CHAPTER-I

INTRODUCTION

1.1 HISTORICAL PROSPECTIVE OF MERGER & ACQUISITION

Merger and Acquisition is not a new phenomenon, it has its own history with different forms in different period. The history of merger spans in the 20th century during which, there have been several distinctly different merger were completed. It is generally thought that it have been triggered by the combination of a rising stock market and the introduction of the Sherman Antitrust Act\(^1\), 1890 which was designed for prohibiting any contract that would limit trade between different states and countries. But it was not designed to deal with the growing phenomenon of M & A activity and unable to prohibit any merger or acquisition that was organized using a stock for stock exchange. During this time 1800 firms (approximate) disappeared and 71 approximately formerly competitive industries were converted into virtual monopolies. (See Appendix, No. I)

Merger waves are prompted when finance becomes readily available at a time when the regulatory framework allows companies to enter into merger or acquisition activity. So the search for a single explanation for merger waves will never be satisfied, but taking into account, the history of this phenomenon, should not be unexpected.

Merger waves economists and historians refer to five waves of mergers in the United States (US) started in the 1890s.

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1. Explain later in the chapter 2.2.
The starting date and duration of each of these waves are not specific, but the ending dates are more definite for those that ended in wars or financial disasters, like the 1929 crash or the bursting of the Millennium Bubble. It could be argued that mergers are an integral part of market capitalism and wave of merger activity continuous phenomenon since the evolution of the industrial economy in the latter period of the 19th Century.

Merger waves in the United Kingdom (UK) have a shorter history than US. There was no merger wave transpired before the 1960s although there was a small wave in the 1920s which was inspired by the widespread introduction of mass production technologies in the UK following the end of the First World War. These new technologies resulted in a sharp increase in productivity and matching increase in share prices. This sudden burst of productivity and profitability generated a spate of mergers that resulted in substantial increases in concentration in many manufacturing industries.

In 1948 the first step in the development of UK merger policy² was taken with passing of the Monopolies and Restrictive Practices Act, which created a Commission to look into deals that might be adverse to the public goods however the terms of reference for the Commission, were vague and the indistinct criteria to be used in determining the public good. This had no noticeable effect on the level of M & A activity which continued to fluctuate over time but with no sign of a merger wave for more than a decade.

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The first real merger wave in the UK was in the 1960s and coincided with the internationalization of the World Economy\(^3\). The British Government decided to make large firms competent effectively on the international stage and to achieve this goal the Industrial Reorganization Corporation (IRC) was created to encourage the development of such companies through horizontal mergers. Amongst the top 200 manufacturing companies in 1964, 39 (19.5\%) were involved in merger or acquisition activity within the next five years. During the same period, the Monopolies and Mergers Act, 1965 was passed which prohibited any merger or acquisition that was contrary to the public good and also created the Monopolies and Mergers Commission (MMC) to rule on contentious cases\(^4\). This wave experienced a partial drop after 1968 but then grew to another peak in 1972. Throughout this period, the proportion of horizontal deals dropped, although they were still by far the most popular type of purchase and such deals grew correspondingly, reflecting the growing impact of the earlier legislation. The legal framework in the UK was further reinforced in 1973 with the fair trading act which formalized the procedures for regulating M & A activity and created the Office of Fair Trading (OFT). The OFT examines each deal and decides whether it should be referred to the MMC (now know as the Competition Commission) for detailed analysis of its potential impact.

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4. MMC, UK Independent Advisory Body.
The next period of excessive M & A activity took place in the 1980s and marked a change in emphasis when compared to the previous waves. Prior to this time the waves had been mostly about increasing the size of companies but in the 1980s the emphasis changed to the control the corporate assets as a commodity. During this period, the most development in M & A policy took place with a comment written in an internal memo by the secretary of state for trade and industry however, the actual criteria for making a referral was not clear. As a result, it (OFT) has historically referred only a very small proportion of qualifying bids. Between the introduction of the Mergers and Monopolies Act in 1965 and 1985 there were 3540 mergers and acquisitions taken place which met the criteria for a referral to the MMC, of these only 107 were actually referred and out of 31 from these cases, the bidding company withdrawal the bid before any judgment was handed down. This is resonance by data which shows that of 915 deals that qualified for investigation between 1998 and 2001 only 42 deals were referred for a full investigation. Throughout the early part of the 1980s the stock market was rising sharply reflecting growing profits and business confidence. This period of excessive restructuring incorporated some features of M&A activity which previously unseen in the UK and imported from the us like increased hostility, use of leverage large number of buy-outs, all of which took place in this wave but had not previously been notable features of market for corporate control in the UK.

In 1987 the London Stock Exchange suffered major crash but this was not enough to stop the wave, however, which had sufficient momentum to keep going on until 1989. The most recent merger wave in the UK took place in the 1990s and was again encouraged on by deregulation of British industries coupled with the policy of privatizing government owned assets which took place through the last years of the 1980s the early years of 1990s, as characterized by the sales of British Telecom (1984), British Gas (1986) and British Rail (1993). These changes resulted in the need for extensive restructuring on many difference levels of British industry and prompted the merger wave. Unlike during 1980s, there was relatively little hostility and many companies changed their perspective on mergers and acquisitions to take more balanced approach when compared to the excesses of the previous decade. This change in perspective was prompted by the findings of the Cadbury Report\textsuperscript{7} (1992) which was commissioned by the London Stock Exchange to investigate the state of corporate governance in the UK. The Cadbury Report made a large number of recommendations for increasing the level of monitoring to this subject of Boards of Directors and also increased the degree of transparency in company decisions’ making, these recommendations, decreased the power of individual Board members, increasing the independence of Non-executive directors, made managers much more accountable for their actions and far less able to make the type of large, hostile,

possibly unwise, acquisition attempts. Because of history of merger in UK has short span of time and it has been discussed, a majority of researcher feel and suitable the US Merger wave as the base their research due to the long span. 

The brief historical prospective of merger waves in US is as follows;

1.1.1 FIRST US MERGER WAVE (1893/1897 TO 1904) - MERGING AND ACQUIRING FOR MONOPOLY

This merger was started in 1893 but some financial experts considered 1897 as starting data of first wave 8. The underlying factors of this wave are Technological Developments, Innovations in Production Process, Rapid Economic Expansion and Relaxation in Corporation Laws. During this time, major horizontal mergers wave formed in Steel, Telephone, Oil, Mining, Railroad and other giants of the basic and heavy manufacturing and transportation industries in the US. Economic Recession in 1903 Stock market crashed in 1904 and First World War is pointed out as main causes of end of the first wave.

1.1.2 SECOND US MERGER WAVE (1904 TO 1916/1919) - MERGING AND ACQUIRING FOR OLIGOPOLY

The second merger wave began during First World War and continued until the stock market crash in, 1929. This wave is unspecified to start from 1904. This period saw further consolidation in the industries that were the subject of the first wave and a very significant increase in vertical integration 9.

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8. Merger Waves in the 19th, 20th & 21st Centuries Martin Lipton, the Davies Lecture Osgoode Hall Law School, York University 2006
The underlying factors of this wave were Post-World War economic boom, Technological developments, producing fewer monopolies, rather oligopolies and central role of investment banks. The major automobile manufacturers emerged in this period which was integrated from the finished car back through steel mills, railroads and ore boats to the iron and coal mines. Once again companies were eager to take advantage of the change and the result was second US merger wave. The stock market was rising and companies were able to issue equity as financing mergers and acquisitions. The wave was brought to end with the advent of the Great Depression (1929) which caused the collapse of the US stock market and halted M & A activity almost overnight\textsuperscript{10}. Overall, mergers of this merger wave were characterized by oligopolies rather than monopolies.

1.1.3 THIRD US MERGER WAVE (1955/1965 TO 1969/73) - CONGLOMERATE MERGERS

The third merger wave coincided with a period of economic prosperity in US. The strong economy gave many firms the resources, necessary to acquire other companies. This was the period which started from 1955/1965 in which the conglomerate concept took hold of American management. Underlying factors of this wave were economic booming, stock prices rising, financial manipulations, pooling of interest method of accounting and price-earning game\textsuperscript{11}.

Major conglomerates like IT&T (Harold Geneen), LTV (Jimmy Ling), Teledyne (Henry Singleton) and Litton (Tex Thornton) were created.

Many major established companies accepted the concept and diversified into new industries and areas. In 1950 the Celler Kefauver Act was introduced which extended the Clayton Act and prohibited any merger or acquisition that was designed to give one firm a substantial degree of market power.


The fourth merger wave coincided with the presidency of Ronald Reagan and the economic prosperity of 1980s. The merger wave took place in the 1980s and exceeded all of the proceeding waves in both the volume of transactions and in the size of the deals. The main underlying factors were Economy Expendings, Technological Development, International Competition, deregulation, Financial Innovations, more competitive Investment banking Industry and much higher degree of hostility. Almost half of all major US companies were the recipients of an unsolicited takeover bid in the 1980 which was a clear indicator of the volume of transactions taking place during this particular wave.

This merger wave that has generated the greatest volume of academic analysis and a plethora of different reasons has been put forward. One possible reason was that the US government relaxed some of the restrictions on takeover activity.
Many conglomerates were forced to divest considerably in order to survive after the 1960s merger wave and the 1980s wave saw the return of horizontal takeovers as firms elected to concentrate on areas in which they were most profitable and effective. Companies with inefficient managers somewhat undervalued thus making them an appealing target for acquisition. After the purchase process was completed, the ineffective managers will be removed and the overall efficiency of the market was improved. The use of debt in mergers and acquisitions was not a new innovation but became considerably more widespread during this wave than at any other time as leveraged buy-outs became popular forms of takeover\textsuperscript{12}.

This successful hostile bid opened the door for the major investment banks to make hostile takeover bids on behalf of raiders. In addition to hostile bids, this period was noted for junk bond financing and steadily increasing volume and size of Leveraged Buyouts (LBOs)\textsuperscript{13}. It ended in 1989-90 with collapse of the junk bond market, along with the collapse of the savings and loan banks and the serious loan portfolio and capital problems of the commercial banks.

1.1.5 FIFTH US MERGER WAVE (1992/1993 to 2000) - STRATEGIC RESTRUCTURING

The fifth merger wave followed the economic recession of 1990-91, and coincided with the presidency of Bill Clinton.

\textsuperscript{12} Vedpuriswar A.V. “Indian Management Managing the Risks in Mergers & Acquisitions”, 43.3, 17-24, 2004
\textsuperscript{13} Patrick A. Gagman “Mergers, Acquisitions and Corporate Restructuring”, John Wiley & Sons, Ltd. UK, 1999
It was the era of the mega-deal and ended with the bursting of the Millennium Bubble and the great scandals, like Enron, which gave rise to revolution in corporate governance that is continuing today.

During the fifth wave, companies of unprecedented size and global sweep were created on the assumption that size matters. High stock prices simultaneously emboldened companies and pressured them to do deals to maintain heady trading multiples. A global view of competition, in which companies must be big to compete, and a relatively restrained antitrust environment led to once-unthinkable combinations, such as the mergers of Citibank and Travelers, Chrysler and Daimler Benz, Exxon and Mobil, Boeing and McDonnell Douglas, AOL and Time Warner, and Vodafone and Mannesmann. From a modest $342 billion of deals in 1992, the worldwide volume of mergers marched steadily upward to $3.3 trillion worldwide in 2000. Nine out of ten largest deals in history took place in the three-year period i.e. 1998 to 2000. Most of the deals in 1990s were strategic negotiated deals and major parts were stock deals. The year 2000 started with the announcement of the record-setting $165 billion merger of Time Warner and America Online (AOL).

However, after a five-year burst of Telecommunications, Media and Technology (TMT) mergers, there was a dramatic slowdown in the TMT sector.

14. Merger Waves in the 19th, 20th & 21st Centuries Martin Lipton, the Davies Lecture Osgoode Hall Law School, York University 2006

It started with the collapse of the Internet stocks at the end of the first quarter followed by the earnings and financing problems of the telecoms. While merger activity in 2000 exceeded 1999 by a small amount at the end of the year and the bubble had burst.

The National Associations of Securities Dealers Automated Quotations Systems (NASDAQ) was down more than 50% from its high and many TMT stocks were down more than 50%. The junk bond market was almost banks tightened their lending standards and merger announcements were not well received in the equity markets. So the fifth wave ends have come to in 2001.

1.1.6 SIXTH US MERGER WAVE (2000 TO TILL DATE)

From a low of $1.2 trillion in 2002 the pace of merger activity has increased to what appears have been a total of $3.4 trillion by the end of 2006, due to the reasons like that encouragement by the governments of some countries like France, Italy and Russia to create strong national or global champions, globalization rise in commodity prices, availability of low-interest financing, hedge fund and tremendous growth of private equity funds with a simultaneous increase in Management-led Buyouts (MBOs). Analysis is required to evaluate the factors which influence merger activity. In this chapter, the historical perspective of M & A has been elaborate and different terminologies which are used as synonyms of M & A in respect of concept & process adoption has been cleared. The next chapter fully dedicated to explain all approaches of M & A in details

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1.2 MERGER & ACQUISITION PROCESS IN INDIA

After study the historical perspective of M&A, popular approaches of M&A, which is adopted in India, have been explained in this part in detail.

The main desire of the banks and financial institutions is to transform themselves into universal banks, corporate banking to industrial lending, investment banking to insurance. Indian banking industry its moving towards combination activities to achieve this goal for improving the structure & efficiency. Such activities could be Amalgamation, Consolidation, Merger, Acquisition and Takeover, which are becomes major force in the financial and economic environment. These different activities are generally known as synonyms each other but they are slightly different in respect of concept and process which can be understood by the following detail:

1.2.1 AMALGAMATION

Amalgamation term is used in the context of taxation which includes not only the merger of the existing company with another company but also the merger of two or more existing companies to form a third company17.

a. All the properties of the amalgamation company or companies immediately before the amalgamation, become the properties of the amalgamated company virtue of the amalgamation;
b. All the liabilities of the amalgamating company or companies immediately before the amalgamation, become the liabilities of the amalgamated company by virtue of the amalgamation; and

c. Shareholder holding not less than 75% in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by or by a nominee, for the amalgamated company or its subsidiary) become shareholders of the amalgamated company.

In brief amalgamation is acquiring a controlling interest by one organization in another organization. It is blending of two or more existing undertakings into one undertaking. The blended company loses its identity and form springs into a separate legal identity. The shareholders of each blending company become the shareholders in the company, which is to carry on the blending undertaking.

1.2.2 CONSOLIDATION

Consolidation is creation of two existing entities into a new unit. In this process two or more entities combine to form a new entity. Both the entities lose their identity and cease to exit and a new institution takes birth. The stakeholders of both the entities become stakeholders of new entity. The idea behind consolidation is that strong unit can absorb shocks and survive in difficult times.

1.2.3 TAKEOVER

Take over is the change in a corporation's controlling interest either through a friendly acquisition or a hostile acquisition. Takeover is different from merger in various ways like, the process of takeover, transaction involved, determination of exchange rate of the shares (Swap Ratio) etc. A hostile
takeover aims to replace the target company’s existing management and is usually attempted through a public tender offer. In “Hostile” takeover acquirer may not offer the proposal to acquire the target company’s undertaking, but may offer incentives to stockholders such as offering a price well above the current market value to gain controlling interest in it against the wishes of the management. They are also called raids or takeover raids\textsuperscript{18}.

1.2.4. MERGER

Merger is a combination of two or more companies into a single entity where one survives and others lose their corporate existence.

Oxford Dictionary explains merger and amalgamation in a same meaning. According to it, the expression “merger” or “amalgamation” means “combining of two commercial companies into one” and “merging of two or more business concerns into one” respectively.

Merger takes place when two business entities agree to go forward for a single new entity and the existing stakeholders of both involved institutions, retain shares in new entity\textsuperscript{19}. Such actions are commonly voluntarily and involve stock swap or cash payment to the target. Stock swap is often used as it allows the shareholders of the two companies to share the risk involved in the deal. A merger can resemble takeover but result is a new company name (often combining the names of the original companies) and in new branding.

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\textsuperscript{18} McKinsey & Co. “Merger & Acquisitions in the Indian Sector” 2004
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In some cases, combination could be called “merger” rather than an acquisition when is done purely for political or marketing reasons. In the merger, all assets, liabilities and stocks of one entity stand transferred to the transferee institution. Generally and broadly mergers may be classified into eight categories which are as follows:

**1.2.4.1. HORIZONTAL MERGER**

Horizontal merger takes place when the two merging companies produce similar product in the same industry. In other words it is a merger of two institutions, which have common product line, or render the same services and compete directly to each other. The merger is based on the assumption that it will provide economies of scale from the larger unit and will eliminate competition, duplication of facilities, reduction in cost increase in market segments and exercise of better control over market.

**1.2.4.2. VERTICAL MERGER**

Vertical merger occur when two firms combine each working at different stages in production of the same good. It takes place between two institutions having different operations either as forward or backward integration likes where one of them is an actual or potential supplier of goods or services to the other. The main objects are to ensure a source of supply, ready take off of the materials and outlet for products, gain control over product specifications, increase profitability by gaining margins of the previous supplier/distributor and improving efficiency.
1.2.4.3. CONGENERIC OR CONCENTRIC MERGER

Congeneric merger occur when two firms are in the same general industry, but they have no mutual buyer/customer or supplier relationship such as a merger between a bank and a leasing company.

1.2.4.4. CONGLOMERATE MERGER

Conglomerate merger takes place when the two firms operate in different industries. It is a merger of indifferent business output institutions. The merger entities have no common business lines. The entities opting for conglomerate merger control a range of activities in various industries requiring different skills in the specific functions. The purposes are to ensure utilization of financial resources, enlarge debt capacity and to reduce risk by diversification stability of earnings utilizing spare resources (whether capital or management) and to obtain benefit of economies of scale.

1.2.4.5. REVERSE MERGER

Reverse merger is a process in which a private company becomes a public company, bypassing the lengthy and complex process of an Initial Public Offering (IPO). A reverse merger occurs when a private company that has strong prospects and is eager to raise financing buys a publicly listed company, usually one with no business and limited assets\(^\text{20}\). It is generally used in the cases where a company having higher net worth is merging into a company having net worth lower than it like Merger of ICICI Ltd., with ICICI Bank the reverse merger.

\[^{20}\text{Parthasarathi Swami. “Merger of ICICI and ICICI Bank The Big Picture”, Professional Banker.11.5.22-25, 2002}\]
1.2.4.6. CIRCULAR MERGER

When the companies which are producing different products they seek amalgamation to share common distribution, research facilities and promoting market enlargement it called circular merger. The acquiring company gets benefit of economies of resource sharing and diversification

1.2.4.7. ACCRETIVE MERGER

Accretive mergers are those in which an acquiring company's Earnings Per Share (EPS) increases. In general way accretive merger occur when a company having high Price to Earnings Ratio (P/E)) acquires one which having a low P/E Ratio.

1.2.4.8. DILUTIVE MERGER

Dilutive mergers are the opposite of Accretive merger, whereby a company's Earning Per Share (EPS) decreases. The company when having low Price /Earning Ratio (P/E Ratio) acquires one with a high P/E Ratio.

1.2.5. ACQUISITION

In a general sense Acquisition is acquiring the ownership in the property. When one entity takes over another entity and establishes itself as a new owner, the purchase is called acquisition. In acquisition, one institution purchases bulk of stock of another organization and creating an uneven balance of ownership in the institution. Acquisition is similar as to big fish swallowing small fish. This can be affected by Agreement with the persons having majority of the stake purchase of shares in the open market to make takeover offer to the
general body of share holders purchased of new shares by private treaty Acquisition of share capital.

An acquisition which is known as a takeover or a buyout is the buying of one company (the ‘target’) by another. In the context of business combinations, an acquisition is the purchase by one company is controlling interest in the share capital of another existing company. It is usually referred to a purchase of a smaller firm by a larger one. Sometimes, however a smaller firm acquires management control of a larger or longer established company and keeps its name for the combined entity. This is called reverse takeover. Achieving acquisition success has proven to be very difficult, while various studies have showed that 50% of acquisitions were unsuccessful. Acquisition may be broadly classified into following three types:

1.2.5.1. HOSTILE ACQUISITION

When one organization without the consent of other organization acquires significant portion of the stocks or equities of other concern with a view to having control over the organization, called as ‘hostile’ take over.

1.2.5.2. FRIENDLY ACQUISITION

When one institution makes a financial proposal to the management and Board of other institution, which is to be acquired it is termed as “friendly” take over. The objective is to take over the institution with its consent. The proposal might involve the merger of two institutions or creation of parent/subsidiary relationship.

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This acquisition is done through the negotiations, willingness and consent of the acquiree company.

1.2.5.3. LEVERAGED BUYOUTS

The term “Leveraged Buy Out” signifies the acquisition of a business mostly with the help of debt capital or borrowed capital. The term “leverage” signifies the most significant and major use of debt or loan capital for financing the acquisition. On the other hand, the term of “Buy Out” signifies the gain of control of a majority of the equity of the target company. A typical LBO transaction involves the setup of an acquisition vehicle, termed as Special Purpose Vehicle (SPV), jointly funded by financial investor(s) and the management of the target company.22

1.2.6 DIFFERENT BETWEEN MERGER & ACQUISITION

M&A although are often uttered in the same breath and used as though they are synonymous, the terms merger and acquisition have slightly different meanings.

(a) The difference between M&A is only in the operational process. In merger, one entity gets merged with other loosing its identity by way share transactions/assets/liability transfers. In acquisition/tack over, one concern acquires the controlling interest of ownership of capital. However, the acquired organization retains its own individual identity.

(b) When one company takes over another and clearly established itself as the new owner, the purchase is called an acquisition. From a legal point of view, the target company ceases to exist, the buyer “swallows” the business and the buyer's stock continues to be traded. Whereas a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. It is referred as a “merger of equals”. Both companies' stocks are surrendered and new company stock is issued in its place.

(c) A purchase deal may also be called a merger when both CEOs agree that joining together is in the best interest of both of their companies. But when the deal is unfriendly when the target company does not want to be purchased, it is regarded as an acquisition.

(d) A transaction in which at least one firm ceases to exist and the assets of that firm are transferred to a surviving firm so that only one separate legal entity remains, it is called merger. A transaction in which both included firms survive but the acquirer increases its percentage ownership in the target, is called acquisition.
(e) The real difference lies in how the purchase is communicated to and received by the target company’s board of directors, employees and shareholders.

Merger is a way of changing and expanding the organization. By merging with a major competitor, an organization can dominate the market they compete in. The main purposes of merger and acquisition are to enhance market share, absorbing, eliminating or reducing competition, reducing operating cost, to fill the gap of expert and professional staff and to take advantage of tax benefits. Another object could be to acquire the technology of the competitor or of the target company. It has been observed that in the IT sector, where a number of companies have taken over other IT companies offering rich products or services developed by them, or to enhance capacity and to become major player both in domestic and global market like “Tata Steel” acquiring “Corus”, A V Birla Company –Hindalco taking over Novelis, a Canadian aluminum giant.

1.2.6 PROBLEMS IN THE PROCESS OF MERGER & ACQUISITION

These are various problems observed in the process of M&A during the study. Brief information about such problems are given below:

1.2.6.1 CUSTOMER SERVICE

Merger sometimes causes of disruptions in services to customers. It may cause of a permanent reduction in service to some customers, because the acquiring organization is less willing to or able to serve those customers that were acquired originally. It involves time in customer developing a sense of
belonging to the bank. There is also a fear that the attitude of the staff of absorbing bank towards the clients of merged bank may not be encouraging.

1.2.6.2 TECHNOLOGICAL ISSUES

There is no uniformity in technology adopting by banks for transfer. Different technologies is being used in different banks, which makes it difficult to integrate the system.

1.2.6.3 ATTITUINAL PROBLEMS

Merger of two entities involves merger of two different work cultures, work ethics and work ethos. Cultural integration takes time. Intermediate period creates attitudinal problems towards work and management. During the gestation period of integration there is lack of clarity in job responsibility.23

There is absence of teamwork and shared responsibilities for getting work done.

1.2.6.4 SYSTEMS AND PROCEDURE

Each bank has developed its own systems, set of rules, regulations and procedures, which have been embedded in its culture. Unless rules and regulations, systems and procedures are standardized, merger will lead to confusion amongst staff when go for merger.

1.2.6.5 UNIONS

Every bank has unions for protecting the interest of employees. Even there is employees’ representation in the board of the bank that power and supremacy enjoyed.

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23. ICAI-ARF Study Group “Procedure for Merger and Acquisition”, The Chartered Accountant, 1234-1240, 2004
Merger of two banks is trigger struggle for power amongst the leaders, which have to be adverse impact on the working of the bank, as member of one union may not cooperate with the members of other union.

1.2.7 ADVANTAGES BEHIND OF THE MERGE AND ACQUISITION

M&A activity is used as a tool by which acquiring firms seek improved financial performance. In this context the following motives may be considered.

1.2.7.1 SYNERGY

This refers to the fact that the combined company can often reduce its fixed costs by removing duplicate departments or operations, lowering the costs of the company relative to the same revenue stream, thus increasing profit margins.

1.2.7.2 INCREASED REVENUE OR MARKET SHARE

This assumes that the buyer will be absorbing a major competitor and thus increase its market power (by capturing increased market share) to set prices.

1.2.7.3 GROWTH

One of the fundamental motives, that attract merger, is impulsive growth. Organizations that intend to expand need to choose between organic growth and acquisition driven growth. Merger helps in diversifying the areas of activities. It helps in achieving optimum size of business and removes certain key factors and other bottlenecks of input supplies.
1.2.7.4 TAXATION

A profitable company can buy a loss maker to use the target's loss as their advantage by reducing their tax liability. In the US and many other countries, rules are in place to limit the ability of profitable companies to "shop" for loss making companies, limiting the tax motive of an acquiring company24.

1.2.7.5 GEOGRAPHICAL OR OTHER DIVERSIFICATION

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

1.2.7.6 MANAGERIAL EFFICIENCY

Some acquisitions are motivated by the belief that acquirer’s management can better manage the target’s resources

1.2.7.7 RESOURCE TRANSFER

Resources are unevenly distributed across firms and the interaction of target and acquiring firm resources can create value through either overcoming information asymmetry or by combining scarce resources25.

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1.2.7.8 VERTICAL INTEGRATION

Vertical integration occurs when an upstream and downstream firm merges. Double marginalization occurs when both the upstream and downstream firms have monopoly power. Each firm reduces output from the competitive level to the monopoly level, creating two deadweight losses. By merging the vertically integrated firm can collect one deadweight loss by setting the upstream firm’s output to the competitive level. This increases profits and consumer surplus.

1.2.7.9 MANAGER'S COMPENSATION

In the past, certain executive management teams had their payout based on the total amount of profit of the company, instead of the profit per share, which would give the team a perverse incentive to buy companies to increase the total profit while decreasing the profit per share (which hurts the owners of the company i.e. the shareholders); although some empirical studies show that compensation is linked to profitability rather than mere profits of the company.26

1.2.8 PLANNING PROCESS FOR MERGER AND ACQUISITION

The first and foremost thing, which an organization has to decide, is the purpose/ objectives behind the M&A. It has to visualize the problems that may occur and to prepare out the strategies well in advance to solve them. The objectives of merger and acquisition may be; to tap untapped market, to eliminate or reduce competition, to become financially strong,

to increase the size of balance sheet, to mate cultural integration, to procure an existing product and leverage, to avail tax benefit, to leverage on technology, to cut short the time involved in growth, to have managerial efficiency, to reduce operational cost. After that finally deciding about merger the organization has also to consider the factor of entity to be merged like; financial commitments of the entity, Assets and liabilities of the institution to be merged and its quality, book value of assets and shares, what is the history of business growth, market share of the entity to be merged and its reputation, quality of work force, their approach and commitment, Legal framework, organizational culture, the future prospects, the bottlenecks that may be faced, the strength, weakness, opportunities and threats, the technological platform whether is same or different, cost of merger or acquisition, if lost is to be met by borrowings, then repayment schedule, interest obligation etc., impact on market value of shares, the immediate gain or benefit etc.

If the ultimate analysis indicates that M&A will be beneficial the institution should proceed in that direction. The merger is not only a financial event. It is not of mortar and brick institutions, but it is of two cultures and it results in new reporting relationship. There are cultural differences in the entities, work ethics differ. There are difficulties of adequately blending culture and integration. So, the M&A of banks has the same difficulties as other corporate institutions. The staff of merged bank finds themselves in loss.

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They crave for identity and recognition. There is a threat to the seniority of the staff of the merged bank. In some banks there were fast promotions and in some late. Even problems of figment of salary and grades arise.

Employees fear relocation and transfer. They lose self-confidence and mistrust develops. A bank taking over another bank has to project that the staff of amalgamated bank is welcomed. They are to be given psychological support. Those in command should help the staff of merged bank in giving them briefing about culture of the bank and should show confidence in them. The staff of merged bank should be properly treated. They should not be treated as second grade citizens in the merged institution. There should not be any preconceived notion, lest there may be far reacting consequences and the whole object of merger will suffer.

Before going to study the present scenario of M&A in banking sector, it is necessary to take an overview of genesis of such phenomenon. The next part 1.3 of the study devoted to explain the same.
1.3 GENESIS OF M & A IN BANKING SECTOR IN INDIA

It has been explained that, India has a great history of M&A of mega companies; Indian banking sector is also not untouched form M&A waves. In India it was only in 20th century that the concept of takeover took birth but even then the concept of hostile takeovers was not known to anybody. This concept emerged when Swaraj Paul started efforts to takeover Escorts Ltd. and DCM Ltd. He was the first hostile raider among the raiders of Indian stock market. Although Paul could not succeed in his efforts because the incumbents fend him off by using the technicalities of rules governing non-residents but this created a need for a takeover code.

During 1950 to 1960 there were instances of private sector banks, which had to be rescued or closed down because they had very low capital and were mostly operating with other people’s money. In 1960, the failure of Palai Central Bank and Laxmi Bank led to loss of confidence in the banking system as a whole.28 So mergers were initiated to avoid losses to depositors and maintain confidence in the system. In 1961, the Banking Companies (Amendment) Act empowered RBI to formulate and carry out a scheme for the reconstitution and compulsory amalgamation of sub-standard banks with well-managed ones. Consequently, out of 42 banks which were granted freeze, 22 were amalgamated with other banks, one was allowed to go into voluntary liquidation, one to amalgamate voluntarily with another bank, three were ordered to be wound up and the freeze on three was allowed to lapse.

In India, mergers have been used to bail out weak banks till the Narasimham Committee-II (See Appendix No. II) discouraged this practice. Since the mid 1980s, several private banks had to be rescued through mergers with public sector banks. The merger of the loss making New Bank of India with the profitable Punjab National Bank was the first instance of merger of two public sector commercial banks.

As far as the merger activity in banking sector is concerned, it is used to merger of sick and weak banks with a healthy bank. The only purpose was to save the sick bank and its customers from the liberalization problems and process as of the government also changed the policy. The merger of New Bank of India with Punjab National Bank was a bad experience and has not served any purpose.\textsuperscript{29} As a result of this merger PNB had to face lot of court litigations and also incurred a loss in the year 1996, which was unusual in the history of the Bank.

With the liberalization policies of the government, many private banks came into existence. In 1995 the government also removed entry barriers in the banking sector\textsuperscript{30}. As a result of this good number of technology savvy, customer friendly banks have started operating in India. In order to survive in the competition and get a market share these new banks started offering innovative and attractive products with the help of their technology.

\begin{itemize}
\item \textsuperscript{29} ICAI-ARF Study Group. “M & As Dominate Global Banking”, Professional Banker, 1.3.24-25, 2001
\item \textsuperscript{30} Miklos Dietz & Cornelius Walter “What’s in store for global banking” McKinsey’s and Company 2004
\end{itemize}
Some of the services like mobile banking, Internet banking, tele-banking, online share trading services, depository services, anywhere banking, anytime banking which are offered by these new generation banks were never thought of about a decade ago in India. These services have given an edge to these banks over the public sector banks.

The public sector banks also realized the need of the hour and started using technology in a big way. These banks are also collaborating with the new generation banks in offering certain services and getting mutually benefited. Some of the new generation banks like HDFC Bank and ICICI Bank have started looking for external growth by way of merger route. These banks have started looking for healthy banks rather than sick and weak banks for acquisition. The main criteria while selecting target banks was the synergy benefits like market growth, market presence, effect on profit etc.

1.3.2 MERGER & ACQUISITION IN BANKING SECTOR

Now days, Organizations, big or small are looking for organic and inorganic growth banks are not untouched from this competition so to expand the size and capture the larger share in the business pie, technological innovations coupled with deregulation have prompted a wave of mergers in the banking industry throughout the world. The industry has realized that competition can be faced by cutting costs, improving service, by launching new innovative products and by expanding size.

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Growing institutions are looking out to grab every opportunity for expanding market. Indian banking industry, which was hither to operating in protective regulations, has become most active players in mergers. Expansion can either be done by exploring new markets or by merging with competitors or taking them over. Since the gestation period involved in starting a new product line and making a dent in the virgin market is long, the best option is procuring control over similar other institution by merger or leverage buyout to cut short the gestation period and cost. Merger, Amalgamation, Combination, Acquisition and Takeover are different routes for arriving at this goal for controlling over one or multiple institutions.

Now public sector commercial banks are themselves in need of restructuring so it may be more efficient to close down unviable bank. However, the recent merger of banks in private sector i.e. HDFC Bank with Times Bank (1999) and ICICI Bank with Bank of Madura (2001), could herald a welcome trend as it is driven by commercial considerations.\(^\text{32}\) With such mergers among banks, banking system has started looking for strategies to grow faster, impart strength and stability to the banks. The purpose of banks, who interested for merge with their counterparts was not only to become big but also gain entry into the new markets. As a result of these mergers, banks are able to use their full capacities and avoid unnecessary duplication of efforts.

\(^{32}\) Sivaram. Y. G. “ICICI Bank Merger”, Professional Banker II.11.32-36, 2002
Some important mergers of banks are as follows:

1. Times Bank merged with HDFC Bank, Bank of Madura Merged with ICICI Bank,
3. Subsequently the RBI allowed Development Financial Institutions also to merge with banks on the recommendation of Khan Group. As a result of this ICICI Limited merged itself with ICICI Bank and
4. IFCI Limited is being merged with the Punjab National Bank.

It was the beginning of new trend when Times Bank merged with HDFC Bank in 1999. After the merger, HDFC Bank emerged as the largest private sector bank in India and got customer base of Times Bank, its infrastructure, and branch network. This merger had also product harmonization effect, as HDFC Bank had Visa network and Times Bank had Master card network. Following HDFC, ICICI merged Bank of Madura into it too. ICICI Bank was looking for a bank which could be merged into it and which can provide some post merger synergic benefits. ICICI Bank was considered two possible banks, Federal Bank and the Bank of Madura and finally Bank of Madura for its better technological edge, attractive business per employee, and its vast branch network in Southern India. At the time of merger, the Bank of Madura had 263 branches.33

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On the other hand, in bank mergers activities the merger of Developmental Financial Institutions (DFIs) with the Banks could be taken for consideration. Some of the examples are; merger of ICICI Ltd. with ICICI Bank, and the proposed merger of IFCI Ltd. with Punjab National Bank. This trend is a fall out of the recommendations of Khan Group and Narasimham Committee-II.

The above discussion has been made for private sector bank only like HDFC Bank, ICICI Bank, Bank of Madura and Federal Bank etc., but merger and acquisition is very frequently followed by public sector bank also. The analytical study of public sector bank regarding merger and acquisition has become a necessity, especially after the recommendation of Khan Group and Narasimham Committee-II.

Bank M&A is a scheme for the reconstitution and compulsory amalgamation of sub-standard banks with well-managed ones. Consequently, out of 42 banks which were granted moratoria, 22 were amalgamated with other banks, one was allowed to go into voluntary liquidation, one to amalgamate voluntarily with another bank, three were ordered to be wound up and the moratorium on three was allowed to lapse.34

In India, mergers have been used to bail out weak banks till the Narasimham Committee-II discouraged this practice. For instance, since the

mid-1980s, several private banks had to be rescued through mergers with public sector banks.

The merger efforts in the Indian banking sector can be broadly placed, as per the nature of the entities involved and of the mergers, into following categories:-

1.3.2. VOLUNTARY AMALGAMATION “BETWEEN” PRIVATE SECTOR BANKS

The procedure for voluntary amalgamation of two banking companies is laid down under Section 44-A of the Banking Regulation Act, 1949 (the Act). After the two banking companies have passed the necessary resolution proposing the amalgamation of one bank with another bank, in their general meetings, by a majority in number representing two-thirds in value of the shareholding of each of the two banking companies, such resolution containing the scheme of amalgamation is submitted to the RBI for its sanction. If the scheme is sanctioned by the RBI, by an order in writing, it becomes binding not only on the banking companies concerned, but also on all their shareholders. Based on the recommendations of the Working Group to evolve the guidelines for voluntary merger between banking companies RBI had issued guidelines in May 2005 laying down various requirements for the process of such mergers including determination of the swap ratio, disclosures, the stages at which Boards will get involved in the merger process, etc.

While amalgamations are normally decided on business considerations (such as the need for increasing the market share, synergies in the operations of businesses, acquisition of a business unit or segment, etc.), the policy objective
of the RBI, is to ensure that considerations like sound rationale for the amalgamation, the systemic benefits and the advantage accruing to the residual entity are evaluated in detail. While sanctioning the scheme of amalgamation, the RBI, takes into account the financial health of the two banking companies to ensure, *inter alia*, that after the amalgamation, the new entity will emerge as a much stronger bank. The experience of the RBI, has been, by and large, satisfactory in approving the schemes of amalgamation of the private sector banks in the recent past. There have been five voluntary amalgamations between the private sector banks so far while one amalgamation “between” two private sector banks (Ganesh Bank of Kurundwad and the Federal Bank) was induced by the RBI, in the interest of the depositors of the former.\(^{35}\)

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1.3.2.2 COMPULSORY AMALGAMATION OF A PRIVATE SECTOR BANK

Compulsory amalgamations are induced or forced by the RBI, under Section 45 of the Act, in public interest, or in the interest of the depositors of a distressed bank, or to secure proper management of a banking company, or in the interest of the banking system. In the case of a banking company in financial distress, which has been placed under the order of moratorium, under Section 45(2) of the Act, on an application made by the RBI, to the Central Government, the RBI can, for the foregoing reasons, frame a scheme of amalgamation for transferring the assets and liabilities of such distressed bank to a much better and stronger bank. Such a scheme framed by the RBI is required to be sent to the banking companies concerned, for their suggestions or objections, including those from the depositors, shareholders and others. After consideration the same, the RBI sends the final scheme of amalgamation to the Central Government for sanction and notification in the official gazette. The notification issued for compulsory amalgamation under Section 45 of the Act is also required to be placed before the two Houses of Parliament.36 Most of the amalgamations of the private sector banks in the post-nationalization era were induced by the RBI, in the larger public interest, under Section 45 of the Act. In all these cases, the weak or financially distressed banks were amalgamated with the healthy public sector banks.

The mergers of many weak private sector banks with the healthy ones have brought us to a creditable stage today when not a single private sector bank in the country has the capital adequacy ratio of less than the minimum regulatory requirement of nine per cent.

3.2.3 MERGER OF PUBLIC SECTOR BANKS

The statutory framework for the amalgamation of the public sector banks, viz., the nationalized banks, State Bank of India and its subsidiary banks, is, however, quite different since the foregoing provisions of the B R Act do not apply to them. As regards the nationalized banks, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980, or the Bank Nationalization Acts authorize the Central Government, under Section 9(1)(c), to prepare or make, after consultation with the RBI, a scheme, inter alia, for transfer of undertaking of a ‘corresponding new bank’ (i.e., a nationalized bank) to another ‘corresponding new bank’ or for transfer of whole or part of any banking institution to a corresponding new bank. Unlike the sanction of the schemes by the Reserve Bank under Section 44-A of the B R Act, the scheme framed by the Central Government is required, under Section 9(6) of the Bank Nationalization Acts, to be placed before both Houses of Parliament. 37 Under this procedure, the lone merger that has happened so far was the amalgamation of the erstwhile New Bank of India with the Punjab National Bank, occasioned by the weak financials of the former.

37. Reserve Bank of India Act, 1934
However, the post merger experience was considered to be not altogether satisfactory on account of the problems in effective integration of the two entities.

As regards the State Bank of India (SBI), the SBI Act, 1955, empowers the State Bank to acquire, with the consent of the management of any banking institution (which would also include a banking company), the business, including the assets and liabilities of any bank. Under this provision, what is required is the consent of the bank sought to be acquired, the approval of the Reserve Bank and the sanction of such acquisition by the Central Government. Several private sector banks were acquired by the State Bank of India following this route. However, so far, no acquisition of a public sector bank has materialized under this procedure. Similar provisions also exist in respect of the subsidiary banks of the SBI. It would thus be seen that there are sufficient enabling statutory provisions in the existing statutes governing the public sector banks to encourage and promote consolidation even within the public sector banks through the merger and amalgamation route, and the procedure to be followed for the purpose has also been statutorily prescribed.

3.2.4 MERGER BETWEEN A PRIVATE SECTOR BANK AND AN NBFC

As per statutory requirements, banks are required that where an NBFC is proposed to be amalgamated with a banking company, the banking company should obtain the approval of the Reserve Bank after the scheme of amalgamation is approved by its Board but before it is submitted to the High
Court for approval. In pursuance of the recommendations of the Joint Parliamentary Committee (JPC), a Working Group was constituted by RBI to evolve guidelines for voluntary merger of banking companies. Based on the recommendations of the Group and in consultation with the Government, it was proposed in the Annual Policy Statement of April 2005 to issue guidelines on merger and amalgamation between private sector banks and with NBFCs. The guidelines were to cover: process of merger proposal, determination of swap ratios, disclosures, norms for buying / selling of shares by promoters before and during the process of merger and the Board’s involvement in the merger process. The principles underlying these guidelines were also to be applicable, as appropriate, to public sector banks, subject to relevant legislation.

Accordingly, the guidelines were issued in May 2005. Here have been a few instances of mergers of the NBFCs with the private sector banks. The first such merger occurred in May 1999 when the RBI approved the merger of 38

(a) Twentieth Century Finance Corporation Ltd., an NBFC, with Centurion Bank Ltd

(b) in 2003, the merger of IndusInd Enterprises & Finance Ltd. (IEFL), one of the promoters of the IndusInd Bank Ltd., with the bank was also approved;

(c) Kotak Mahindra Finance Ltd., an NBFC, was converted into Kotak Mahindra Bank Limited, by amending its Memorandum and

38. Reserve Bank of India Act, 1934
Articles of Association, and was granted a banking licence by the RBI in February 2003;

(d) In June 2004, the merger of Ashok Leyland Finance Ltd., an NBFC, with the IndusInd Bank Ltd. was approved by the RBI.

Besides, certain banks also have significant stakes in some of the NBFCs. For instance, the Development Bank of Singapore (DBS) has a major stake in Cholamandalam Investment & Finance Ltd. while the Barclays Bank has a major holding in Rank Investments Ltd.

**3.2.5 MERGER OF A HOUSING FINANCE SUBSIDIARY WITH THE PARENT PUBLIC SECTOR BANK**

During April 2002 and March 2007, the merger of the housing finance subsidiaries of Andhra Bank, Vijaya Bank, Corporation Bank and Bank of Baroda with the respective parent banks was approved by the RBI. The mergers were triggered primarily by the rising cost of funds of the housing finance entities, which adversely impacted the viability of their business models.

**TABLE NO. 1**

**BANKS MERGERS OR AMALGAMATIONS SINCE INDEPENDENCE**

<table>
<thead>
<tr>
<th>S. No</th>
<th>Year</th>
<th>Merger Entity</th>
<th>Merged Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1951</td>
<td>Bharat Bank</td>
<td>Punjab National Bank</td>
</tr>
<tr>
<td>2</td>
<td>1956</td>
<td>Mercantile Bank of Hyderabad</td>
<td>Bank of Hyderabad</td>
</tr>
<tr>
<td>3</td>
<td>1958</td>
<td>G. Raghumathmul Bank</td>
<td>Canara Bank</td>
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<tr>
<td>4</td>
<td>1959</td>
<td>Hind Bank</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>5</td>
<td>1959</td>
<td>Indo-Mercantile Bank</td>
<td>State Bank of Travancore</td>
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<tr>
<td>6</td>
<td>1960</td>
<td>Indo Commercial Bank</td>
<td>Punjab National Bank</td>
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<tr>
<td>No.</td>
<td>Year</td>
<td>Bank Name</td>
<td>Bank Name</td>
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<tr>
<td>7</td>
<td>1960</td>
<td>Kulitali Bank</td>
<td>Indian Overseas Bank</td>
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<tr>
<td>8</td>
<td>1960</td>
<td>Mannargudi Bank</td>
<td>Indian Bank</td>
</tr>
<tr>
<td>9</td>
<td>1960</td>
<td>Salem Bank</td>
<td>Indian Bank</td>
</tr>
<tr>
<td>10</td>
<td>1961</td>
<td>Travancore Forward Bank</td>
<td>State Bank of Travancore</td>
</tr>
<tr>
<td>11</td>
<td>1961</td>
<td>Kottayam Orient Bank</td>
<td>State Bank of Travancore</td>
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<tr>
<td>12</td>
<td>1961</td>
<td>Bank of New India</td>
<td>State Bank of Travancore</td>
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<tr>
<td>13</td>
<td>1961</td>
<td>New Citizen bank of India</td>
<td>Bank of Baroda</td>
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<td>14</td>
<td>1961</td>
<td>Universal Bank of India</td>
<td>Punjab National Bank</td>
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<tr>
<td>15</td>
<td>1963</td>
<td>Surat Banking corporation</td>
<td>Bank of Baroda</td>
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<td>16</td>
<td>1963</td>
<td>Vasudeva Vilasom Bank</td>
<td>State Bank of Travancore</td>
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<tr>
<td>17</td>
<td>1964</td>
<td>Umbergaon People’s Bank</td>
<td>Bank of Baroda</td>
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<tr>
<td>18</td>
<td>1964</td>
<td>Tamil Nadu Central Bank</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>19</td>
<td>1964</td>
<td>Chitradurga Bank</td>
<td>Karnataka Bank</td>
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<td>1964</td>
<td>Cochin Nayar Bank</td>
<td>State Bank of Travancore</td>
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<td>1964</td>
<td>Latin Christian bank</td>
<td>State Bank of Travancore</td>
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<td>1964</td>
<td>Champakulam Catholic Bank</td>
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<td>23</td>
<td>1969</td>
<td>Bank of Bihar Ltd.</td>
<td>State Bank of India</td>
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<td>24</td>
<td>1970</td>
<td>National Bank of Lahore Ltd.</td>
<td>State Bank of India</td>
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<tr>
<td>25</td>
<td>1984/85</td>
<td>Lakshmi Commercial Bank</td>
<td>Canara Bank</td>
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<tr>
<td>26</td>
<td>1985</td>
<td>Bank of Cochin Ltd.</td>
<td>State Bank of India</td>
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<td>27</td>
<td>1985</td>
<td>The Miraj State bank Ltd.</td>
<td>Union Bank of India</td>
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<td>28</td>
<td>1986</td>
<td>Paravur Central bank Ltd.</td>
<td>Bank of India</td>
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<td>29</td>
<td>1986</td>
<td>Hinduatan Commercial Bank</td>
<td>Punjab National Bank</td>
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<td>30</td>
<td>1987/88</td>
<td>Trader’s bank Ltd</td>
<td>Bank of Baroda</td>
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<td>31</td>
<td>1987-88</td>
<td>The Bank of Thanjavur</td>
<td>Indian Bank</td>
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<tr>
<td>32</td>
<td>1989-90</td>
<td>United Industrial Bank Ltd.</td>
<td>Allahabad Bank</td>
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<td>33</td>
<td>1989-90</td>
<td>Bank of Tamilnadu</td>
<td>Indian Overseas Bank</td>
</tr>
<tr>
<td>34</td>
<td>1990</td>
<td>Prubanchal Bank</td>
<td>Central Bank of India</td>
</tr>
<tr>
<td>36</td>
<td>1993</td>
<td>BCCI (Mumbai)</td>
<td>State Bank of India</td>
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<tr>
<td>35</td>
<td>1994</td>
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<td>Bank Name</td>
<td>Associated Bank</td>
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<tr>
<td>37</td>
<td>1994</td>
<td>Bank of Karad Ltd.</td>
<td>Bank of India</td>
</tr>
<tr>
<td>38</td>
<td>1995</td>
<td>Kasinath Seth bank</td>
<td>State Bank of India</td>
</tr>
<tr>
<td>39</td>
<td>1997</td>
<td>Barl Doab Bank</td>
<td>Oriental Bank of Commerce</td>
</tr>
<tr>
<td>40</td>
<td>1997</td>
<td>Punjab Co-Operative Bank</td>
<td>Oriental Bank of Commerce</td>
</tr>
<tr>
<td>41</td>
<td>1998</td>
<td>20&lt;sup&gt;th&lt;/sup&gt; Century Finance</td>
<td>Centurion Bank</td>
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<tr>
<td>42</td>
<td>1999</td>
<td>Bareilly Corporation Bank</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>43</td>
<td>1999</td>
<td>Sikkim Bank</td>
<td>Union Bank of India</td>
</tr>
<tr>
<td>44</td>
<td>1999</td>
<td>Twentieth Century Finance Corporation Ltd. (An NBFC)</td>
<td>Centurion Bank</td>
</tr>
<tr>
<td>45</td>
<td>2000</td>
<td>Times Bank</td>
<td>HDFC Bank Ltd.</td>
</tr>
<tr>
<td>46</td>
<td>2001</td>
<td>Bank of Madura</td>
<td>ICICI Bank Ltd.</td>
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<tr>
<td>47</td>
<td>2002</td>
<td>ICICI Ltd.</td>
<td>ICICI Bank Ltd.</td>
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<tr>
<td>48</td>
<td>2002</td>
<td>Benares State Bank Ltd.</td>
<td>Bank of Baroda</td>
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<td>49</td>
<td>2003</td>
<td>Nedungadi Bank</td>
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<td>2003</td>
<td>IndusInd Enterprises &amp; Finance Ltd. (An NBFC)</td>
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<td>2003</td>
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<td>52</td>
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<td>2004</td>
<td>South Gujarat Local Area Bank Ltd.</td>
<td>Bank of Baroda</td>
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<td>54</td>
<td>2004</td>
<td>Global Trust Bank Ltd.</td>
<td>Oriental Bank of Commerce</td>
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<td>55</td>
<td>2005</td>
<td>IDBI Bank Ltd.</td>
<td>IDBI Ltd.</td>
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<td>56</td>
<td>2005</td>
<td>Bank of Punjab Ltd.</td>
<td>Centurion Bank Ltd.</td>
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<td>57</td>
<td>2006</td>
<td>Ganesh Bank of Kurundwad Ltd.</td>
<td>Federal Bank Ltd.</td>
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<tr>
<td>58</td>
<td>2006</td>
<td>United Western Bank Ltd.</td>
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<tr>
<td>59</td>
<td>2006</td>
<td>State Bank of Bikaner &amp; Jaipur</td>
<td>MGB Gramin Bank</td>
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<tr>
<td>60</td>
<td>2007</td>
<td>Bharat Overseas Bank Ltd.</td>
<td>Indian Overseas Bank</td>
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<tr>
<td>61</td>
<td>2007</td>
<td>Sangli Bank Ltd.</td>
<td>ICICI Bank Ltd.</td>
</tr>
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</table>
With economic reforms and opening up of the economy, like other sectors, banking sector also saw a lot of changes. Two major changes are worth mentioning. They are increased competition, and falling interest rates. There has been a decline in the interest rates in the last decade world wide. As result, the banks have been under tremendous pressure. The interest rates both on the deposits and on the loans have come down drastically. The ‘spread’, which was available, the banks weak down and banks have started searching for cost reduction and market enhancing strategies. Use of technology in their operations has come up as an immediate strategy and banks have started using technology in a big way. This has resulted in saving of salary expenses, which used to be a major part of the banks’ expenditure. In addition to this, banks have started looking for strategies which allow the banks to grow faster\textsuperscript{39}.

One of the options before the banks was to merge their counterparts in it and become not only big but also gain entry into the new markets.

\textsuperscript{39} “Banking in Future: Flexibility, Autonomy and Regulatory Refocus”, Valedictory Address at Conference of Chairmen of Banks at NIBM, Pune. 2000

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<th></th>
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<tr>
<td>63</td>
<td>2008</td>
<td>Centurion Bank of Punjab Ltd</td>
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<td>64</td>
<td>2008</td>
<td>State Bank of Saurashtra</td>
<td>State Bank of India</td>
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<td>65</td>
<td>2009</td>
<td>State Bank of Indour</td>
<td>State Bank of India</td>
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<tr>
<td>66</td>
<td>2011</td>
<td>Bank of Rajasthan</td>
<td>ICICI Bank Ltd.</td>
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</table>

Source: Based on information collected from various sources by researcher.
As a result of these mergers, banks are able to use their full capacities and avoid unnecessary duplication of efforts. Some of the banks which merged in recent times are as Times Bank merged with HDFC Bank, Bank of Madura Merged with ICICI Bank, Nedungadi Bank Merged with Punjab National Bank. Subsequently the RBI allowed Development Financial Institutions also to merge with banks on the recommendation of Khan Group. As a result of this ICICI Limited merged it self with ICICI Bank and IFCI Limited is being merged with the Punjab National Bank. As far as the merger activity in banking sector is concerned, there used to be mostly merger of sick and weak banks with a healthy bank. The only purpose of this type of mergers was to save the sick bank and its customers from the problems.

With the process of liberalization the thinking of the government also changed. We do not see much of mergers of this type now-a-days. The merger of New Bank of India with Punjab National Bank was a bad experience. This has not served any purpose. As a result of the merger, PNB had to face lot of court litigations and also incurred a loss in the year 1996 which was unusual in the history of the Bank. With the liberalization policies of the government, many private banks came into existence. In 1995 the government also removed entry barriers in the banking sector.

As a result of this good number of technology savvy, customer friendly banks have started operating in India. In order to survive in the competition and get a market share these new banks started offering innovative and attractive products with the help of their technology. Some of the services like mobile
banking, internet banking, tele-banking, online share trading services, depository services, anywhere banking, anytime banking which are offered by these new generation banks were never thought of about a decade ago in India. These services have given an edge to these banks over the public sector banks. The public sector banks also realized the need of the hour and started using technology in a big way. These banks are also collaborating with the new generation banks in offering certain services and getting mutually benefited.\textsuperscript{40}

Some of the new generation banks like HDFC Bank and ICICI Bank have started looking for external growth by way of merger route. These banks have started looking for healthy banks rather than sick and weak banks for acquisition. The main criteria while selecting target bank was synergy benefits like market growth, market presence, effect on profit and so on. It can be said merger of Times Bank with HDFC Bank in 1999 is a beginning of this new trend. HDFC Bank emerged as the largest private sector bank in India after the merger. By this merger HDFC Bank got the customer base of Times Bank, its infrastructure, and branch network. This merger also had product harmonization effect, as HDFC Bank had Visa network and Times Bank had Master card network. Following HDFC, ICICI also merged Bank of Madura into it. ICICI Bank was looking for a bank which could be merged into it and which could provide some synergic benefits after the merger.

\textsuperscript{40} Varadhana Pawaskar “Effect of mergers on corporate performance in India”, Viklpa: The journal for Decision Makers, 19-32, 2001
ICICI Bank had considered two possible banks, Federal Bank and the Bank of Madura and finally went for Bank of Madura, considering its better technological edge, attractive business per employee, and its vast branch network in Southern India. At the time of merger the Bank of Madura had 263 branches. Another trend which is taking place in Bank Mergers is merging of Developmental Financial Institutions (DFIs) with the Banks. Some of the examples are; merger of ICICI Ltd., with ICICI Bank, and the proposed merger of IFCI Ltd. with Punjab National Bank. This trend is a fall out of the recommendations of Khan Group and Narasimham Committee-II.

India is fast emerging as an economic power. It requires two-three banks that can be termed global. Indian banks do not enjoy a global status. It is facing the crisis of global identity. Big banks have edge over small ones. They can raise money at a cheaper rate and can offer competitive lending rates. Their assets are more diversified, both sector-wise and geographically. Therefore, it is less risky. Their risk absorption capacity is high. They are also in a position to offer wide range of services for which fees can be charged. This reduces their dependence on the net interest income.

In the post Basel II (See Appendix No. III) era, banks have to enhance risk taking abilities, which can be done through mergers, acquisitions and strategic alliances. Hence, there will be more often banking consolidation.
3.3 ADVANTAGES OF BANK MERGERS

The merger of banks will not give instant results. However, once the incubation period is over and the bank is back on the track, the mergers of banks result into –

3.3.1 FINANCIAL CAPABILITY

Amalgamation will enable banks to have a stronger financial and operational structure and will enable it to face global competition. It will also help banks in greater resource/deposit mobilization and profitable utilization of surplus funds.

3.3.2 BRANCH NETWORK

With the merger, existence of two branches in the same locality may not be necessary. Closure of branches in the near by vicinity will reduce overheads. Merger helps in rationalization of branch and staff. It helps in increasing network of branches and enhances geographical coverage.

3.3.3 CUSTOMER BASE

The merger results into larger customer base, offering of different banking and financial services and products and also facilitating cross selling of products and services. However, it has to be ensured that the customers of the branches that are being merged with the nearby branches are not put to inconvenience as this may result in customers migrating to other banks.

3.3.4 COST REDUCTION

Merger would also result into reduction in operative cost to a greater extent viz. payment of annual maintenance charges for software as well as
numerous other items such as servers, computers, machinery, equipment etc. It would also help in closing down unviable branches of the bank in the same vicinity. It would also result into reduction in administrative cost by closing down controlling offices i.e. Regional and Zonal offices.

3.3.5 EFFECTIVE STAFF DEPLOYMENT

With the merger, the bank will be in a position to pool staff having expertise in different operational areas whose services could be utilized profitably. Surplus staff can be redeployed fruitfully for business development, marketing of assets and liability products, fee-based services, recovery, and reducing Non Performing Assets.

3.3.6 TECHNOLOGICAL CHALLENGES

Merger of highly technological bank with lesser technological bank helps in quick introduction of technology in the merged bank. Merger would enhance the utility and viability of ATMs and increase the number of transactions, as there will be more availability of ATMs to customers.

3.4 DISADVANTAGES OF BANK MERGERS

The first and foremost disadvantage of merger is that the top executives of the acquired /merged bank are shown the door of the bank or such situations are created that they that feel suffocated and are compelled to leave the bank. This is what was experienced from the mergers that took place in the recent past in the banking industry in India. People occupying pretty senior hierarchical position were fixed at a much lower grade without regard to their
experience and length of service, or they were side tracked by assigning unimportant task, or were demoralized by derogatory remarks.

This gives wrong impression to the staff of the merged bank. They feel alienated and their productivity and enthusiasm gets a setback, in the process they become unproductive.
1. 4. OBJECTIVES OF STUDY

1. To Study the evolution of Mergers & Acquisitions in India.
2. To study the recent trends of Mergers & Acquisitions in banking sector of India.
3. To examine the government policies and regulation for banks about Merger & Acquisition.
4. To analyze the trends & growth of Mergers & Acquisitions in Public Sector Banks in India.
5. To analysis the impact of Mergers & Acquisitions on the profitability, financial position and share holders benefits of public sector banks.
1.5 HYPOTHESIS OF THE STUDY

It is considered that M&A is more important in public sector banks. M&A provides profitability and other benefits to the concerned banks and for making leader and takes competitive advantages of global competitive environment, banks should go for M&A. Main hypothesis is that the public sector banks can get many advantages from M&A process in terms of profitability, for making strong financial position and shareholder's benefits in this competitive edge.

The present study tests the following three hypotheses.

**HYPOTHESIS 1**, The merger and acquisition activity improves significantly the financial performances of public sector banks.

**HYPOTHESIS 2**, The merger and acquisition activity increases significantly the value of public sector banks.

**HYPOTHESIS 3**, The merger and acquisition activity increases significantly the value of shares of public sector banks helps in providing more benefits to shareholders.
1.6 REVIEW OF LITERATURES

Khemani R.S. (1990) states that there are multiple reasons, motives, economic forces and institutional factors that can be taken together or in isolation, which influence corporate decisions to engage in M&As. It can be assumed that these reasons and motivations have enhanced corporate profitability as the ultimate, long-term objective. It seems reasonable to assume that, even if this is not always the case, the ultimate concern of corporate managers who make acquisitions, regardless of their motives at the outset, is increasing long-term profit. However, this is affected by so many other factors that it can become very difficult to make isolated statistical measurements of the effect of M&As on profit.

The study entitled “The New Economic Package and the Agenda for Restructuring the Financial Sector” by Raghunathan V. et. al (1991) discusses the emerging issues relating to the New Economic Policy on the financial sector. This article strongly argues that agenda for restructuring the financial sector includes the integration of various financial markets, new instruments required for hedging risk, measures for investor protection, appropriate legislation, relevant tax reforms, development of financial infrastructure and the roles of regulatory agencies.

An empirical study entitled “Takeovers as a Strategy of Turnaround” by Ravi Sanker and Rao K.V. (1998) analyzed the implications of takeovers from the financial point of view with the help of certain parameters like liquidity, leverage, profitability and other parameters. They observed that if a sick
company is taken over by a good management and makes serious attempts, it is possible to turn it around successfully.

Jayakumar S. (1999) in his dissertation entitled “Mergers and Acquisition: An Evaluation Study” examined the relative benefits expected by a corporate enterprise when they adopt mergers and acquisitions as a strategy. The author studied how far and how fast the security prices reacted to announcement of merger.

The working paper entitled “An Analysis of Mergers in the Private Corporate Sector in India” submitted by Beena P.L. (2000) attempted to analyze the significance of mergers and its characteristics. The paper suggested acceleration of the merger movement in the early 1990s especially mergers between firms belonging to the same business group or house with similar product lines.

The dissertation, “An Evaluation of Mergers and Acquisitions” by Canagavally. R. (2000) measured the performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigated the share prices of sample companies in response to announcement of merger.

Shyamji Agarwal (2000) in his article entitled “Mergers and Acquisitions of Commercial Banks in Indian Context” attempted to examine trends of bank consolidation and assessed their relevance in the Indian context. The paper made certain specific analysis of banking institutions in India, which provides useful inputs in the restructuring process. Further the paper discussed
a wide range of perspectives and analytical inputs, which facilitate the policy formulation on bank restructuring.

Prasad. P. S. R. and Sreenivas V. (2001) in their study “Mergers of Indian Banks – Issues Involved” highlighted the need for mergers in banking industry and discussed various aspects involved in mergers of Indian banks. The authors remarked that merger of banks is still viewed as the only alternative left to avoid other hard choices. They rightly stressed that the various issues are to be examined by the planners and supervisors of the merger process to have a smooth transition.

In the words of Bhatnagar (2001) in his paper “In Merger Lies the Salvation” globalization is taking a heavy toll on the public sector banks plagued by NPA tainted balance sheets and burdened with the flab of endless bureaucratic interventions of the past. In the increasingly competitive industry, well managed, highly popular and innovative sector banks are giving the PSBs a run for their money. The author offers a solution through merger and streamlined operations.

Tamal Bandyopadhyay (2001) in his paper “IDBI: Merger is not a Universal Truth” pointed out that to fulfill the dream of becoming a universal bank, IDBI wants a reverse merger with IDBI Bank. But the senior members of IDBI bank are not in favour of this. IDBI Bank does not have the ability to absorb the shocks of the merger. IDBI’s idea of merging with IDBI Bank makes little sense. As far as IDBI is concerned, the merger does not seem to be
a solution from the point of view of the size of the balance sheet as well as the cost implications.

The article entitled “Mergers: The Emerging Reality” written by Giridharan. R. (2001) pointed out the possible causes for the explosive spurt in mergers that have rocked the banking industry. The author elaborated the risk associated with mergers and remarked that the success or otherwise of mergers would depend on the success of the measures discussed in the article.

The paper entitled “Alternative for Payment in M & A Deals: A Strategic Evaluation of the Choices at Hand” by Anuraag Saxena and Naresh Grandhy (2001) proposes to demystify the strategic intent behind each of the modes of payment in M & A deals. The issues including Indian legal framework, the tax and accounting implications have also been discussed. The authors attempt to deal with quantifying the financial risk involved in such deals.

Bhatnagar R.G. (2001) in his paper “Banking too much on Mergers” pointed out that the urge to merge is overwhelming in the corporate sector in the context of globalization. However, size based mergers need not be the best of strategies especially in the banking sector. A cost cut strategy is a better option. The author remarked that bank mergers in India might facilitate compliance with the stipulation of dilution of the promoters’ stake to 40% by March 2001.

The study entitled “Effect of mergers on corporate performance in India”, written Vardhana Pawaskar (2001), studied the impact of mergers on
corporate performance. It compared the pre- and post- merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post- merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

Sivaraman. Y. G. et. al (2002) in their article “ICICI, ICICI Bank Merger” described that the major objective behind the merger between ICICI and ICICI Bank was to get synergy in the form of lower cost of funds. The merger makes the bank the second largest in India only after the SBI. After the merger, the bank is trying to provide almost all financial services to its customers under one roof. Analysts feel that the new entity has all the positive attributes of a big, bold and competitive financial intermediary; a tech savvy platform, an array of products, a strong retail base and a good corporate banking background. But different regulation for different services may create some problems for the ICICI Bank. The higher NPAs after the merger is also one of the biggest negative factors of the bank.

Oliver Hamoir et. al., (2002) in their paper “Europe’s Bank and Merger” described that in Europe, opportunities for domestic consolidation among banks have been exhausted and hence the banks have been forced to go for cross border mergers to increase their profit. However, the economic
benefits of cross-border mergers are unlikely to be as high as their domestic counterparts due to large differences among countries in labour, management and corporate governance practices. However, the economic regulatory and cultural conditions for mergers and acquisitions among Europe’s major banks are improving. In the coming wave of cross border consolidation, banks that keep their potential specialties in mind will probably do better in the long term than those that rush headlong into the first available deal.

Surjit Kaur (2002) in her dissertation entitled “A Study of Corporate Takeovers in India” examined the M&A activity in India during the post liberalization period. The study tested the usefulness of select financial ratios to predict corporate takeovers in India. The study suggested further research areas that are to be explored.

The study entitled “Strategic Management of Merger Decision and Swap Ratio Valuation: Case Study of Bank of Madura Merger with ICICI Bank” by Justin Paul (2002) examined the impact of swap ratio. The author undertook a case study on Bank of Madura with ICICI. The study found that Bank of Madura got a better deal in the form of higher swap ratio. (The Bank of Madura shareholder benefited from the merger). The author viewed that in the long run, the ICICI Bank could increase the number of customers, branches and business to manage new challenges from other competitors in the Indian banking industry.

Kumudini S. Hajra (2002) asserted in her study entitled “Mergers: A Case Study of ICICI” that the mergers and acquisitions could be viewed as
responses of firms to increasing convergence in the activities of various types of financial companies like banks, investment companies, insurance companies and other financial institutions. The study concluded that for ICICI bank, merger would be beneficial in terms of larger capital base, scale of operation and access to strong corporate clientele of ICICI Ltd.

Siva Kumar. K. and Rao. (2003) in their article entitled “Merger Wave Theory Revisited” remarked that the corporate world today is witnessing a sudden surge of mergers and acquisitions sweeping across all the industries, which has totally restructured the market place. This study draws a comparison of the present trend of merger with those of the past. These shows interesting similarities, which tend to suggest that the mergers waves could be regarded cyclical and they are reappearing at the end of 20th century as in the beginning of the century.

Mansur, Mulla (2003) in his case study “Forecasting the viability and operational efficiency by use of ratio analysis: A case study”, assessed the financial performance of a textile unit by using ratio analysis. The study found that the financial health was never in the healthy zone during the entire study period and ratio analysis highlighted that managerial incompetence accounted for most of the problems. It also suggested toning up efficiency and effectiveness of all facets of management and put the company on a profitable footing.

Siddhartha. S. Brahma (Nov. 2003) in his article entitled “Organizational and Human Resource Related Issues in Mergers and
pointed out that M & A are increasingly getting popular and proved to be efficient ways for corporate growth. The author remarked that a considerable number of mergers and acquisitions have not explored the organizational and human resource related issues. This article identified certain important issues and raised some questions for future research.

According to a study “Managing the Risks in Mergers & Acquisitions” conducted by Vedpuriswar. A. V. (2004), the M. & A have picked up in recent times. In calendar year 2002, totally 1,324 M & A deals valued at Rs.33,731 crores were announced including the merger of ICICI with its bank. The chemical, communication and financial services were the main contributors to M & A activity in both 2000 and 2001. The author remarked that out of 277 big M&A deals in America between 1985 and 2000, 64% destroyed the value for the acquirers’ shareholders at the time of announcement and 56% continued to do so two years after the deal. Hence the author rightly explained the risks and emphasized the need for caution in M&A deal.

Pramod Mantravadi and Vidyadhar Reddy (2007) in their research study “Mergers and operating performance: Indian experience”, attempted to study the impact of mergers on the operating performance of acquiring corporate in different periods in India, after the announcement of industrial reforms, by examining some pre- and post-merger financial ratios, with chosen sample firms, and all mergers involving public limited and traded companies of nation between 1991 and 2003. The study results suggested that there are minor
variations in terms of impact on operating performance following mergers in
different intervals of time in India. It also indicated that, for mergers between the same groups of companies in India, there has been deterioration in performance and returns on investment.

A book entitled "Mergers & acquisitions in the banking sector- The Indian scenario", written by Selvam. M (2007) has analyzed the implications of stock price reactions to mergers and acquisitions activities taken place in banking industry with special reference to private and public sector banks. The author has found from the analysis that the share prices are market sensitive. From the financial analysis it was observed that majority of the banks went for branch expansion and this has affected profitability to some extent and it resulted in unhealthy competition among the players.
1.7 RESEARCH METHODOLOGY

The procedure to collect the information for the present study have been adopted in such manner that reliable and valid information could be collected for the study both primary & secondary data have been collected. The present study is almost based on secondary information which has been collected generally through various website, news papers, magazine, journals, periodicals, printed information, proceeding of related seminar & conferences and mainly through RBI publications and annual reports of sample banks conducted with of banks’ personnel different year. Primary data and information have been collected through the interviews. A questionnaire has also been prepared to know the views of persons concerned with banks or financial institutions. The questionnaire has been sent through internet.

1.7.1 RESEARCH DESIGN

To analyze the whole scenario of Indian banking sector with special reference of public sector banks and make the comparison with private banks two leading banks from public sector banks and two leading banks from private sector banks have been taken under consideration.

In the public sector bank, Bank of Baroda (BOB) and Punjab National Bank (PNB), both banks have been taken for analysis. The data for M&A have been collected after 1991 that was first financial sector reform period, it has been observed that from 1991-92 have only two M&A activity was found in BOB i.e. 2003 and 2004, and in PNB i.e. 1994 and 2003.
The present study includes M&A trends, Ratio Analysis, Value of Banks and Value of Owners’ Equity for measuring the impact of merger and acquisition. After 1991 the first merger of BOB was taken place in 2003 which has been taken for present study as Case 1 and six years data have been collected for analysis i.e. 2000, 2001 & 2002 for before merger and 2003, 2004 & 2005 for after merger. The second merger of BOB in 2004 have been taken as Case 2 and six years data have been analyzed for before merger years 2001, 2002 & 2003, and for after merger years 2004, 2005 & 2006 have been taken into consideration.

In the PNB, merger of 1994 have been taken as Case 3 and six years data have been taken under consideration i.e. year 1991, 1992 & 1993 for before merger and year 2003, 2004 & 2005 for after merger. The second merger in PNB in 2003 have been taken for as Case 4 and data have also been taken under consideration for six years i.e. years 2000, 2001 & 2002 for before merger and years 2003, 2004 & 2005 for after merger.

The same methodology has been adopted for the private sector bank. Many M&A were found after 1991 and for the present study recent mergers have been taken for consideration of two private sector banks i.e. Industrial Credit and Investment Corporation of India (ICICI Bank) and Housing Development Finance Corporation (HDFC Bank),

The two merger of ICICI Bank in years 2007 and 2011 have been taken for consideration as Case 1 and Case 2 respectively. For Case 1, six years data have been collected for analysis i.e. years 2004, 2005 & 2006 for before merger
and years 2007, 2008 & 2009 after merger. For Case 2, six years data have been taken under consideration i.e. years 2008, 2009 & 2010 for before merger and years 2011, 2012 & 2013 for after merger. Data for years 2012 and 2013 have been predetermined in case of profits (taken profit as normal rate of return estimated from past profits) and for other variable taken same as years 2011.

The two mergers of HDFC Bank in years 2000 and 2008 have been taken for consideration as Case 3 and Case 4 respectively. For Case 3, six years data have been collected i.e. years 1997, 1998 & 1999, for before merger and years 2000, 2001 & 2002 for after merger. For Case 4, six years data have been analyzed i.e. years 2005, 2006 & 2007 for before merger and years 2008, 2009 & 2010 for after merger.

The data have been properly analyzed with the help of various mathematical and statistical tools like addition, subtraction, multiplication, deviation, classification, present and tabulation. Besides statistical and mathematical techniques various accounting techniques have been also used for reaching result, like accounting ratios.

To check the significance differences between before and after M&A of sample banks student t-test have been used. Simple Arithmetic Mean has been used by taking three years data for before and after merger in all cases and with the help of mean, Standard Deviation (σ) have been calculated.
The following formulas have been applied for calculation `t`-value.

\[
S = \sqrt{\frac{\sum(X_1 - \overline{X}_1)^2 + \sum(X_2 - \overline{X}_2)^2}{n_1 + n_2 - 2}}
\]

\[
t = \frac{X_1 - X_2}{S} \times \sqrt{\frac{n_1 n_2}{n_1 + n_2}}
\]

### 1.7.2 SNAPSHOT OF RESEARCH DESIGN

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<tr>
<th>Name of bank</th>
<th>Case No. (Year)</th>
<th>Merged with bank</th>
<th>Data collection for the year</th>
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<td>After Merger</td>
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