banking industry.


The Reserve Bank of India has laid down guidelines for the process of M&A proposal, determination of swap ratio, disclosures the stages at which boards will get involved in the M&A process and norms of buying and selling of shares by the promoters before and during the proves of M&A. The RBI in its capacity of the primary regulator and supervisor of the banking system in India has information on the present functioning of all the banks in India, the RBI is best suited to undertake M&A review process. While undertaking the M&A review process, it needs to examine the proposal for the M&A from a prudential perspective to gauge the impact on the stability and the financial well being of the M&A applicants and on the financial systems. In addition to the assessment of the proposed M&A on the competitiveness and stability of the financial systems, the RBI will also need to examine the implications on regional development, impact on society etc as a result of M&A since banks in India also have to fulfill various social obligations. The RBI has to examine the reasonableness of financial projection, including business plan and earning assumptions as well as the effect of the proposed M&A on the merged entity capital position. Finally the RBI will have to consider potential changes to risk profile and the capacity of the merger applicants risk management systems particularly the extent to which the level of risk would change as a result of the proposed and the merged entity’s ability to measure, monitor and manage those risks.
The information that is to be examined by the RBI while evaluating a proposal for M&A would include.

- The objective to be achieved by the merger.
- Impact of merger on the financial markets.
- What impact could be on the creations of merger and its impact on monetary policy, the management of interest rates? What threat to the Indian economy would be posed by the difficulties experienced by a merger bank in its international activities?
- Impact that the merger might have on the overall structure of the industry.
- The possible costs and benefits to customer and to small and medium size businesses, including the impact on the bank branches, the availability of financing price, quality and the availability of services.
- The timing and the socio economic impact of any branch closures resulting from the M&A.
- The manner in which the proposal will contribute to the international competitiveness of the financial services sector.
- The manner in which the proposal would increase the ability of the banks to develop and adopt new technologies.
- Remedial steps that the merger applicants would be willing to take to mitigate the adverse effects identified to arise from the M&A.

2.15 Procedure for Merger of Private Sector Banks in India

The RBI has an authority to sanction M&A of banks in India under section 44A of Banking Regulation Act; various steps for such a scheme are as follows.

- Draft scheme of M&A has to be placed before shareholders of each bank and approve by the majority representing 2/3rd in value of shareholders of each banks present and voting as it includes proxies also.

---

9 M&A in Indian Banking System - An Executive Handbook (2005), Published by the Banknet India Banking Knowledge, Research & Conferences, page number 34
• Notice of meeting to be given to shareholders of each banks and notice of meeting to be published in two newspapers of the locality at least once in a week for three consecutive weeks.

• Any dissenting shareholders to be paid value of shares held by as fixed by the RBI while approving in draft scheme.

• On obtaining shareholders approval, scheme to be submitted to the RBI for approval or sanction.

• The RBI to issue an order sanctioning the scheme. Consequences of such amalgamation scheme such as vesting of assets and liabilities in transferee bank etc ensure as provided in sub section (6) (6A) (6B) (6C) of section 44A.

• Expect the variations on account of requirement of section 44, other requirement for actual framing of the scheme will apply as stated in section on power of Acquisition or takeover of banking Institution under section 4.1.

2.16. Procedure for Merger of Private Sector Banks with Nationalized Bank in India\textsuperscript{10}

• Since the definition of banking institution under section 9 of the bank nationalization Act includes a banking company a scheme under section 9(2) (C) can be framed by the Central Government for the purpose of M&A of a banking company will correspond a new bank. The entire requirement stated under section on power of Acquisition Takeover of banking institution under section 4.1 would apply in respect of such a scheme.

• If such a banking company to be merged with corresponding a new bank is a listed bank and it would be necessary to comply with the requirement of the listing agreement.

• It is also necessary to give an option to the shareholders of the banks to accept the shares of the merged entity as per the swap ratio as fixed by the

\textsuperscript{10} M&A in Indian Banking System - An Executive Handbook ( 2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 35
scheme or accept the payment for shareholders to protect the right if the shareholders of the banks.

- Since the merger scheme is to be framed under section 9 (2) (C) of nationalization Act, there is no express statutory requirement for the purpose of obtaining the consent of the shareholders of the banks for the M&A.

2.17. Procedure for merger of nationalized banks in India¹¹

- The Chairman and managing director of the two banks approach the Government of India and obtain clearance to proceed to evaluate proposal.

- The Central Government may then ask the two i.e, Chairman and managing director to conduct a strategic due diligence to be able to further evaluate the logic of the M&A.

- The Chairman and managing director would go back to the Government of India with the results of the strategic due diligence.

- If the proposal finds favour with the Central Government, it would then frame a draft scheme under section 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act 1980. The Central Government would require valuation to be conducted by experts to work out the swap ratios. The experts so chosen should be requested to submit their report in a sealed cover directly to the Central Government. This is necessary so that the persons connected with the corresponding new banks who are involved in the process are protected from any allegation that sensitive information was leaked or disclosed.

- The Central Government would then place all the materials before the RBI by way of consultation in terms of Section 9 (1) after the RBI offers its comments and suggestions if any draft scheme could be fine tuned.

- The Government of India scheme so fine tuned would be placed before the Boards of both banks. At this stage, it would be necessary for listed entities to ensure that compliance with SEBI guidelines is ensured.

- The next step would be to publish the draft scheme in its final form in various newspapers across the county for the information of the investing shareholders.

¹¹ M&A in Indian Banking System - An Executive Handbook (2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 36
shareholders and inviting them to make their suggestions if any, in relation to the scheme. A reasonable period for not less than 21 to 30 days could be given for this purpose. Natural justice does not entail personal hearing in all cases. This is particularly so in case where a large body of persons are involved. In such cases natural justice is complied with if the persons concerned are given an opportunity for making suggestions or objections. It would be perfectly reasonable to give an opportunity of placing objection and suggestions in writing which could then be considered by the Central Government in a fair and objective manner.

- Since the M&A scheme is to be framed under section 9 (2) (C) of the Nationalization Act, there is no express statutory requirement for the purpose of obtaining the consent of the shareholders of the banking company for the M&A.

- The treatment of transfer bank employees will need to be indicated by the Government of India. It would be necessary to provide an option to workmen staff to continue in service on same terms and conditions or accept retrenchment compensation and other terminal benefits as may be payable under the rules, as governed by the Industrial Disputes Act 1947. As far as non workmen employees are concerned, the scheme may offer continuation initially for a specified on terms that are applicable to such employees in the transferee bank. Those who do not accept the offer may be paid terminal benefits as per the rules applicable.

- After all the suggestions that are received from minority shareholders are considered, the Central Government could proceed to notify the scheme. The effective date will be indicated in the notification.

- Thereafter the scheme would have to be placed before both the Houses of Parliament as provided in Section 9 (6).
2.18. Procedure for Merger of Nationalized Banks with State Bank India or its Subsidiaries

- The SBI has been empowered to acquire any banking institution under section 35 of the State Bank of India Act, 1955; the definition Banking Institution does not expressly include a banking company. It is therefore doubtful whether powers under section 35 of the State Bank of India Act 1955 or under section 38 of the State Bank of India (Subsidiary Banks) Act 1959 can be exercised for the purpose of such M&A. As far as the power of the Central Government is concerned, a scheme under section 9 (2) (c) cannot be framed for the purpose of M&A of a banking company with State Bank of India or subsidiary bank.

2.19. Accounting for M&A in Indian Banking Sector

Under Section 29 of the Banking regulation Act 1949 it requires for every banking company to prepare a balance sheet and profit & loss account in the forms set out in the Third Schedule of the Act. Sub section (3) of section 29 further provides that provisions of the companies Act 1956 relating to balance sheet and profit and loss account shall apply to banking companies to the extend they are not inconsistent with the Banking Regulation Act. The system of maintaining account, forms of balance sheet, profit and loss account and other related accounting practices are standardized and M&A of two banks may not pose problems in relation to accounting practices expect a need to fine tune any divergent practices in respect of specific heads of income or expenditure.

The critical area that needs careful consideration is the integration of different technology platforms and software which not only has process and control implications but may involve substantial costs in terms of money and time and retraining of personnel of merged banks. The actual banking operation is that each bank has different nomenclatures for deposit schemes and loan products. Similarly in the internal working and inter branch transaction, the banks have different nomenclatures for the debit and credit vouchers. In M&A such variations in the schemes and products and other practices have to be integrated.

---

12 M&A in Indian Banking System - An Executive Handbook (2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 37
2.20. Taxation for M&A in Indian Banking Sector

Under section 72A (1) of the Income Tax Act where there has been an amalgamation of a banking company to clause (C) of the Section 5 of the Banking Regulation Act with a specified bank the accumulated loss and the unabsorbed depreciation of the amalgamating company shall be deemed to be loss or as the case may be allowance for depreciation of the amalgamate company for the previous year in which the amalgamation was effected and the provisions of the Income Tax Act relating to set off and carry forward the loss and allowance for depreciation shall apply accordingly. The expression specified bank in sub section (1) above is defined as State Bank of India or corresponding new bank. The effect of this provision is that the benefit of this provision is that benefit of carry forward loss and unabsorbed depreciation is available only in case where a banking company is merged with State Bank of India or subsidiary of State Bank of India or a corresponding new bank. If there are mergers of corresponding new banks or State Bank of India and corresponding new bank or subsidiary and corresponding new bank the benefit now section 72A is not available. Bank merger promoted by the Government action, involuntary mergers would be given tax breaks under the Income Tax Act with the Finance Minister proposing insertion of a new clause to provide for setting off the loss of a banking company against profit of a banking institution under a scheme of amalgamation.

With a view o provide carry forward and set off of accumulated loss and unabsorbed depreciation allowance of a banking company against the profit of a banking institution under a scheme of amalgamation sanctioned by the Central Government, it is proposed to insert a new Section 72AA in the Income Tax Act 1961. The Section proposes that the accumulated loss and unabsorbed depreciation of the amalgamating banking company will be deemed to be the loss or the allowance for depreciation of the banking company for the previous year in which the scheme of amalgamation is brought into force and that all the provision of the Income Tax Act relating to set off and carry forward of loss and depreciation shall apply to the merger.
2.21. Valuation for M&A

Once a firm has an acquisition motive, there will be two key questions that need to be answered. The first relates to how best identify a potential target firm for an acquisition. And second one is how to value a target firm. Valuation is the process of estimating the market value of a financial asset or liability. Valuations can be done on assets or on liabilities. It is a starting point of any M&A decision. Before any M&A takes place, a valuation of the intended firm must be conducted in order to determine the true financial worth of the company. It is the device to assess the worth of the enterprise. Both the companies are necessary for fixing the consideration amount to be paid in the form of exchange of shares. The valuation helps in determining the value of shares of the acquired company as well as the acquiring company to safeguard the interest of the shareholders of both the companies. It is necessary for the decision making by shareholders to sell their interest in the company in the form of shares. The shareholders of both the companies to take decision in favour of amalgamation. Valuation of shares is needed for shareholders what the maximum price that should be paid to the shareholder of the merged company. And how it is justified with reference to the value of asset, earnings, cash flow, balance sheet implications of the amalgamation. The strength of the surviving company reflected in market price or enhanced earning capacity with reference to the acquired strategies has to justify the consideration of the merged company.

The accurate valuation of the firms largely depends on the reliability of the company’s financial information. Inaccurate financial information can lead to over and undervaluation. In an acquisition, due diligence is commonly performed by the buyer to validate the representations made by the seller. The financial analysis is required to be made in case of M&A or takeover is comprised of valuation of the assets and stock of the target company in which the acquirer contemplates to invest large amount of capital. The financial evaluation of a M&A is needed to determine the earnings and cash flows, areas of risk, the maximum price payable to the target company. M&A the acquiring firm must pay a fair consideration to the target firm. The actual consideration to the target firm, M&A is to be a premium when the offer price is higher than the target firm’s pre merger market value. The value of the firm depends not only on its earnings but also on the operating and financial characteristics
of the acquiring firm, so it is not possible to place a single value for the acquired firm. To determine an acceptable price for a firm, a number of qualitative factors like managerial talent, strong sales staff, excellent production department etc are considered. In case of quantitative value of an asset, earnings of the firm etc are considered.

2.22. Basis of Valuation

Valuation of business is done using one or more of these types of modules. Relative vale models determine the value based on the market price of similar business. Absolute value models determine the value by estimating the expected future earning from owning the business discounted to their present value. An accurate valuation on companies largely depends on the reliability of the company’s financial information. In M&A, the acquiring firm must pay a fair consideration to the target firm. Sometimes, the actual consideration may be more than or less than the fair consideration. An M&A is said to be at a premium when the offer price is higher than the target firm’s pre merger market value. It may have to pay a premium as an incentive to the shareholders target firm to induce them to sell their shares. The value of the firm depends not only on its earnings but also on the operating and financial characteristics of the acquiring firm. It is not possible to place a single value and for the acquired firm. Buying firm will give range of values and is determined which would be economically justifiable to the prospective acquirer. To determine an acceptable price for a firm a number of qualitative factors such as managerial talent, strong sales staff, excellent production department etc as well as quantitative factors such as value of an asset, earnings of the firm etc are relevant in determining the value of the firms.

2.22.1. Asset Value

The business is taken as going concern and realizable value of assets is considered which include both tangible and intangible assets. The value of goodwill is added to the value of the tangible assets which gives value of the company as going concern. The Goodwill represents the company’s excess earning power capitalized on the basis of certain number of years purposes.
2.22.2. Capitalized earning

The predetermined rate of return expected by an investor. In other words, this is simple rate of return on capital employed. The expected profit will be divided by the expected rate of return to calculate the value of the acquisition.

2.22.3. Market value of listed stocks

Market value is the value quoted for the stocks of listed company at stock exchanges. The market price reflects the investor’s anticipation of future earnings, dividend payout ratio, confidence in management of company, and operational efficiency etc. The acquirer pays only market value in hostile takeover, the value approach is one of the most widely used in determining value, especially of large listed firms.

2.22.4. Earning Per Share

The value of a prospective acquisition is considered to be a function of the impact of the M&A on the earnings per share. The analysis could focus on whether the acquisition will have a positive impact on the EPS after the M&A or not. The future EPS will affect the firms share prices, which is the function of price earnings ratio and EPS.

2.22.6. Investment value

Investment value is the cost incurred to establish an enterprise. This determines the sale price of the target company for which the acquirer may be asked to pay for the negotiated M&A.

2.22.7. Book value

The book value represents the total worth of the assets after depreciation but with the revaluation. It is the audited written down money worth of the total net tangible assets owned by a firm. As the basis of determining a firm’s value it is based on the historical costs of the assets of the firm.

2.22.8. Reproduction cost

Cost of the assets less depreciation becomes the basis under this method. This method ignores intangible assets like goodwill, patents and copy writes.
2.23. Methods of Valuations

Value of a business is a function of the business logic driving the M&A and is based on the bargaining powers of buyers and sellers. Since business is based on expectations which is dynamic, valuation also tends to be dynamic and not static which means that the same transaction would be valued by the same players at different values at two different times.

2.23.1 Equity valuation

The value of the equity is obtained by discounting expected cash flows of equity. It is the residual cash flows after meeting all expenses, taxes obligations and interest and principal payments.

2.23.2 Firm valuation

The firm valuation is obtained by discounting expected cash flows to the firm’s residual cash flows after meeting all operating expenses and taxes. But it is prior to debt payments. The firms may use different components of financing, for that it may use weighted by the market value proportions.

2.23.3 Relative valuation

The value of an asset is derived from the pricing of comparable assets standardized using a common variable, such as earning, cash flows, book values or revenue. The most commonly used valuation is multiples. It includes price earnings, price to book, price to sales, enterprise value to earning before interest tax, depreciation and amortization (EBITDA) and enterprise value to revenues.

2.23.4 Enterprise value

It refers to the market capitalization of a company plus debts. If the investor acquires a company he not only takes over the assets of the company, but also assumes the liabilities to pay the existing debt and liabilities of the company.
2.24. Valuing Financial and Operating Synergy

The significant premium paid in the most M&A is synergy. Synergy is the potential additional value from combining two firms. It is probably the most widely used technique in the M&A.

2.24.1. Financial Synergy

Synergy can also be created from purely financial factors. The financial synergies can take the form of either higher cash flows or a lower cost of capital. A combination of a firm with excess cash, or cash slack and firm with higher return projects can yield a payoff in terms of higher value for the combined firm. The increase in value comes from the projects that were taken with the excess cash that otherwise would not have been taken. The synergy is likely to show up most often when large firm acquires smaller firms or when publicly traded firm acquires private firms. The Debt capacity can increase, because when two firms combine, their earnings and cash flows may become more stable and predictable. It allows them to borrow more than they could have as individual entities which create a tax benefit for the combined firm. The tax benefit can either be shown as higher cash flows or can take the form of lower cost of capital for the combined firm. Tax benefits can arise either from the acquisition taking advantage of tax law or from the use of net operating losses to shelter income. The firm that acquires a money losing firm may be able to use the net operating losses of the latter to reduce its tax burden. The firm that is able to increase its depreciation, charges after an acquisition will save in taxes and increase its value.

2.24.2. Operating Synergy

Operating synergies are those synergies that all firms to increase their operating income, increase growth or both. The Economies of scale that may arise from the M&A, allowing the combined firm to become more cost efficient and profitable. Greater pricing power from reduced competition and higher market shares which should result in higher margins and operating income. Combination of different functional strengths as would be the case when a firm with strong marketing skills acquires a firm with a good product line. Higher growth in new or existing markets arises from the combination of the two firms. The said case, when a
multinational consumer products firm acquires an emerging market firm, with an established distribution network and brand name recognition, uses these strengths to increase sales of its product. In all operating synergies can affect margins and growth and through these, the value of the firms involved in the M&A.

2.25. Legal Framework for M&A’s in Indian Banking Sector

Legal categorization of banks is with reference to the state under which they are constituted. They are classified as nationalized banks, banking companies, SBI and its subsidiaries, RRBs, Cooperatives and Multi state cooperative banks.

2.25.1. Banking Regulation Act 1949

The Nationalized banks are corporate bodies established by the Banking companies. These are predominantly owned and controlled by the Central Government. All these are constituted by an Act of Parliament and governed by the aforesaid state. Amalgamations of banking companies under Banking Regulation Act fall under categories voluntary amalgamation and compulsory amalgamation. Section 44A of the Banking Regulation Act 1949 provides for the procedure to be followed in case of voluntary mergers of banking companies. Under these provisions, a banking company may be amalgamated with another banking company by approval of shareholders of each banking company by resolution passed by majority of two third in value of shareholders of each said companies. The bank has to obtain RBI sanction for the approval of the scheme of amalgamation. The RBI generally encourages amalgamation when it is satisfied that the scheme is in the interest of depositors of the amalgamating banks. A careful reading of the provisions of section 44A on banking regulation Act 1949 shows that the high court is not given the powers to grant its approval to the schemes of merger of banking companies and Reserve bank is vested with such powers. Further, the RBI is empowered to determine the Market value of shares of minority shareholders who have voted against the scheme of amalgamation. Since nationalized banks are not Baking Companies and SBI is governed by a separate state, the provisions of section 44A on voluntary amalgamation are not applicable in the case of amalgamation of two public sector banks or for the merger of a nationalized bank/SBI with a banking company or vice versa. These mergers have to be attempted in terms of the provisions in the respective statute under which they are
constituted. Moreover, the section does not envisage approval of the RBI for the merger of any other financial entity such as NBFC with a banking company voluntarily. Therefore a banking company can be amalgamated with another banking company only under section 44A of the Banking Regulation Act 1945.

2.25. 2. Industries (Development & Regulation) Act 1951

The applicability of the Act in the M&A is very limited. An application under Section 391 of the Companies Act, initiating a M&A process cannot be proceeded with permission of the High Court. Section 18FA of this Act is to appoint anyone to take over the management of the industrial undertaking on the application of the Central Government for the purpose of running or restarting it. The Central Government may review its order at the request of the parties to proceed with the scheme of M&A.

2.25.3. Companies Act 1956

Sections 391 to 394 of the Companies Act, 1956 deal with Compromises, Arrangements and Reconstructions and other related issues through schemes of arrangements approved by the High court. The main section deals with the reconstruction and amalgamation of the companies. Under section 44A of the banking Regulation Act, 1949 two banking companies can be amalgamated voluntarily. In case of an amalgamated of any company such as a non banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies Act and such schemes can be approved by the high courts and such cases do not require specific approval of the RBI. Under section 396 of the Act, the central government may amalgamate two or more companies in public interest. State Bank of India Act, 1955 Section 35 of the State Bank of India Act, 1955 confers power on SBI to enter a negotiation for acquiring business including assets and liabilities of any banking institution with the sanction of the central government and if so directed by the government in consultation with the RBI. The terms and conditions of acquisition by central board of the SBI and the concerned banking institution and the reserve bank of India is required to be submitted to the central government for its sanction. The central government is empowered to sanction any scheme of acquisition and such schemes of acquisition become effective from the date
specified in order of sanction. As per sub-section (13) of section 38 of the SBI Act, banking institution is defined as under “banking institution” includes any individual or any association of individuals (whether incorporated or not or whether a department of government or a separate institution), carrying on the business of banking.

2.25.4. Securities Contract (Regulation) Act 1956

The Securities Contracts (Regulation) Act, 1956 of the provisions of the Act, the business of dealing in securities cannot be carried out without a license from SEBI. Any Stock Exchange which is desirous of being recognized has to make an application under Section 3 of the Act to SEBI, and is empowered to grant recognition and can prescribe conditions including that of having SEBI’s representation, the maximum three members on the Stock Exchange and prohibiting the Stock Exchange from amending its rules without SEBI’s prior approval. This recognition can be withdrawn in the interest of the trade or public. SEBI is authorized to call for periodical returns from the recognized Stock Exchanges and make enquiries in relation to their affairs. A public limited company has no obligation to have its shares listed on a recognized Stock Exchange. But if a company intends to offer its shares or debentures to the public for subscription by issue of a prospectus, it must, before issuing such prospectus apply to one or more recognized stock exchanges for permission to have the shares or debentures intended to be so offered to the public to be dealt with in each of such stock exchange in terms of Section 73 of the Companies Act, 1956. SEBI can, however, under the provisions of Section 21 of the Securities Contracts (Regulation) Act, 1956 compel the listing of securities by public Companies if it is of the opinion that it is necessary in the interest of the trade or public. In the event of the Stock Exchange, refusing to list the securities of any public company, an appeal to SEBI is provided under the Act. A Company as per the present provisions of law is obliged to get listed on the regional exchange, in addition to other exchanges. A company on the grounds, specified in Section 22A of the Act is entitled to refuse to register transfer of any of its securities, notwithstanding anything contained in its articles or Section 82 or Section 111 of the Companies Act, 1956.
2.25. 5. Income Tax Act 1961

Under section 72(1) of the Indian Income Tax Act 1961, where there has been an amalgamation of a banking company referred to in clause of the section 5 of the Banking Regulation Act with a specified bank the accumulated loss and unabsorbed depreciation for the amalgamating company shall be deemed to be loss or as the case may be allowance for depreciation of the amalgamated company for the previous year in which the amalgamation was effected and the provision of the Income tax Act 1961, relating to set off and carry forward the loss and alliance of depreciation shall apply accordingly. The expression specified bank in sub-section (1) above is defined as State Bank of India or corresponding new bank. The effect of this provision is that the benefit of carry forward loss and unabsorbed depreciation is available only in case where a banking company is merged with SBI or subsidiary of SBI or a corresponding new bank. If there are M&As of corresponding new banks or SBI and corresponding new bank or subsidiary and corresponding new bank the benefit now under section 72A is not available. Involuntary M&As would be given tax breaks under the Income Tax Act with the Finance Minister, proposing insertion of a new clause to provide for set off the losses of a banking company against profit of a banking institution under a scheme of amalgamation.

Section 72A of the Income Tax Act which deals with the amalgamations and tax benefit there on, was introduced by the Finance Act, 1977 with effect from 1978. Sickness among industrial undertakings was considered to be a matter of grave national concern. Allowing such undertakings to be closed would result in loss of production, loss of employment for many and substantial waste of valuable assets. Therefore, the Finance Minister explained in his budget speech of providing incentive and removing impediments to facilitate the amalgamation of the sick industrial with sound ones. Section 72A laid down that where has been an amalgamation of a company with another, and the Central Government, on recommendation of the specified authority, is satisfied that certain conditions laid down in the section are fulfilled, the accumulated unabsorbed losses (not being a loss sustained in a speculation business) and the unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or allowance of the amalgamated company for the previous year in which the amalgamation was effected.
The conditions stipulated in the Section are:

- The amalgamating company, immediately before such amalgamation, should be financially non-viable by reason of its liabilities, accumulated losses and other relevant factors and,

- Amalgamation was in public interest. It is also laid down that for the benefit of accrue; the business of the amalgamating company should be carried on by the amalgamated company without any modification or reorganization as may be approved by the Central Government to enable the amalgamating company to carry on such business more economically or more efficiently.

- A certificate from the specified authority to the effect that adequate steps have been taken for the rehabilitation or revival of the business of the amalgamating company should be obtained and furnished along with the return of income.

- Section 72A in Budget 99 has made the procedure easier. The Finance Minister in his speech on February 27, 1999 said. “The corporate sector has been voicing the need for a flexible fiscal policy for regulating business reorganizations. In response to this need, I propose a comprehensive set of amendments to the IT Act to make such business reorganizations fully tax neutral. In the case of amalgamations of companies, the existing requirement of routing the proposal through BIFR is being removed further; it is proposed that all fiscal concessions will survive for the un- expired period in the case of an amalgamations and demergers”.

- Accordingly, the existing provisions will be rationalized as under for any amalgamations not necessarily amalgamations through BIFR.

- The carry forward and set-off of a accumulated losses and unabsorbed depreciation will be available to the amalgamated company subject to certain conditions to be prescribed. The amortization of expenditure on technical know-how enjoyed by the amalgamating company will be available to the amalgamated company.

- Amalgamation expenses will be allowed as a deduction equally over five years. In the case of an Indian subsidiary of a foreign company, the brought forward losses will not lapse in spite of change in shareholding, subject to certain conditions. In the case of Global Depository Receipts (GDRs) and Foreign Currency Convertible Bonds (FCCBs), the concessional tax
provisions will continue to apply to the shareholders and bondholders. These far reaching amendments to the Income Tax Act will certainly create opportunities for more mergers and amalgamations.


The MRTP Act aims towards controlling monopolistic, restrictive and unfair trade practices which curtail competition in trade and industry. The Monopolistic trade practice includes a trade practice unreasonably preventing or lessening competition in the production, supply or distribution of any goods or in the supply of any services. Sections 108A to 108I incorporated in CA56 restrict the transfer of shares by body or bodies corporate under the same management holding 10% or more of the subscribed share capital of any company without intimating the Central government of the proposed transfer.

2.25.7. Sick Industrial (Special Provisions) Act 1985

This Act is not applicable to a non-industrial company and to a small-scale or ancillary undertaking. An industrial company will be deemed to be a sick industrial company if it has been registered for not less than five years and which has, at the end of any financial year, accumulated losses equal to or exceeding its entire net worth. Once a company becomes a sick industrial company, it will be referred to the BIFR which may, under Section 18, sanction the merger of a sick industrial undertaking with any other company of vice versa. The Sanctioned scheme must be approved through a special resolution by the shareholders of the company which is not sick. Another significant fact in this type of merger is that the Act provides for hearing the views of employees, particularly of the employees of the transferor company who may anticipate uncertainty on merger, and the scheme, once sanctioned, will be binding on them.
2.25.8. Securities and Exchange Board of India (SEBI) Regulations 1991

Section 3 of the Securities and Exchange Board of India (Substantial and Takeover) Regulation 1994 provides that Chapter III of the Regulations (relating to takeovers) will not apply to the acquisition of shares pursuant to a scheme of amalgamation under Sections 391 and 94 of the companies Act, 1956 and to the acquisition of shares pursuant to a scheme framed under the Sick Industrial Companies (Special Provision) Act. This regulation applies to the companies registered under the Companies Act 1956 as well as to corporations established by Amendment of Parliament by virtue of listing agreements. It is for this reason that corresponding new banks increasing capital by issue of shares to the public are required to comply with SEBI regulations in spite of the fact that other provisions of the companies Act in regard to issue of shares etc. do not apply to the corresponding new banks. The position in respect of acquisitions and mergers of any banking institutions whose shares are listed at the Stock Exchanges will be required to comply with all the relevant regulations of SEBI. In India, all the M&A are regulated by SEBI. SEBI announced a takeover code for the regulation of substantial acquisition of shares, aimed at ensuring better transparency and minimizing the occurrence of clandestine deals. In accordance with the regulations prescribed in the code of SEBI, any acquisition in a company which makes acquirers is required to make a public offer. The M&A code covers three types of takeover, negotiated takeovers, open market takeovers and bail out takeovers.

2.25.9. Depository Laws 1996

The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by making securities freely transferable subject to certain exceptions, dematerialization of the securities in the depository mode and providing for maintenance of ownership records in a book entry form. It will also streamline the process of settlement.
2.25.10. Competitions Act, 2002

The purpose for which Competition Act, 2002 was enacted is to regulate the business combinations in the form of mergers, acquisitions and alliances. Chapter II containing Section 5 and 6 of the Competition Act 2002 primarily deals with the subject of combination that is mergers, acquisitions and alliances. The acquisition of one or more enterprises by one or more persons or merger or amalgamation of enterprises shall be a combination of such enterprises. The acquiring of control by a person over an enterprise when such person has already direct or indirect control over another enterprise engaged in production, distribution or trading of a similar or identical or substitutable goods, or provision of a similar or identical or substitutable services. The enterprise shall enter a combination in which case or is likely to cause an appreciable adverse effect on competition within the relevant market in India. The public financial institutions like bank shall within 7 days from the date of the acquisitions file in the form as may be specified by regulations, with the Commission the details of the acquisition including the details of control, the circumstances for exercise of such control and the consequences of default arising out of such loan agreement and or investment agreement as the case may be.


The Act requires registration of all securitization companies or reconstruction companies before commencing the business. The Act provides that such reconstructions companies must have own fund of not less than two crore rupees or such other amount not exceeding 15 per cent of total financial assets acquired. However, the RBI may notify different amount for different class of Securitization Company. Further such securitization shall make application before the RBI, before expiry of six months from such commencement. The RBI reserves the right to grant such certificate of registration if, satisfied. It may cancel a certificate of such registration if company ceases to carry on business or ceases to hold or receive investments or fail to comply conditions stipulated while issuing such certificate or fails to comply with any directions of the RBI. Besides, the Act provides registrations for acquisitions of rights or interest in financial assets. The Act prescribes the manner
in which management of business of one company to be takeover by the other company.

2.25. 12. High Court Approvals

An approval of the High court of the state is required in which registered offices of the acquiring and the acquired companies are situated.

2.25. 13. Substantial change in composition of Board

The Board of Directors’ composition plays a substantial role in corporate performance. Substantial change in composition of Board refers to the number of directors and the type, as determined by the usual insider and outsider classification of Board of Directors in the company. The inner groups of Directors are the current members of top management teams, and employees of the company or its subsidiaries. Outer group of director members have no such association but are further classified into affiliated or non-affiliated. Affiliated outsiders are not members of the current management or employees of the company but have some influential link with the firm. Non-affiliated outsider directors are usually referred to as independent directors. These independent directors are recruited primarily because of their expertise, name, recognition and skills in their respective area.

2.25. 14. Listing Agreement

Listing means admission of securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc. According to Securities and Exchange Board of India (SEBI) inserted Clause 24(f) in the Listing Agreement w.e.f. June 4, 2003, the company shall file any scheme/ petition proposed to be filed before any court or Tribunal under section 391, 394, and 101 of the Companies Act, 1956, with the Stock Exchange, for approval, at least a month before it is presented to the Court or Tribunal’. The company is required to file the Draft Scheme of Amalgamation / Arrangement / Capital Reduction with stock exchange at least one month prior to its filing with the High Court for seeking ‘No Objection Certificate’ for the proposed Scheme. The companies may proceed to the High Court only after obtaining 24 (f) No Objection
Certificate (NOC) of Stock Exchanges to the proposed Scheme. After obtaining the Order of the High Court sanctioning the Scheme, the Company is required to apply for listing of securities issued pursuant to scheme of Amalgamation/ Arrangement/ Demerger / Reduction of Capital/ BIFR Order/ AAIFR Order pursuant to Clause 24(a) of the Listing Agreement. All such applications will be processed by stock exchange as per its standard checklists and done same to the merged company.

2.25. 15. Intellectual Property Law and M&As

M&A of companies, all the assets of the transferor company including intellectual property assets such as patents, copyrights, trademarks and designs vest in the transferee. Where the transferor company owns the intellectual property assets, such assets are transferred to the transferee company under the scheme of arrangement. The unregistered trademark/copyright is transferable as any other right in a property under the scheme of arrangement framed under section 394 of Company Act (CA) 1956. In case of registered trademarks or copyrights and patents, the transferee company has to apply to the respective Registry for registering its title pursuant to the order of the High Court sanctioning the scheme. The transmission/transfer of the trademark/copyright rights in the license may be permitted in an instance where the licensor himself assents to such transfer of a license subsequent to a merger.

2.25.16. Compulsory Amalgamation of Banks Under Section 45(4) of the Banking Regulation Act

RBI may prepare a scheme of amalgamation of a banking company with other institution (the transferee bank) under sub- section (15) of section 45. Banking institution means any banking company. A compulsory amalgamation is pressed into an action where the financial position of the bank has become weak and urgent measures are required to be taken to safeguard the interest of the depositor. Section 45 of the Banking regulation Act, 1949 provides for a bank to be reconstructed or amalgamated compulsorily’ i.e. without the consent of its members or creditors, with any other banking institutions as defined in sub section(15) thereof. Action under their provision of this section is taken by Reserve Bank in consultation with the central government in the case of banks which are weak, unsound or improperly managed.
Under the provisions, the RBI can apply to the central government for suspension of business by a banking company and prepare a scheme of reconstitution or amalgamation in order to safeguard the interests of the depositors. Under compulsory amalgamation, the RBI enjoys the power to amalgamate a banking company with any other banking company, nationalized bank, SBI and subsidiary of SBI. Whereas under voluntary amalgamation, a banking company can be amalgamated with another banking company only.

Restructuring in simple words is re-shaping present banking system. Obviously it does not mean reconstitution of banking building but precisely it means changing system of banking, division of banking etc. Restructuring of banking is required to negotiate the challenges faced by banking systems these days. Following are some of the committees which have given their views on Indian Banking sector. The following are the reasons for restructuring of Indian Banks.

- To revive weak banks.
- To provide special facilities to rural people, urbanites, trade and business people and also foreign exchange banks and agricultural field.
- To improve efficiency of banks to larger boards which are less effective than small boards.
- System to be market driven and based on profitability.
- Rationalization of work force and branch Network.


The Grant Thornton (2006) conducted a survey of Indian corporate managers across various sectors. Their findings revealed that M&A continued to be a significant form of business strategy for Indian corporate. The results of the survey have been furnished below.
Mergers & Acquisitions in Indian banking sector are often viewed as consolidation process in the Indian Banking sector where a strong bank takes over a weak bank. M&A in Indian banking sector is for a financial integration, economic growth and financial stability. This in turn enables them to improve resource allocation like risk management and to increase profitability of the banks. This leads to interbank competitions and these give beneficial effects to spread the Indian banking sector as a whole. Fostering closer convergence towards better, more efficient banking practices, deepened integration and greater breadth, depth and liquidity of the current financial markets. Three patterns of Mergers and Acquisitions are noticeable, i.e., mergers and acquisitions of private sector banks with private sector banks, private sector banks with public sector banks and public sector banks with public sector banks. This study aims at understanding the motives for mergers and acquisitions in Indian banking sector. Hence an attempt has been made in this research.

Table 2.04: Objectives of Indian Corporate For M&As

<table>
<thead>
<tr>
<th>Objective behind the M&amp;A Transaction</th>
<th>Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve revenues and profitability</td>
<td>33</td>
</tr>
<tr>
<td>Faster growth in scale and quicker time to market</td>
<td>28</td>
</tr>
<tr>
<td>Acquisition of new technology or competence</td>
<td>22</td>
</tr>
<tr>
<td>To eliminate competition and increase market share</td>
<td>11</td>
</tr>
<tr>
<td>Tax shields and investment savings</td>
<td>3</td>
</tr>
<tr>
<td>Any other reason</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Grant Thornton (India), the M&A and Private Equity Scenario, 2006.
Table 2.05: Motives for bank mergers and acquisition in Indian banking sector in Post liberalization era.

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Date of Merger</th>
<th>Acquiring Bank</th>
<th>Acquirer Bank</th>
<th>Motives for Mergers and acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>26-02-2000</td>
<td>Times Bank Ltd.</td>
<td>HDFC Bank Ltd.</td>
<td>Voluntary Merger</td>
</tr>
<tr>
<td>2</td>
<td>01-02-2003</td>
<td>Nedungadi Bank Ltd.</td>
<td>Punjab national Bank Ltd.</td>
<td>Forced merger</td>
</tr>
<tr>
<td>4</td>
<td>02-09-2006</td>
<td>The Ganesh Bank of Kurundwad Ltd.</td>
<td>The Federal Bank Ltd.</td>
<td>Forced merger</td>
</tr>
<tr>
<td>5</td>
<td>03.10.2006</td>
<td>United Western Bank Ltd.</td>
<td>IDBI Bank Ltd.</td>
<td>Forced merger</td>
</tr>
<tr>
<td>6</td>
<td>31.03.2007</td>
<td>Indian Overseas Bank Ltd.</td>
<td>Bharat Overseas Bank Ltd.</td>
<td>Regulatory Intervention</td>
</tr>
<tr>
<td>7</td>
<td>31-03-2007</td>
<td>State Bank of India Ltd.</td>
<td>State Bank of Saurashtra Ltd.</td>
<td>Voluntary merger</td>
</tr>
<tr>
<td>8</td>
<td>19-04-2007</td>
<td>The Sangali Bank Ltd.</td>
<td>ICICI Bank Ltd.</td>
<td>Voluntary Merger</td>
</tr>
</tbody>
</table>

Source: Collected from various reports from RBI

2.26.1. Voluntary Acquisition

Section 394 of the Companies’ Act 1956 provides for voluntary amalgamation of a company or bank with any two or more companies or bank with the permission of tribunal. Voluntary amalgamation under section 44A of Banking Regulation Act is available for merger of two “banking companies”. In the case of an amalgamation of any other company or bank such as a non banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the Companies Act such cases do not require specific approval of the RBI.

2.26.2. Forced Acquisition

Under section 396 of the Companies’ Act 1956, the central government in public interest can amalgamate 2 or more companies or banks.

2.26.3. Capital Adequacy Norms

As per the prudential capital adequacy norms, every asset in the balance sheet is funded by both deposits and capital funds. Hence higher capital adequacy ratio of a bank indicates its potential for growth, financial solvency, and ensures confidence for
depositors. As per Basel II norms that require banks to have minimum 9% Capital Adequacy Ratio (CAR). Capital deficient banks are constrained from growing unless they augment the capital resources; the available alternative is to go for a merger with a bank of stronger capital base. These factors have forced the banking sector to look for consolidation of smaller and weaker banks with larger banks for example Global Trust Bank and United Western Bank. The capital funds of the merged banks had been substantially eroded before the merger. Several old private sector and a few public sector banks have been showing the symptom of deficiency in capital funds and these could be the right candidates for mergers.

2.26.4. Opportunity for Growth

Growth is the most general and important motive for mergers and acquisition. Some banks which have surplus cash flows, slow growth in the domestic market or domestic markets are saturated for growth opportunity. The growth business of banking industry grew from Rs. 18.51 lakh crore as of March 2002 to Rs. 46.19 lakh crore by March 2007. The annual growth rate is 20 per cent. The Banking sector in India is robust and its standards are broadly in conformity with international standards. The issues have been discussed in the Ministry of Commerce and industry, Department of Industrial Policy and Promotion on March 5, 2004.

2.26.5. Access to Capital and Brand

The present financial markets are volatile, rising capital at lower costs will be a challenge. No doubt, at present bank deposits still enjoy a dominant position in the share of incremental savings of the household sector. The interesting thing is that every time the stock market was on a bull run, the general public has favored the diversion of slightly larger share of household savings into the stock market than the bank deposit. On the other hand the stock market attracts only 5 per cent of the money that went into bank deposit. Capital and brand name plays an important role. Getting a handle on this and the need to retain good talent and improve to manage capital and risk management is important for access to capital and brand.
2.26.6. Basel II norms

The agenda before Indian banks is implementation of Basel II norms for estimation of capital requirements. The new Basel II norms emphasize on 25 of capital requirements against the current practice of standardized approach. In the present scenario, Indian banking sector which is enjoying the benefit of having excess capital may acquire the smaller banks. Thus to achieve the benefit of low capital requirements, small size banks would be required to consolidate themselves to become large. So, the RBI has set up an experts committee to implement Basel II accord norms by 2006 to strengthen the financial health of banks in India by adopting globally accepted norms for capital adequacy.

2.26.7. Gaining Complementary Strengths

Indian banking industry too has fallen in line with the global trend and has made a beginning with small forays into such areas as selling mutual fund units or instance. The Priority sector requirement for foreign banks was only 32 per cent as against 40 per cent for domestic banks. The bank that has developed a reputation for superior products in the domestic market may find acceptance from the foreign customers as well.

2.26.8. Acquire New Customers

Foreign banks opened new outlets by offering new technology and products, delivery channels such as ATMs, Internet banking and other services. There are currently 1.1 crore demat account holders under the two depositories functioning in the country. In contrast, there are 30 crore customers with the banking industry. There is a huge opportunity waiting to be tapped. In case of credit growth, it could be around 22-23 per cent for the industry. “It is a function of GDP growth and if GDP grows at 8-9 per cent, credit could grow at roughly three times”\(^{13}\). There is a huge potential of new customers in Indian market.

\(^{13}\) Published in the Business Line print edition dated November 27, 2007, says Aditya Puri
2.26.9. Exchange Rates

One view on exchange rates revolves around the fact that while there seems to be a relationship existing between exchange rates and acquisition activity, there is no evidence that a change in the exchange rate improves the position of foreign acquirers relative to their host counterparts. The argument is that when the currency of the host country depreciates, the host country becomes a cheaper place for any firm to do business foreign or domestic. The relationship between foreign acquisitions and exchange rates, contending that improved capital mobility facilities equalized, risk-adjusted returns on international investment is minimized. The depreciated host country’s currency increases Foreign Direct Investment (FDI) in the host country business. The reverser also holds true, if the host currency is strong, there should be a pause in the foreign acquisition of host firms and an upward trend in the home country’s acquisitions of foreign firms.

2.26.10. Diversification

Given a firm’s preferred risk return position international diversification by way of acquisition improves the risk return tradeoff. It is assumed that the covariance of returns across economies even within the same industries is likely to be smaller than within a single economy. The prospective acquiring company must first decide on its desired levels of risk and return and then it should attempt to identify countries, industries and specific firms which fall within its risk class. In acquiring an ongoing foreign concern, companies may be able to get out of tariff and non-tariff barriers.

2.26.11. Current Economic Conditions

The Union Minister of State for Finance said that Acquisition is the right path to grow, in his speech in Bancon “Indian banking conclave 2007”. Indian Banking sector will have to explore inorganic growth options in order to face ‘significant’ challenges emanating from large – sized foreign banks known for their deep pockets, advanced technology and skilled personnel. He also emphasizes on cross-country evidence to indicate that inorganic growth is one of the best ways to compete with foreign banks. The economic conditions in the home country, such as a slump, recession or capital constraint may cause banks to concentrate on their domestic business which temporarily delaying strategic international moves. If the economic
condition is in boom, cross-border acquisitions are likely to again become a means for increasing demand and levels of diversification. “The inorganic growth is one of the best ways to compete with foreign banks. And the Consolidation is inevitable in the Indian Banking Sector as the economy is growing need for scale and size\(^{14}\).”

2.26.12. Acquisition of Technology

The technology affects the mergers in two ways. First a technologically superior firm may make acquisitions in another country in order to exploit its technological advantage. And secondly an inferior technological firm may make acquisitions in another country to enhance its competitive position both at home and abroad. The acquirer can improve his competitive position and profitability both at home and abroad. On the other hand, the acquirer firms with surplus cash and which are technologically inferior can obtain the necessary technology by acquiring a firm with superior technology to remain effective in the market. There are cases where a firm falls behind in the level of technological knowledge necessary to compete efficiently in its industry. If a firm is unable or unwilling to develop the required technology through research and development, it may attempt to acquire a foreign firm which has technology through research and development.

2.26.13. Integrated Human Resources system

Mergers and acquisitions can help banks restructure in a way that gives them superior organizational capabilities, resulting in a sustainable competitive advantage in integrated Human Resources system. Banks will have to build around this concept a performance measurement system, a career development path and a remuneration policy. In the days to come, there is bound to be greater staff mobility between banks. Staff remuneration has to be based partly on market trends and partly on job requirements and individual needs of the banks. Promotions must be decided primarily on merit and requirements of the banks concerned, ensuring at the same time that the promotion policy is objective and transparent.

\(^{14}\) Consolidation inevitable – Business Line Dated Tuesday, November 27, 2007, Page number 7 - Mr. H N Sinor, Chief Executive, Indian Bank’s Association

The pace of mergers and acquisitions in the Indian Banking sector has been augmenting during the last five decades. The recent developments in Europe, America and Asia indicate that the merger activity in the banking sector is going to continue for few more years. So the Government policies, regulations, tariffs and quotas play a great role in the mergers and acquisition activity in a country and more significantly in cross-border deals. The Reserve Bank of India (RBI) released the roadmap for presence of foreign banks in India and guidelines on ownership and governance in private sector banks. Shri P Chidambaram, the former Finance Minister, Government of India, in his speech announcing the Union Budget for 2005-2006, stated that the RBI has prepared a roadmap for banking sector reforms and will unveil the same in the near future. It may be recalled that the Ministry of Commerce and Industry, Government of India had, on March 5, 2004 revised the existing guidelines on Foreign Direct Investment (FDI) in the Indian banking sector. These guidelines also included investment by Non-Resident Indians (NRIs) and FIIs in the banking sector. As per the guidelines the aggregate foreign investment from all sources was allowed up to a maximum of 74 per cent of the paid up capital of the bank while the resident Indian holding of the capital was to be at least 26 per cent. It was also provided that foreign banks may operate in India through only one of the three channels, viz (i) branches (ii) a wholly owned Subsidiary or (iii) a subsidiary with an aggregate foreign investment up to a maximum of 74 per cent in a private bank. In consultation with the Government of India, the RBI has released the road map for presence of foreign banks in India to operationalise the guidelines. The roadmap is divided into two phases. During the first phase, between March 2005 and March 2009, foreign banks were permitted to establish presence by way of setting up a wholly owned banking subsidiary (WOS) or conversion of the existing branches into a wholly owned banking subsidiary.

2.26.15. Penetration to SME Sector Lending

At present more than 25% credit requirements in Indian Banking sector are related to SME sector only. The RBI and government of India is discussing the pleasant growth of GDP of 8.5 -9 per cent. Indian banks should make use of the
same; it leads to credit growth as well as for the requirement of BASEL II, a global standard that prescribed standards for the capital adequacy and risk management. The banks profit margins is less than 5 per cent says Aditya Puri (2007) the banks should maintain bear cost on CRR, SLR and other requirements, for every deposit bank takes, banks have to reserve 7.5 per cent as CRR, for which banks have no interest, on the other hand banks have to keep SLR at 25 per cent on that banks earn less interest. If the GDP of country grows at 8–9 per cent, credit could grow at 3 times the GDP growth rate in the country.


Cost containment is a key to sustainability of bank profits as well as their long-term viability. In India, however, in 2003, operating costs as proportion of total assets of scheduled commercial banks stood at 2.24 per cent, which is quite high as compared to other economies. The tasks ahead are thus clear and within reach.

2.26.17. Reach and Innovation

Higher sustained growth is contributing to enhanced demand for financial savings and opportunities. In rural areas in particular, there also appears to be increasing diversification of productive opportunities. Industrial expansion has also accelerated; merchandise trade growth is high; and there are vast demands for infrastructure investment, from the public sector, private sector and through public private partnerships. Thus, the banking system has to extend itself and innovate. The banks will have to innovate and look for new delivery mechanisms and provide better access to the currently under-served. Innovative channels for credit delivery for serving new rural credit needs will have to be found. The budding expansion of non-agriculture service enterprises in rural areas will have to be financed. Greater efforts will have to be made on information technology for record keeping, service delivery, and reduction in transactions costs, risk assessment and risk management. The Banks will have to invest in new skills through new recruitment and through intensive training of existing personnel.
2.26.18. Risk Management

Banking in modern economies is all about risk management. The successful negotiation and implementation of Basel II Accord is likely to lead to an even sharper focus on the risk measurement and risk management at the institutional level. Sound risk management practices would be an important pillar for staying ahead of the competition. Banks can, on their part, formulate ‘early warning indicators’ suited to their own requirements, business profile and risk appetite in order to better monitor and manage risks.

2.26.19. Governance

The quality of corporate governance in the banks becomes critical as competition intensifies, banks strive to retain their client base, and regulators move out of controls and micro-regulation. The objective should be to continuously strive for excellence. Improvement in policy-framework, regulatory regime, market perceptions, and indeed, popular sentiments relating to governance in banks need to be on the top of the agenda to serve the needs of society and realities while being in harmony with the global perspective.

2.27. Pros and Cons of M&A in Indian banking sector.

- Helps to review weak banks.
- Protects interest of common shareholders.
- Helps rural area and agricultural area customers.
- Increases efficiency.
- It will be market driven and based on profitability.
- It would make greater economic and commercial sense.
- It will help in improving functioning like upgradation of branch banking.
- Paves way for healthy competitions in the Banking system.
- Results in decentralization results in surplus staff, manpower or space.
- There is necessity to draw up policies to accommodate surplus staff by evolving some schemes like VRS etc.,
- It may not lead to rationalization of work force.
- Legal hassles are the major problem in M&A
Reference

1. Corporate valuation and value creation by David Sinclair, chapter No 17, page number 17.1.
4. M&A in Indian Banking System - An Executive Handbook (2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 34
5. M&A in Indian Banking System - An Executive Handbook (2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 35
7. M&A in Indian Banking System - An Executive Handbook (2005), Published by the Bank net India Banking Knowledge, Research & Conferences, page number 37

Doctorial thesis on M&A

2. **BANSAL DISHA (2010)** “Impact Of Liberalization On Productivity And Profitability Of Public Sector Banks In India” Saurashtra University, Rajkot.
5. KHATTER RAM CHANDRA (1994) “Management problems of Corporate Acquisitions and Mergers in India” University of Pune.


8. PRASAD D. SUBRAHMANYA (2011) “Mergers And Acquisitions In The Indian Banking Sector: An Analytical Study” Jawaharlal Nehru Technological University, Hyderabad.


11. SHAH HARISH B (2005) “Examine the suitability of acquisition and merger as a form of growth under the contemporary legal environment with reference to some units in western India” University of Pune.


News paper publications on M&A

1. **BANSAL KAVERI & BANSAL MONA (2009)** (Published in Deccan Herald on December 4, 2009), “Banking Sector needs consolidation”.

2. **BENIWAL VRISHTI (2010)** Editor, Business standard (Published in Business Standard on February 8, 2010) the editor has made remarks on Government drops Banks M&A plans.

3. **DR. NITSURE REGE RUPA (2007)** Chief Economist, Bank of Baroda in his speech in BANCON is one of the India’s most popular conferences for discussing key issues affecting Indian Banking industry on “The Survival of the fittest” (Published by Business Line on November 26, 2007).

4. **H N SINOR. (2007)** Chief Executive, Indian Bank’s Association, (Published by Business Line, dated November 27, 200) on “consolidation is inevitable”.

5. **KILLAWALA ALPANA (2005)**, Chief General Manager in the press release by RBI “Road Map for presence of foreign banks in India” on February 28, 2005.

6. **KUMAR PAWAN (2007)**, Union State Minister, Government of India, has given speech while inaugurating the banking conference – Bancon 2007 (Published by Deccan Herald, dated November 27, 2007) on “Acquisition is the right path to grow”.

7. **LEELADHAR V. (2007)** Deputy Governor, Reserve Bank of India, has given speech while inaugurating the United banks of India’s CBS Data Centre and 201st CBS Branch (Published by The Hindu dated December 13, 2007).

8. **MAHAJAN. A.C (2009)** Chairman and Managing Director of Canara Bank, told to the newspapers in the interview that “Canara Bank looking at domestic acquisitions” (Published in Business Line on November 20, 2009).

9. **MUKHERJEE PRANAB (2009)** Finance Minister, Government of India told the Newsperson in the interview that “he puts weight on consolidation of Indian Public sector Banks in India” (Published in Business Line on June 11, 2009).

10. **P.K. GUPTA. (2007)** Chairman, United Bank of India, (Published by Business Line, dated December 6, 2007) on “Merging a bank just for the sake of a bigger size need not be right”.

116
11. **RAO. M.B.N. (2008)** Chairman, Canara Bank Ltd told the Newsperson in the interviewed that “Canara Bank may be an acquisition this year” (Published in Business Line on January 6, 2008).

12. **THINGALAYA N.K. (2009)** Editor, Business Line editorial publication (Published in Business Line on December 2, 2009), the author has made remarks on mergers will not add to the competitive strength of banks.


**Research papers on M&A and Articles**

1. **ABDULRASHEED ABDULRAHEEM (2004)** in his research article titled “Ratio Analysis As A Measure Of Performance In The Banking Industry: A Case Study Of Selected Banks” published in A Journal of Department of Business Administration, University of florin, Ilorin Nigeria, Vol. 4 No.1 page number 130-140.


4. **BEITEL PATRICK AND SCHIERECH DIRK (2001)** in their research paper titled “Value creation at the ongoing consolidation of the European Banking market”. Published in Institute for M&A working paper No 05/01.


8. **DHOND A ARVIND & DR. KAPTAN S.SANJAY (2011)** in their research paper titled “Shareholders’ Wealth Measurement in Banking Sector in India through Eva”. Published in IJRIM Volume 1, Issue, and page number 51-80.


12. **DR. SHRESTHA K. MANOHAR, DR. PRADHAN S. RADHE & DR. MANANDHAR D. KAMAL (2004)** in their research article titled “Corporate Merger And Acquisition: A Case Of Nepal presented in All India Accounting Conference and International Seminar, 18-19th December 2004 at Utakal University, Bhubaneswar, Orissia, India.

13. **DUTORDOIR MARIE, ROOSENBOOM PETER AND VASCONCELOS MANUEL (2005)** in their research paper titled “Synergy Disclosures in Mergers and Acquisitions”. Published in Conference call on ANS acquisition, St. Jude Medical.


17. **KNORIA V. MADHAV (2010)** in his research paper titled “Application of Competition Law in the Banking Sector – A Global Perspective A Critical Study with Special Reference to Bank Mergers” submitted to National Law School of India University, Bangalore.


119


38. **SATHYE MILIND (2005)** Adjunct Professor at South Cross University and an Associate Professor of Finance and Banking and Deputy Head of School at the University of Canberra, Australia. In his article titled “Privatization, Performance and Efficiency: A study of Indian Bank”, published in Vikalpa, Volume 30, No1, January-March 2005.


**Books and periodicals**


**Committee Reports on Mergers and Acquisitions**

