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Notable Mergers and Acquisitions in Indian Banking Industry since 2000

I. Merger of Times Bank Ltd and HDFC Bank Ltd: Enduring small may be beautiful but fetching big is the underlying principle behind the Merger & Acquisition business tactic. Every business strives for survival in this growing era of core competence. It is here M&A is looked upon as an immediate mode for external growth. This phenomena has been prevailing both in the developed and developing economies. But it is gaining more prominence in the present globalizing world.¹ This deal has been the first merger deal between two new generation private sector banks.²

COMPANY HISTORY (TIMES BANK): The Bank was incorporated on July 6th, & the Certificate of Commencement of Business was obtained on 22nd August. The Bank was promoted by Bennett, Coleman and Co. limited & its subsidiaries. The Bank opened its first branch on 8th June at Dr. D N Road, Mumbai. Home banking facilities are offered at all branches & round the clock ATM facility is available at 34 branches. All the branches are fully computerized & are linked through VSAT. The Times Bank is 'The Convenience Bank' & has introduced innovative deposit products like 'Times Convenience Deposit' & 'Times Dual Deposit'. It also offers the facility of 'Sunday Holidays and 'Home Banking' service at the customer doorstep. The Bank introduced 'Service Express' a customer service request tracking system in order to enable customers to know the exact status of their transactions at any point of time. The Bank has a network of 35 ATMs in 34 branches & offers several facilities such as Cash withdrawals, Cash/cheque deposit, and cheque book requests, Request for Access Draft, Transfer from one Account of the Card Holder to another Acc. of his/her or that of another person. Times Bank has tied-up with Maestro Asia/Pacific limited for their on-line PIN-based debit product which is known as Maestro. The Bank is in the process of tying-up with Brokering and Research Outfits for making Wealth Management Services available for its premium clients.³

In a milestone transaction in the Indian banking industry, Times Bank Limited (another new private sector bank promoted by Bennett, Coleman & Co. / Times Group) was merged with HDFC Bank Ltd., effective February 26, 2000. This was the first

¹ Chummar John Mathew and Dr. G. Raju, Mergers in the banking sector a case study of HDFC & Times Bank. Available at: http://xa.yimg.com/kq/groups/12982260/1709418915/name/merger+banking+case+study.pdf
² Chummar John Mathew and Dr. G. Raju, Mergers in the banking sector a case study of HDFC & Times Bank. Available at: http://xa.yimg.com/kq/groups/12982260/1709418915/name/merger+banking+case+study.pdf
merger of two private banks in the New Generation Private Sector Banks. As per the scheme of amalgamation approved by the shareholders of both banks and the Reserve Bank of India, shareholders of Times Bank received 1 share of HDFC Bank for every 5.75 shares of Times Bank.4

COMPANY HISTORY (HDFC BANK): The Bank was incorporated on 30th August, 1994. A new private sector Bank promoted by housing Development Corporation Ltd. (HDFC), a premier housing finance company. The bank is the first of its kind to receive an in-principle approval from the RBI for establishment of a bank in the private sector. Certificate of Commencement of Business was received on 10th October 1994 from RBI.5 The Bank transacts both traditional commercial banking as well as investment banking. HDFC, the promoter of the bank has entered into an agreement with National Westminster Bank Pc. and its subsidiaries (NatWest Group) for subscribing 20% of the banks issued capital and providing technical assistance in relation to the banks proposed banking business.6

70 No. of equity shares issued to subscribers to the Memorandum & Articles of Association on 30th August 1994. On the same date 500, 00,000 equity shares were allotted to HDFC promoters. 509, 20,000 shares were allotted to HDFC Employees Welfare Trust and HDFC Bank Employees Welfare Trust on 22nd December, 1994.7

REASONS FOR MERGER: Times Bank was a new generation private sector bank established by the Times group. As part of HDFC Bank’s strategy of attaining great heights it decided to merge with Times Bank. As per the scheme of amalgamation issued by HDFC bank to its shareholder the following were the reasons cited for the merger deal.

1. Branch Network would increase by over 50 percent and thus providing increased geographical coverage.

2. Increase the total number of retail customer accounts so as to increase deposit and loan products.


5 HDFC Bank Ltd History, Economic Times. Available at :

6 HDFC Bank Ltd History, Economic Times. Available at :

7 HDFC Bank Ltd History, Economic Times. Available at :
3. After the merger the bank would be able to use Times Bank’s lower cost alternative channels like phone banking, internet banking etc. and thereby the reducing of operating costs.

4. The merger would increase the presence of HDFC bank in the depository participant activities.

5. Improved infra structure facilities and central processing would help in deriving economies of large scale.8

**Analysis of the Earning Per Share Post Merger And Return On Net Wealth:** The EPS trend of HDFC Bank is showing increasing from 2002 to 2006. The EPS of the company is 10.56 in 2002 and 27.04 in 2006. EPS growth rate has increased by 256% in five years which is happy analysis for the shareholders of the HDFC Bank. Same trend is maintained by TIMES BANK it is showing continuous increase in EPS for the last 5 years before merger. Its EPS growth has increased by 14.26% which is showing good position of the company. But comparing HDFC Bank and TIMES BANK EPS is showing better position than HDFC Bank.

Performance of HDFC is better than TIMES BANK as far as RONW concerned. ROCE The HDFC BANK is showing growth in ROCE from 2002 to 2005 and a slight decrease in 2006 i.e. from 15.62 to 13.49. But comparing to 2002 it has grownup tremendously. i.e it has increase as 14125% in last five years. This is good sign for the company to invest in many investment alternatives and can do expansion of the business. The TIME BANK ROCE position is bad in last 4 years during pre merger period. It is showing the decreasing trend that is from 11.51 to 4.202 which is bad signal for company. This may be one of the reasons for TIMES BANK to take decision to merge with HDFC BANK. CEPS If we look at cash earnings of the TIMES BANK it is in increasing order i.e. from 0.194 per share to 3.367 per share. It may be because of the high increase rate of PAT. But this is not that much satisfactory to the shareholders. Face value of shares is 10 rs and CEPS is 3.367 in 1999 so it is not good to the company. Shareholder will loose faith on company. HDFC bank is showing good increasing trend in CEFS.9

The market price has increased form Rs 24 to Rs 241.0. The investors might have attached positive hopes with this merger also. There is constant increase in the market price of HDFC in the post merger period and high expectations attached with the merger were high owing to the success of the merger that is merger of HDFC Bank and

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8 Chummar John Mathew and Dr. G. Raju , Mergers in the banking sector a case study of HDFC & Times Bank. Available at: [http://xa.yimg.com/kq/groups/12982260/1709418915/name/merger+banking+case+study.pdf](http://xa.yimg.com/kq/groups/12982260/1709418915/name/merger+banking+case+study.pdf)

Times bank meager. But according to the law of averages, after a huge unnecessary increase into the market price the market is bound to correct the result of which there is a fill in the market price both shares after that. The market over estimated the value of the firm which it was bond the correct, the result of which is the fall in market prices. In a nutshell if we take into consideration all the parameter including the market price of the shares, we can see that in the post merger period all have shown a positive result that means to say all have increases in absolute terms.

After the amalgamation customer base of the bank crossed 1 million. Branch network crossed 100 branches (111 as at March 31, 2000), and total balance sheet size crossed Rs.100 billion (Rs.116 billion as at March 31, 2000).

The merger also had product harmonization as HDFC had the visa network and Times Bank had master card network. Thus, on account of merger, both the networks would branches (65%) and Times Bank with more urban branches (43%) overlapping of branch, leading to enlarged potential market. Although, the HDFC Bank private sector bank, with a percentage of public sector than that of a pure private sector bank, the merger between HDFC and Times Bank (relatively less stronger bank) was a strategic alliance and there are no apparent adverse teachers after merger.

Financial standings HDFC Bank (Rs) Times Bank (Rs) Business per employee 520,2000 500,000 Profit per employee 1,000,000 722,000.In the merger of Times Bank (spread 1.66%) by HDFC Bank (spread 3.38%), the pre-deal HDFC Bank’s business – per – employee was Rs. 520, 000 while profit- per-employee was Rs.1million. The respective figures for Times Bank were Rs .500, 000 and Rs . 722, 000. Times Bank had a retail base of 150,000 accounts, an added attraction. Post –deal, HDFC Bank’s strength rose to over 650, 000 retail accounts, a network of 107 branches and deposits of Rs.70 billion and a turnover of about Rs.100 billion, making it the top bank among the foreign and private banks. Growing organically at 30% or 15,000 to 17,000 new accounts a month, it would have taken two years for HDFC to gain Times Bank’s 170, 000 customers.

II. MERGER BETWEEN ICICI LTD. AND ICICI BANK:

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group’s universal banking strategy. The merger would enhance value for ICICI shareholders through the merged entity’s access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI’s strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries. In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmadabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the ICICI group’s financing and banking operations, both wholesale and retail, have been integrated in a single entity.

**MERGER OF ICICI WITH ICICI BANK: PROCESS, REASONS AND ITS EFFECT:** ICICI Bank and ICICI, along with other ICICI group companies, were operating as a ‘virtual universal bank’, offering a wide range of financial products and services. The merger of ICICI and two of its subsidiaries with ICICI Bank has combined two organizations with complementary strengths and products and similar processes and operating architecture. The merger combined the large capital base of ICICI with the strong deposit raising capability of ICICI Bank,

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15 Id.
16 Id.
giving ICICI Bank improved ability to increase its market share in banking fees and commissions, while lowering the overall cost of funding through access to lower-cost retail deposits. ICICI Bank is now able to fully leverage the strong corporate relationships that ICICI has built, seamlessly providing the whole range of financial products and services to corporate clients.\(^\text{17}\)

The merger has also resulted in the integration of the retail finance operations of ICICI, and its two merging subsidiaries, and ICICI Bank into one entity, creating an optimal structure for the retail business and allowing the full range of asset and liability products to be offered to all retail customers. The share exchange ratio approved for the merger was one fully paid-up equity share of ICICI Bank for two fully paid-up equity shares of ICICI. This was determined on the basis of a comprehensive valuation process incorporating international best practices, carried out by two separate financial advisors and an independent accounting firm.\(^\text{18}\) The equity shares of ICICI Bank held by ICICI have not been cancelled in the merger. In accordance with the provisions of the Scheme of Amalgamation, these shares have been transferred to a Trust to be divested by appropriate placement. The proceeds of such divestment would accrue to the merged entity. With the merger taking effect, the paid-up share capital of the Bank has increased to Rs. 6.13 billion, comprising 613 million shares of Rs.10 each. The merger process was complex and posed significant challenges. The merger of a financial institution with a commercial bank to create the country’s first universal bank had significant implications for the entire financial system. It therefore involved extensive dialogue with the Government and Reserve Bank of India. The merger also posed the challenge of compliance with regulatory norms applicable to banks in respect of ICICI’s assets and liabilities, particularly the reserve requirements. This required resources of about Rs. 210.00 billion to be raised in less than six months for investment in Government securities and cash reserves, in addition to normal resource mobilization for ongoing business requirements. The entity leveraged their strong retail franchise, including the distribution network acquired in the merger of the erstwhile Bank of Madura Limited with ICICI Bank in fiscal 2001, to grow our retail deposit base.\(^\text{19}\)

The entity also achieved significant success in securitizing loans and developing a market for securitized debt in India. It also adopted proactive strategies to minimize the duration of our Government securities portfolio, in order to mitigate the interest-rate risk arising from the acquisition of a portfolio of about Rs. 180.00 billion in

\(^{17}\) http://www.icicibank.com/managed-assets/docs/investor/annual-reports/2002/a_r2k2(45-68).pdf

\(^{18}\) Id.

\(^{19}\) Id.
five months. As both ICICI and ICICI Bank were listed in Indian and US markets, effective communication to a wide range of investors was a critical part of the merger process. It was equally important to communicate the rationale for the merger to international and domestic institutional lenders and to rating agencies. The merger process was required to satisfy legal and regulatory procedures in India as well as to comply with United States Securities and Exchange Commission requirements under US securities laws.  

The merger of India’s largest financial institution with its largest private sector bank also involved significant accounting complexities. In accordance with best practices in accounting, the merger has been accounted for under the purchase method of accounting under Indian GAAP. Consequently, ICICI’s assets have been fair-valued for their incorporation in the books of accounts. The fair value of ICICI’s loan portfolio was determined by an independent valuer, while ICICI’s equity and related investment portfolio was fair-valued by determining its market value. The total additional provisions & write-offs required to reflect the fair values of ICICI’s assets determined at Rs. 37.80 billion have de-risked the loan and investment portfolio and created a significant cushion in the balance sheet, while maintaining healthy levels of capital adequacy.

The merger was approved by the shareholders of both companies in January 2002, by the High Court of Gujarat at Ahmadabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India (RBI) in April 2002. The challenge of mobilization of resources for compliance with statutory reserve requirements applicable to banks, on ICICI’s outstanding liabilities on merger, was met successfully within the target date of March 30, 2002. While the merger became effective on May 3, 2002, in accordance with the provisions of the Scheme of Amalgamation and the terms of approval of RBI, the Appointed Date for the merger was March 30, 2002.

Reserve Bank of India (RBI), India’s central bank, first mooted the idea of merging all existing development banks and some weak commercial banks with healthier commercial banks way back in 2000. ICICI Bank was the first to take advantage of this policy and submitted a detailed scheme to reverse merge itself with its development bank counterpart on 1st October, 2001. As both ICICI Bank and ICICI Ltd. were listed in the Indian and US markets, effective communication to a wide range of investors was a critical part of the merger process. The compulsions that led ICICI Ltd. to reverse merge with ICICI Bank had much to do with the

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20 Id.
22 Id.
changing global and national banking environment as with its internal dynamics. Hence the reasons for the reverse merger merely reflect the dilemma faced by the entire Indian banking community in general and the development banking sector in particular. The reverse merger was expected to enhance profits for the shareholders of ICICI Ltd. and ICICI Bank. This was expected to come from an expanded scale of operations, access to ICICI Ltd.’s strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, growth in fee-based services, and access to the vast talent pool of ICICI Ltd. and its subsidiaries.23

**BALANCE SHEET AND PROFIT AND LOSS ACCOUNT**

The Balance Sheet of ICICI BANK LIMITED as at March 31, 2002 and the annexed Profit and Loss Account of the Bank is provided herein after which on that day the assets and liabilities were incorporated of erstwhile ICICI Limited (ICICI), ICICI Capital Services Limited (ICICI Capital) and ICICI Personal Financial Services Limited (ICICI PFS). The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with Section 211 of the Companies Act, 1956. The Balance Sheet and the Profit and Loss Account dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, in so far as they apply to banks.24

**CONDITIONS PROVIDED BY RESERVE BANK OF INDIA**

The merger between ICICI and ICICI Bank was of a peculiar nature as it provided a merger between a banking and non banking entity and for the same reason RBI provided certain conditions for subjects to its approval. The merger was effective from the appointed dated of March 30, 02, and the swap ratio has been fixed at two ICICI shares for one ICICI Bank share.

Reserve Bank, approval was subject to the following conditions:25

(i) **Compliance with Reserve Requirements**: The ICICI Bank Ltd. would comply with the Cash Reserve Requirements (under Section 42 of the Reserve Bank of India Act, 1934) and Statutory Liquidity Reserve Requirements (under Section 24 of the

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23 Id.


Banking Regulation Act, 1949) as applicable to banks on the net demand and time liabilities of the bank, inclusive of the liabilities pertaining to ICICI Ltd. from the date of merger. Consequently, ICICI Bank Ltd. would have to comply with the CRR/SLR computed accordingly and with reference to the position of Net Demand and Time Liabilities as required under existing instructions.26

(ii) **Other Prudential Norms:** ICICI Bank Ltd. will continue to comply with all prudential requirements, guidelines and other instructions as applicable to banks concerning capital adequacy, asset classification, and income recognition and provisioning, issued by the Reserve Bank from time to time on the entire portfolio of assets and liabilities of the bank after the merger.27

(iii) **Conditions relating to Swap Ratio:** As the proposed merger is between a banking company and a financial institution, all matters connected with shareholding including the swap ratio, will be governed by the provisions of Companies Act, 1956, as provided. In case of any disputes, the legal provisions in the Companies Act and the decision of the Courts would apply.28

(iv) **Appointment of Directors:** The bank should ensure compliance with Section 20 of the Banking Regulation Act, 1949, concerning granting of loans to the companies in which directors of such companies are also directors. In respect of loans granted by ICICI Ltd. to companies having common directors, while it will not be legally necessary for ICICI Bank Ltd. to recall the loans already granted to such companies after the merger, it will not be open to the bank to grant any fresh loans and advances to such companies after merger. The prohibition will include any renewal or enhancement of existing loan facilities. The restriction contained in Section 20 of the Act ibid, does not make any distinction between professional directors and other directors and would apply to all directors.29

(v) **Priority Sector Lending:** Considering that the advances of ICICI Ltd. were not subject to the requirement applicable to banks in respect of priority sector lending, the bank would, after merger, maintain an additional 10 per cent over and above the requirement of 40 per cent, i.e., a total of 50 per cent of the net bank credit on the residual portion of the bank's advances. This additional 10 per cent by way of priority sector advances will apply until such time as the aggregate priority sector advances reaches a level of 40 per cent of the total net bank credit of the bank. The Reserve Bank’s existing instructions on sub-targets under priority sector lending

26 Id.
27 Id.
28 Id.
29 Id.
and eligibility of certain types of investments/funds for reckoning as priority sector advances would apply to the bank.  

(vi) **Equity Exposure Ceiling of 5%:** The investments of ICICI Ltd. acquired by way of project finance as on the date of merger would be kept outside the exposure ceiling of 5 per cent of advances towards exposure to equity and equity linked instruments for a period of five years since these investments need to be continued to avoid any adverse effect on the viability or expansion of the project. The bank should, however, mark to market the above instruments and provide for any loss in their value in the manner prescribed for the investments of the bank. Any incremental accretion to the above project-finance category of equity investment will be reckoned with in the 5 per cent ceiling for equity exposure for the bank.  

(vii) **Investments in Other Companies:** The bank should ensure that its investments in any of the companies in which ICICI Ltd. had investments prior to the merger are in compliance with Section 19 (2) of Banking Regulation Act, 1949, prohibiting holding of equity in excess of 30 per cent of the paid-up share capital of the company concerned or 30 per cent of its own paid-up share capital and reserves, whichever is less.  

(viii) **Subsidiaries:**

(a) While taking over the subsidiaries of ICICI Ltd. after merger, the bank should ensure that the activities of the subsidiaries comply with the requirements of permissible activities to be undertaken by a bank under Section 6 of the Banking Regulation Act, 1949 and Section 19 (1) of the Act ibid.

(b) The takeover of certain subsidiaries presently owned by ICICI Ltd. by ICICI Bank Ltd. will be subject to approval, if necessary, by other regulatory agencies, viz., IRDA, SEBI, NHB, etc.

(ix) **Preference Share Capital:** Section 12 of the Banking Regulation Act, 1949 requires that capital of a banking company shall consist of ordinary shares only (except preference share issued before 1944). The inclusion of preference share capital of Rs. 350 crore (350 shares of Rs.1 crore each issued by ICICI Ltd. prior to merger), in the capital structure of the bank after merger is, therefore, subject to the exemption from the application of the above provision of Banking Regulation Act, 1949.
1949, granted by the Central Government in terms of Section 53 of the Act ibid for a period of five years.\textsuperscript{33}

x) \textbf{Valuation and Certification of the Assets of ICICI Ltd:} ICICI Bank Ltd. should ensure that fair valuation of the assets of the ICICI Ltd. is carried out by the statutory auditors to its satisfaction and that required provisioning requirements are duly carried out in the books of ICICI Ltd. before the accounts are merged. Certificates from statutory auditors should be obtained in this regard and kept on record.\textsuperscript{34}

\textbf{BENEFICIARY OF THE ICICI MERGER}

For ICICI the merger meant:

1. Increasing the speed in financing long term projects.

2. Obtaining access to cheaper funds for lending.

3. Increasing its appeal to investors for raising capital base needed to write up bad loans.

4. Competing more effectively in retail finance market dominated by banks.

For ICICI Bank it meant:

1. Expanding geographically

2. Utilizing large capital base of ICICI.

3. Gaining brand equity from the strong brand name of ICICI.

4. Deriving benefits from ICICI’s well established corporate relationships.

\textbf{The Merger deal and its Motivations:}

The swap ratio was based on the valuations and recommendations of Deloitte, Haskins and Sells. ICICI was advised by investor bankers, JM Morgan Stanley and ICICI Bank by DSP Merill Lynch. The merger ratio was set at two ICICI shares for every ICICI Bank share that is one equity share of ICICI bank was swapped for two equity shares of ICICI. Under the scheme of amalgamation, American Depository

\textsuperscript{33} Id.

\textsuperscript{34} Id.
share (ADS) holders of ICICI got five ADS of ICICI Bank in exchange of four ADS of ICICI.  

**Impact of the Merger on the Enlarged Entity:**

Through this merger, ICICI Bank became India’s first universal bank, that is, one stop-shop for financial services in India and acquired large market share of retail banking and offered a complete range of banking products. The enlarged entity (ICICI bank) derived the following benefits:

2. Improved ability to further diversify asset portfolios and business revenue.
3. Reduced costs of funds.
4. Availability of more float money due to active participation in the payment system.
5. Diversified fund raising due to access to retail funds.
6. Leveraged the ICICI’s capital and client base in terms of increase in fee income.
7. Improved profitability by leveraging technology and low cost structure.
8. Access to ICICI group’s talent pool and thereby development of human resource at lower costs.

**Financial Impact:**

The most visible change that has come about as a result of the merger is in the income statement and the balance sheet. The total income and net profit figures have climbed up to Rs. 128.26 billion and Rs. 20.05 billion respectively. Operating profit has reached Rs. 29.56 billion while EPS has become Rs.27.33. ICICI bank is now in the process of strengthening its presence in various emerging financial sectors in India. It has collaborated with experienced foreign entities so that it can leverage upon its partners skills and support it with its own nationwide infrastructure. ICICI bank has designated these joint ventures as strategic Business Units and is striving to maintain or capture the top slot in each of these segments.

**PERFORMANCE AFTER THE MERGER**

Post-merger, ICICI Bank became India’s first ‘universal bank’ acting as a one-stop supplier for all financial products and activities such as deposits, short-term and long-term loans, insurance, venture capital, and investment banking. It is now the

second-largest Indian bank after State Bank of India (India’s number one commercial bank) with total assets of about Rs. 3,447 billion (as at 31 March, 2007). It has a network of 755 branches and extension counters and 3,271 Automated Teller Machines (ATMs) across the country. Further, it has taken bold steps towards diversifying its basic banking business into Business Process Outsourcing (through ICICI OneSource – now renamed Firstsource Solutions Ltd.) and international banking operations in various countries around the world.\(^{36}\)

One of the reasons behind the merger was to increase shareholder wealth.

ICICI Bank submitted its proposal for reverse merger on 1/10/2001 to Reserve Bank of India. Its share price has risen from Rs. 72.00 as on that date to Rs. 124.00 as on 29/3/2002, just prior to the merger. This 76% gain appeared to take place just from the news of the merger. This trend continued even after the merger. The price of one ICICI Bank share (as on 31/03/2007) is Rs. 853.10. This translates to a gain of another 588% over these five years\(^{37}\).

The merger between ICICI and ICICI bank was of a peculiar nature. ICICI Ltd. wanted to gain from the synergistic effect of the merger. Within the first three years of merger, the positive effects were reflected in some areas. While the total income fell short of the projected combined figures for all years, the net profit earned by the company was way ahead of projections. Operational efficiency was hence, achieved. There was also a significant rise in paid up share capital post merger (From 200 crores to 613 crores). However, this leads to lower earnings per share.

It is the second largest bank in India only preceded by SBI, in terms of asset size. The reverse merger meant an immediate gain of fivefold rise in total assets which continues till today. After the merger, average cost of deposit was 4.5 % compared to the 7.7 % a few years before the merger. Other Income grew from 574 crores to 3416 crores. Other Income means income earned by way of dividend, profit from sale of investments, profit from merchant foreign exchange transactions and miscellaneous income. Reduced dependence on interest income, increased exposure to fee based services. It also gained leverage to force its investment banking clients to maintain their salary and other employee accounts with the bank, increasing capital client base and increasing repertoire of cheap funds. Can now cross sell mutual funds and non life insurance policies to institutional clients.

The subsidiaries did extremely well after the merger, giving the Bank the ability to give them full autonomy, contributing to operational efficiency. Better quality of training for employees as well. It also ventured into diversifying into wealth


\(^{37}\) Id.
management through its personal banking division. Also launched its own credit card, and increased occurrence of home loans and most importantly developed core Banking applications, and tied up with Infosys to reach into tele-banking as well.

III. The Merger between ICICI Bank and Bank of Madura

**Historical Background of Bank of Madura:** Bank of Madura was a profitable, well capitalized, Indian private sector commercial bank for 57 years.\(^{38}\) Its corporate headquarters was in Chennai. The bank had access to 1.2 million customer accounts.\(^{39}\) The Bank had an extensive national network of 263 branches, including a presence in each of the Top 30 banking centers in the country, with a significant presence in the Southern states of India. The bank had total assets of Rs. 39.88 billion and deposits of Rs. 33.95 billion as on September 30, 2000. The bank had a capital adequacy ratio of 15.8% in 2000.\(^ {40}\)

**Historical Background of ICICI Bank:** ICICI Bank is a leading technology-oriented private sector bank promoted by ICICI.\(^ {41}\) It had total assets of Rs. 120.63 billion and deposits of Rs. 97.28 billion as on September 30, 2000. ICICI Bank was India's largest ATM provider with 366 ATMs as of 2001.\(^ {42}\) It had a capital adequacy ratio of 17.59% prior to the merger. It had a branch network including extension counters at 106 locations across India.\(^ {43}\) It is also the first Indian bank to be listed on the New York Stock Exchange. In 1999, ICICI Bank restructured its business into corporate banking, retail banking and treasury to provide cross selling opportunities through ICICI's strong relationships with 1000 corporate entities in India.\(^ {44}\) It wanted to provide one-stop financial solutions to customers with speed and quality. To maintain its leadership in India, it was involved in B2B and B2C initiatives.\(^ {45}\)

ICICI Bank was originally promoted in 1994 by ICICI Limited, and was its wholly-owned subsidiary.\(^ {46}\) ICICI's shareholding in ICICI Bank was reduced to 46% through a

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\(^{38}\) [http://www.icicibank.com/aboutus/history.page](http://www.icicibank.com/aboutus/history.page) (last visited 2\(^{nd}\) December, 2014)

\(^{39}\) Capital Markets, ICICI Bank Merges with Bank of Madura (last visited 2\(^{nd}\) December, 2014), [http://www.capitalmarket.com/Magazine/cm1521/cornew.htm](http://www.capitalmarket.com/Magazine/cm1521/cornew.htm).

\(^{40}\) Id.

\(^{41}\) Id.

\(^{42}\) Id.

\(^{43}\) Id.

\(^{44}\) Id.

\(^{45}\) Id.

\(^{46}\) Supra note1.
public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry.

The Merger between ICICI Bank and Bank of Madura: The BoM merged with ICICI Bank Limited, under Section 44A of the Banking Regulation Act, 1949. The merger was between Bank of Madura which had a traditional focus on mass banking strategies based on social objectives, and ICICI Bank, a ‘new age’ organization, which had been emphasizing parameters like profitability in the interests of shareholders. Before the merger, in the year 2000, BoM had 81 branches, 16 extension counters and 175 ATMs. The capital adequacy ratio was at 19.64% of risk-weighted assets, a significant excess of 9% over RBI's benchmark. ICICI Bank wanted to expand its assets, client base and geographical area and hence was seeking a merger. For the merger to be successful, there were a rapid round of negotiations from November 24th to December 8th, 2000 and the banks got legal approval from the Reserve Bank of India on March 1, 2001.

Reasons for Merger: Bank of Madura reasoned that the merger with a new private sector bank, particularly a financially and technologically strong bank like ICICI Bank, should add to shareholder value and enhance the career opportunities for their employees besides providing first rate, technology-based modern banking services to customers. The pre-merger market capitalization of ICICI Bank was roughly Rs.2500 crore while BoM was at roughly Rs.100 crore. BoM is known to have a poor asset portfolio. The merger was to include all the employees of Bank of Madura and hence there was to be no retrenchment of any of the employees and hence it led to the merger between Bank of Madura and ICICI Bank.

47 Supra note1.
48 Id.
49 Suprnote10.
50 Id.
51 Id.
53 FAUL, Business Environment: Test & Cases 2E
54 Suprnote2.
Economic Reasons: Bank of Madura merged with ICICI Bank on Friday, 8th of December, 2000. The merger decision with swap ratio was officially announced on 11th December, 2000. The shareholders approved the decision on January 19, 2001 and the banks got legal approval from the Reserve Bank of India (RBI) on 1st March, 2001. The competition for business volume, the motivation to increase shareholder value and the desire to become big players led both the banks to think of merger. The key rationale underlying the merger was the question of synergy. On hearing the news about the merger decision between these banks, ICICI Bank’s stock shot up by 12% to Rs 170 and BoM’s by 8% to Rs 131.6, on 8th December at the Bombay Stock Exchange.  

The expectation that the acquiring bank would become a strong player, motivated people abroad too, on the same day, to purchase shares of ICICI Bank at New York Exchange in bulk, and the price of the American Depository Share of ICICI Bank shot up by 17% on the same day, from the previous day’s closing value of $8.12. The swap ratio announced in the case of the BoM-ICICI Bank merger was 1:2. ie, the shareholders of Bank of Madura were to get two shares of ICICI Bank for each BoM share. The market price of an ICICI Bank share on 7th December, 2000 was Rs 152.95 and BoM’s price was Rs 122.45. The swap ratio could have been derived in favour of ICICI Bank if the valuation had been done on the basis of the market price of the shares, the balance sheets (10 shares of ICICI Bank for 13 shares of BoM), and the Non-Performing Assets (NPA) of both the banks. The net NPA to net advances was 1.3% for ICICI Bank, while it was 4% in the case of BoM. However, the swap ratio was derived on the basis of financial and strategic ratios. Financial ratios such as Book Value of the share of both the banks as on September 30, 2000, Earning Per Share — EPS (Net profit/shares outstanding), last dividend paid, and the percentage of NPAs were taken into consideration for deriving the swap ratio. Bank of Madura had an edge with EPS, Book Value and percentage of last dividend paid whereas ICICI Bank had more assets earned, higher market price of share (pre-merger announcement phase), low NPAs and high-tech image. The swap ratio was announced in favour of Bank of Madura mainly because of ICICI Bank’s desire to acquire a good bank in South India.


[57] Id.

[58] Id.

[59] Id.


where they did not have strong presence and geographical advantage. ICICI is now assured of sizable network. The merger has certainly enhanced the reach of ICICI in great measure.\(^{62}\) While ICICI boasted itself of 81 branches (as of March 2000), totally networked Bank of Madura had linked 141 branches out of a total of 269 via satellite and its management was pro-technology unlike many a public sector bank. It had a low net NPA percentage of 4.7 per cent to net credit (although high in comparison to ICICI's 1.14 per cent) but it was inevitable given the fact it had a legacy of over fifty years to carry.\(^{63}\) Against a deposit base ICICI's Rs. 9,866 cr. Bank of Madura's deposit base stood at Rs. 3,631 crores and its gross advances were Rs. 2,037 crores while that of ICICI Rs. 5,071 crores. This overnight asset would strengthen ICICI's financials.\(^{64}\)

The ICICI Bank was looking for mergers and strategic alliances for quite some time and Bank of Madura was also looking to widen its scope.\(^{65}\) Bank of Madura (BoM) aimed for technological development and upgradation. Also, its staff is known for quality service. The staff of BoM was known for their immediate and rational decisions and effective follow up.\(^{66}\) Another area of expertise was ‘treasury’. The BoM had over the years acquired good expertise in investment and treasury operations, and ICICI wanted to effectively tap this area of expertise to its advantage.\(^{67}\) For ICICI, the merger meant trained manpower, immediate asset creation and presence. By this merger ICICI Bank acquired trained manpower immediately. Otherwise the recruitment and training costs would be very high and time consuming.\(^{68}\) As of March 2000, BoM had a staff strength of 2,623 in its rank (with 955 officers, 1,340 clerks and 328 subordinate staff) while that of ICICI was 1,134. This was due to fact that ICICI had technology to support when it started the bank, an advantage not available to BoM.\(^{69}\)

**Financial Position of the Banks before and after Merger:** The pre-merger status of ICICI Bank is as follows: it had liabilities of Rs.12, 073 crore, equity market capitalization of Rs.2, 466 crore and equity volatility of 0.748. The pre-merger

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\(^{62}\) Id.  
\(^{63}\) Id.  
\(^{64}\) Id.  
\(^{66}\) Id.  
\(^{67}\) Id.  
\(^{68}\) Supra note 28  
status of Bank of Madura is as follows: it had liabilities of Rs.4, 444 crore, equity market capitalization of Rs.100 crore and equity volatility of 0.69.

It can be noted that the total assets of ICICI Bank and the net profit has been increased substantially after the merger with Bank of Madura.

Benefits of the Merger

Benefits to the Society: This merger can be seen as being beneficial to the society. The merged entity will have around 2.6 million customer accounts and an extensive network of about 350 branches spread across India, providing a critical mass in an intensely competitive banking arena.70 This will also ensure an extended customer base and network in different parts of the country and will provide considerable cross-selling opportunities, enhancing the universal banking strategy of ICICI Bank fulfilling long term goals.71 The enlarged distribution network also offers scope to enhance fee income, particularly in core areas like cash management services (a traditional strongpoint of both the banks) and payment and collection services.

Benefit to Investors: From the point of view of investors, this merger a rise in value of shares from Rs 7.1 per share annualized to Rs 8.8 per share annualized. The merged entity’s net interest income works to Rs 248.36 cr and net profit works to Rs 96.44 cr. The total assets work to Rs 1, 6051.40cr, while deposits and advances (including credit substitutes) will be Rs 13,123.11 cr and Rs 8,534.20 cr respectively. The capital adequacy ratio will be roughly above the stipulated 10% at 12 – 13%.

Benefits to Employees: All the employees of Bank of Madura will be absorbed. There will be no retrenchment of any of the employees. A common consultant will be appointed for completing the process of integration of all Bank of Madura employees and this exercise is accepted to be completed in the next 9-12 months’ time.

Hence, this proposed merger is a godsend for BoM, which was otherwise a bankrupt entity which was headed for closure given the low probability that it would manage to raise Rs.800 crore of equity on a base of Rs.100 crore of market capitalisation. It is useful to observe that BoM probably did not see things in this way, given the willingness of India’s banking regulators to interminably tolerate the existence of bankrupt banks. Closure of BoM would normally involve pain for BoM's

71Id.
shareholders and workers; instead both groups will get an extremely pleasant ride if the merger goes through.\(^72\)

The proposed merger is a good thing for India's economy, since the headcount of bankrupt banks will go down by one, and there is a possibility of obtaining higher value added out of the poorly utilized assets and employees of BoM.\(^73\)

Bank of Madura is strong in south India states and ICICI is very strong in Central and North Indian states, which would give a complacent advantage to both the banks. Though the size of ICICI Bank is almost thrice that of BoM's in terms of deposits, the number of employees in ICICI is around 1400 compared to 2500 employees in BoM. With the manual interpretations and procedures and the lack of awareness of the technology utilisation in BoM, there would be many hinderances in the merged entity. Hence ICICI set up sub-groups to look into areas such as IT, audit and HR. Thus this merger has helped both the Banks incredibly. While ICICI has met their manpower requirements, Bank of Madura has been able to upgrade their technological requirements after the merger.

**IV. Merger between BANK of Baroda with Banaras State BANK**

Bank of Baroda was founded by Maharajah of Baroda Sir Sayajirao Gaekwad on July 20, 1908 in the princely state of Baroda, in Gujarat. The bank, along with 13 other major commercial banks of India, was nationalized on 19 July, 1969. The bank has been ranked 283rd biggest bank in the world by The Bankers (June 2009), London. Its total global business was Rs. 7,003.30 billion as of 30 Sep 2012. Its headquarter is in Vadodara and corporate headquarter is in Bandra Kurla Complex Mumbai.\(^74\) Banaras State Bank established in 1946 promoted by the Maharaja of Banaras. It was converted into a public limited company with 3 branches in Varanasi. In 1964 Bareilli Bank Ltd. with 7 branches was merged with this bank. The bank also took over the Lucknow Bank Ltd. in 1968. Benares State Bank had 105 branches, out of which 91 are in Uttar Pradesh. It had a total staff of 1,400. The Benaras State Bank was in loss consecutively for last three years when merger took place on 20.06.2002 and turned insolvent with negative net worth and negative capital adequacy and finally the BOB has taken over 105 branches of BSB under the directive of RBI & Government of India with the objective of safeguarding the interest of depositors of BSB. As at that point of time most banks in India where trying to expand their customer base and thereby increase the


\(^{73}\)Id.

\(^{74}\)Currency and Finance (2008). p.15, RBI.
consumer banking business. Benares State Bank helped Bank of Baroda in this aspect.75

These developments are expected to have important implications for operating performance and profitability in the banking system. Therefore from the viewpoint of both managerial and policy interests, it is extremely important to know how the banking industry has been reacting to the emerging challenges and which banks are performing better than others in this period of transition. The Central Government approved of the merger between Bank of Baroda and Benares State Bank Ltd. By result of this amalgamation, Bank of Baroda gained 150 branches and on the other hand, Benares State Bank Ltd. saved itself from liquidating its assets as a result of insolvency. The Reserve Bank of India drew up the scheme of amalgamation under Section 45 of the Banking Regulation Act. The Scheme of Amalgamation came into force on 20th June, 2002. Some of the important features of this scheme of amalgamation are as follows:

1) All the staff security deposits were to be paid in full along with their accrued interests.

2) All the other outside liabilities were also to be paid or provided in full by a certain prescribed date.

3) The provisions of the Scheme also mentioned that all deposits up to Rs. 1 lakh were to be paid in full by the Bank of Baroda or the Deposit Insurance and Credit Guarantee Corporation.

4) All the deposits above Rs. 1 lakh were to be paid on a pro-rata basis based on the evaluation of the assets of the Benares State Bank Ltd.

5) All the Branches of Benares bank Ltd. were to be converted as the Bank of Baroda branches.

Generally when a bank is undergoing moratorium or is about to face insolvency then the depositor is only allowed to withdraw up to Rs.10,000 from their savings bank account or current account or any other deposit account. Along with this condition, the depositor is also not allowed to withdraw the same from the ATM but only by going to a branch of the bank.

Especially during the run up to the amalgamation and when the Benares State Bank Lt. was put under a moratorium, the RBI issued a directive under Section 35A of the Banking Regulation Act banning the withdrawal of deposits over Rs.1000 from the

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bank, which was subsequently relaxed allowing withdrawals of up to Rs. 2,500\textsuperscript{76}. After the merger, Bank of Baroda allowed the accounts with deposits up to Rs 1 lakh to be protected under the Deposit Insurance and Credit Guarantee Corporation’s scheme\textsuperscript{77}.

The drawback for a shareholder during the period of moratorium of a bank is that they don’t gain anything as the bank’s net worth gets eroded. Bank of Baroda was in loss for three years consecutively before the merger took place.\textsuperscript{78} They had turned insolvent with negative net worth and negative capital adequacy. The objective of Bank of Baroda to merge with Benares State Bank Ltd. was to safeguard the interest of the depositors of the Benares State Bank Ltd.

By this merger, not only did Benares State Bank Ltd. get rescued by the Act of Bank of Baroda but also at the time of merger most of the banks in India were trying to expand their customer base and thereby increase the consumer banking business. That way Benares State Bank Ltd. helped Bank of Baroda expand their national importance in the banking industry.

This form of merger between the banks was a forced merger for the reconstruction of the weak bank that is the Benares State Bank Ltd. Some of the effects of such a forced consolidation by the regulatory authority are the following\textsuperscript{79}.

- When merged entities compete with global peers, their service quality will improve.

- Customer will gain as synergy is produced, by tapping the respective strengths of both the merging parties.

- One of the drawbacks to the customer of the bank being taken over would be the effect on his relationships with third party entities. On the whole, the scheme of amalgamation between the two banks resulted in the increase of efficiency in the functioning of the bank over the years.

Performance of the Banks- Pre and Post Merger :

**Bank of Banares** : At the time of merger, i.e., in the financial year 2001-02, the capital of the bank was 62.10 crores (Cr.). The total deposits it had was worth 1031.93 Cr. It

\textsuperscript{76} http://www.business-standard.com/article/finance/bank-of-baroda-to-take-over-benares-state-bank-101102001032_1.html


\textsuperscript{78} Id.

\textsuperscript{79} http://www.rediff.com/money/2006/oct/04bank.htm
had investments to the tune of 630.90 Cr. Advances made by it amounted to 229.96 Cr. Its total assets were worth 1134.58 Cr. However, the losses it was running into amounted to 13.38 Cr.\textsuperscript{80}

The Reserve Bank of India put the Benares State Bank under a directive under Section 335 (A) of the Banking Regulation Act. In effect, the bank’s depositors could not withdraw their deposits in excess of Rs 1,000. The bank had turned insolvent with a negative net worth and negative capital adequacy ratio. It had been posting net losses for about four years.

**Bank of Baroda**

At the time of merger, i.e., in the financial year 2001-02, the capital of the bank was 294.33 Cr. The total deposits it had was worth 53985.78 Cr. It had investments to the tune of 19857.11 Cr. Advances made by it amounted to 27420.67 Cr. Its total assets were worth 63321.98 Cr. However, the losses it was running into amounted to 00274.66 Cr. Bank of Baroda’s pre merger performance efficiency in the years 2000-2003 are as follows 69.08, 72.08, -47.08 and -11.581.\textsuperscript{81}Benaras State Bank merger with Bank of Baroda in the year 2002, shows that the post merger expense has increased when compare to pre merger. Post Capital adequacy ratio results establishes increased performance when compare to pre merger. Asset turnover ratio shows that compare to post merger, the pre merger efficiency shows better in asset turnover. Credit deposit has increased to 64.41 from 48.32 in post merger. Investment deposit ratio shows slight decrease in post merger.\textsuperscript{82}Research shows that compare to pre merger the post merger performance shows lesser efficiency score as 87 and 85. In post merger performance efficiency Benares State Bank and Bank of Baroda score shows as 100 percent in the 2003, 2004 and in 2009. Apart from that other years the efficiency reached up to 99 percent in post merger.\textsuperscript{83}It also infers that compare to pre merger the post merger performance shows improving efficiency due to the input and output reference the efficiency score has changed. The mean growth rate of capital clearly shows the fact that Bank of Baroda achieved very low growth of (-9%). The growth of mean value of capital of Bank of Baroda was found negative. It is clear that Bank of Baroda have shown a significant growth of deposits during post-merger period than the average deposits received during pre-merger period. The application of t test showed that

\textsuperscript{80}Id.


the bank have shown significant change in the average deposits after merger. The mean growth rate of deposits clearly shows the fact that the bank has achieved 61% of growth.

Changes in average growth of investments and its variability of sample merged banks. It is significant to note that Bank of Baroda taken for this study have shown a positive growth in investments during post-merger period compared to the investments made during pre merger period. The application of test showed that Bank of Baroda have shown significant change in the average investments after merger. It is clearly understood from the mean growth rate of investment that Bank of 68%. Changes in average growth of total advances and its variability in a merged Bank of Baroda. It is clear that Bank of Baroda have shown upward growth in total advances after merger. As stated earlier, the test was used to test the significance of average change in total advances of merged bank after merger. The application of test showed that BOB have shown significant change in the average advances after merger. Changes in average total income and its variability of the merged Bank of Baroda. It is clear that the bank has shown upward growth in total income after merger. As stated earlier, the t-test was used to test the significance of average change in total income of merged bank after merger. The application of t-test showed that Bank of Baroda have shown significant change in the average total income after merger of 34%.

Consequences & Benefits Of Merger: The Benares State Bank ltd. was merged with Bank of Baroda on July 19, 2002. The main reason for the merger as known to be forceful simply for the reconstruction of the weak bank. Apart from these, the other reasons for the merger include, to protect the depositor’s interests, to increase the productivity per employee of the target bank and also improving the mismanagement that perhaps led to the insolvency of the target bank. The target bank here being the Benares State Bank. The analysis of financial ratios shows that efficiency has increased after the merger of Bank of Baroda and Benares State Bank. Improvement has been observed after merger in total income to total capital ratio, interest income to interest expenditure ratio, net profit to total capital ratio,


85 Jagriti Kumari, Mergers And Acquisition In Banking, Competition Commission of India, 1 (Sept. 3, 2010), http://cci.gov.in/images/media/ResearchReports/mergers%20banking.pdf

86 TIWARI, supra note 5
advances to deposits ratio and advances to total assets ratio. Poor performance has been observed in the case of deposits to total assets ratio, deposits to investments ratio, fixed asset to total assets, total income to total assets ratio and net profit to total assets ratio. Deposits to Total Assets Ratio Bank of Baroda and Benares State Bank, reveals that the average value of deposits to total assets ratio was 86%. The deposits to total assets ratio is equal and higher than average value during after merger period except in 2006 whereas it is lower than average value during before merger period except in 2000. With regard to deposits to total assets ratio, it has found that the performance of bank has increased after merger except 2006. The curve of deposits to investments ratio shows that there is decreasing trend till 2004 after that it begins to rise continuously. The fixed assets to total assets ratio is the highest in 1998 while fixed assets to total assets ratio is the lowest in 2006. The fixed assets to total assets ratio is equal and higher than average value during pre-merger period whereas it is lower than average value during post merger period. With regard to the fixed asset to total assets ratio, it has found that the ratio of fixed asset to total assets is lower during post merger period.

V. PUNJAB NATIONAL BANK AND NEDUNGANDI BANK MERGER: PUNJAB NATIONAL BANK (PNB), the first Indian bank started only with Indian capital, was registered on May 19, 1894 under the Indian Companies Act with its office in Anarkali Bazaar Lahore. PNB was nationalized in July 1969 and currently the bank has become a front-line banking institution in India. One of the major achievements of the Bank is covering all the branches (100%) of the Bank under Core Banking Solution (CBS), with more than 2150 ATMs. It serves over 38 million customers. Apart from offering banking products, the bank has also entered the credit card & debit

\[87 Id.\]
\[88 Id.\]
\[89 Kumhar, supra note 12\]
\[90 Tiwari, supra note 5\]
\[91 Id.\]
\[92 Id.\]
\[93 Id.\]
\[94 Id.\]
\[95 Id.\]
card business; bullion business; life and non-life insurance business; gold coins & asset management business, etc.\textsuperscript{96}

NEDUNGADI BANK LTD. (NBL) established as a commercial bank at Calicut in Kerala in 1913.\textsuperscript{97} The Bank being the first commercial bank to be set up in South India, took over selected assets and liabilities of the Coimbatore National Bank Ltd., in 1965.\textsuperscript{98} With branches at all major metropolitan cities like New Delhi, Calcutta, Chennai, Mumbai, Ahmedabad etc., Nedungadi Bank has almost widened its operations to a truly national level.\textsuperscript{99} Capital Inadequacy and a high level of Non-Performing Assets (NPA) were the main factors that led the century-old private sector Nedungadi Bank Limited into a severe financial crisis forcing the centre to put the bank under moratorium.\textsuperscript{100} NBL was taken over by PNB in 2003.\textsuperscript{101} At the time of the merger with PNB, Nedungadi Bank's shares had zero value, with the result that its shareholders received no payment for their shares. It was a forced merger under the direction of Reserve Bank of India (RBI) and Government of India (GOI).\textsuperscript{102}

Main Reasons/ Motives of Merger: The main reasons as to why the two banks merged were as follows:\textsuperscript{103}

1. Capital Inadequacy and a high level of Non-Performing Assets: this was one of the main reasons for the merger. The Nedungadi Bank Limited was not being able to maintain its capital nor being able to make profits. It had been declared a sick company as well.

2. Productivity per employee of NBL was low: The employees were not being able to make to cater to the need of the Bank and were not as productive and efficient as they were required to be so as to ensure higher productivity.

3. RBI merged sick bank with healthy bank to protect depositor's interests: Nedungadi Bank Limited was a sick and hence to ensure that the depositor’s did not lose out, the Reserve bank of India suggested that the same merges with a healthy bank i.e., Punjab National Bank.

\textsuperscript{96}Id.  
\textsuperscript{97}Id.  
\textsuperscript{98}Id.  
\textsuperscript{99}Id.  
\textsuperscript{100}Id.  
\textsuperscript{101}Id.  
\textsuperscript{102}Id.  
\textsuperscript{103}Supra note 1
The Reserve Bank of India (RBI) had put forth the terms of merger/amalgamation that was to take place between Nedungadi Bank Limited and Punjab National Bank. They were as follows:\(^{104}\)

1. The proposed scheme of amalgamation offers full protection of all public deposits in the old private sector bank.

2. The RBI said in a notification that it had got several requests from depositors of Nedungadi Bank to allow them to withdraw in excess of Rs 5,000 for various personal and other reasons and that it would consider these requests on a case-to-case basis depending on the genuineness. The regulator had put the bank under moratorium up to February 1, 2003, earlier this month and restricted depositors of Nedungadi from withdrawing more than Rs 5,000 during the moratorium.

3. All the employees of Nedungadi Bank will become the employees of PNB at the same remuneration and terms and conditions.

4. From the date of operation of the scheme, the entire paid-up capital and reserves of the bank will be treated as provision for bad and doubtful debts and depreciation. The bank's net worth was eroded by a provision of Rs 64 crore last year for business losses, mainly on account of a share arbitrage scheme. It had a total capital base of Rs 10 crore, about 50-60 per cent of which was reportedly shared by stockbroker Mr Rajendra Banthia, Mr Mantri and a Mumbai-based textile mill owner.

5. RBI has also stated in the scheme of amalgamation that no legal proceedings shall lie against the Central Government, the RBI, PNB or Nedungadi for ‘anything which is in good faith done or intended to be done in pursuance of the scheme’.

6. According to the scheme, all assets, liabilities, powers, claims and demands etc. will be transferred to PNB from a prescribed date which is yet to be notified by the apex bank. The books of Nedungadi will be closed, balanced and the balance sheet prepared as at November 2, 2002, and thereafter at the close of business on the date immediately preceding the prescribed date.

7. For asset valuation, the scheme provides that investments shall be valued at market rates of the day preceding the prescribed date. For determining liabilities, all contingent liabilities that PNB may reasonably be expected or required to meet out of its own resources on or after the prescribed date shall be included. The

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Nedungadi Bank share closed 4.45 per cent up at Rs 15.25 on the BSE today. PNB closed at Rs 41.85, up 1.21 per cent on the BSE.

**Progress after the merger:** This has been the seventh merger in PNB’s history of more than 115 years. PNB’s management team has been quite successful in managing the mergers and ensuring the integration process in an efficient manner. No other bank has had as many mergers as PNB. This specific merger has improved the franchise value of the Bank, particularly, in the relatively underrepresented Kerala region. In order to meet future capital requirements on account of implementation of Basel II norms, in March 2005, the Bank came out with Follow-on Public Offer (FPO) through the book building process, reducing the shareholding of Govt of India to 57.8%. Punjab National Bank with more than 5400 domestic offices including Extension Counters has the largest network amongst the nationalized banks i.e. next only to SBI. The bank has a strong franchise value and provides several financial products and services, both to the retail customer and corporate business. The result of regression equation has been found effective after merger of PNB and NBL from the point of view of capital, deposits, advances, interest earned and total income. In the case of investments, fixed assets, interest expenditure, total expenditure, net profit and total assets result of regression equation has been found ineffective. There has been a significant growth during post-merger period than the average value during pre-merger period. It shows that merger of NBL with PNB have earned significant growth in Net profits (188%) and Advances (138%) than other 9 variables.

**VI. Merger between Global Trust Bank and Oriental Bank of Commerce (2004): Circumstances that led to the merger:** Reckless lending by GTB and inadequate growth in good assets and income to cover the bad over the bad over contributed to

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106 Id.
107 Id.
108 Id.
109 Id.
110 Id.
111 Id.
112 Id.
113 Id at 102.
114 Id.
a heap of assets.\textsuperscript{115} The bank had been hit by periodic bouts of reckless lending. The initial problems surfaced in 1997-98 when it was revealed that its advances made to small and medium-sized corporates were highly risky. The beleaguered bank, instead of adopting a more conservative approach to banking, actively fuelled the Ketan Parekh-led bull run in the stock market between December 2000 and March 2001. It lent heavily to players in the capital market and when the market crashed the bank's balance sheet suffered a gaping hole because share prices had dropped dramatically. In 2001, when it was attempting a merger with UTI Bank (which also attracted controversy), GTB lent more than Rs.800 crores. Much of the lending proved injudicious.\textsuperscript{116} The networth of the bank was forced to merge with OBC; the merger took place on 26 July 2004. The dealing was done directly but with the involvement of RBI.\textsuperscript{117}

Under the amalgamation scheme, shareholders would receive pro rates payment, if any surplus remained after meeting all GTB liabilities. All GTB branches would function as branches of Oriental Bank of Commerce. The OBC would decide which branches of GTB will stay in operations. The employees of the erstwhile GTB will be retained by OBC in their existing salaries for the next 3 years but will receive no increments during this period. The OBC was confident of recovering a good amount of letter’s NPA at the earliest with the help of aggressive recoveries and tax benefits through this merger. That is the reason it volunteered to amalgamate. Both the SBI and RBI assured the depositors that the demat and clearing accounts and the deposit lockers of the customers would function as normal.\textsuperscript{118} Considering the requests of various shareholders and the recommendation of the Depositories, SEBI had advised OBC to extinguish the shares of erstwhile GTB and notify the shareholders. Accordingly, the Bank had filed the Corporate Action form with depositories and the shares of e-GTB were extinguished w.e.f. 06.12.2005 & 08.12.2005 by NSDL & CDSL respectively.\textsuperscript{119}

As of March 2003, the net worth of the bank was wiped off owing to accumulated losses to the tune of Rs 2.65 billion\textsuperscript{120}. Following the failure of the management's

\textsuperscript{115} Jauch L.R., Business Policy And Strategic Management, 6th Edn. http://books.google.co.in/books?id=npO0tKN8my0C&pg=PA270&lpg=PA270&dq=benefits+of++merger+of+global+trust+bank+with+oriental+bank+of+commerce&source=bl&ots=oiO4uABSGV&sig=d-E2FHv6LmI8riAsrYt4rAPhHb0&hl=en&sa=X&ei=Fip_VFXFt7gE2FHv6LmI8riA&ved=0CFkQ6AEwCA#v=onepage&q=oriental&f=false

\textsuperscript{116} http://www.frontline.in/navigation/?type=static&page=flonnet&rurl=fl2117/stories/20040827003502800.htm

\textsuperscript{117} Supra note 1.

\textsuperscript{118} Supra Note 1.

\textsuperscript{119} http://www.obcindia.co.in/upload/MainMenuEnglishLevel-share.htm

\textsuperscript{120} http://www.crisil.com/Ratings/Brochuereware/News/GTBOBC_020804.PDF
repeated attempts to infuse capital in GTB, the RBI placed a moratorium on the bank's operations on July 24 to protect the depositors' interest. On July 26, RBI announced the merger of GTB with OBC The amalgamation between Global Trust Bank and Oriental Bank of Commerce was sanctioned by the Government of India and came into effect from August 14, 2004.

It is clear from the above ratio of Time and Saving Deposit/ Total Deposits has decreased marginally in the post merger period. On the contrary the Credit / Deposit ratio has increased in the post merger period. The ratio of Government securities to total assets has decreased; it therefore implies that in the post merger period they have invested in government securities. The analysis suggests that the performance of Oriental Bank of Commerce after acquired global trust bank Ltd has not been improved in terms of Profit margins etc. Therefore the performance of Oriental Bank of Commerce has not resulted in profitability after the merger and neither has it created any positive effects.

Although, GTB’s amalgamation with the Oriental Bank of Commerce had nothing for investors because the RBI has ruled out any share swap deal.\footnote{http://indiadaily.intoday.in/story/global-trust-bank-gtb-merges-oriental-bank-of-commerce/1/195653.html.}

\section*{I. \textbf{analysis on whether the merger was beneficial or not}}

It would appear that the scheme of amalgamation was certainly beneficial.

1) Tax exemptions

As part of the merger proposal, the OBC availed Income Tax exemptions in transferring the assets of GTB in its book during the merger process, while all the bad debts of the merged entity were adjusted against the cash balances and reserves of the Hyderabad-based bank.\footnote{http://www.banknetindia.com/banking/gtb5.htm.}

2) Interest of depositors was partially protected

Under the scheme of arrangement, all GTB depositors (savings, current, term deposit, etc) became OBC deposit holders on the prescribed date. OBC credited interest due to GTB deposit holders according to the rate determined by RBI, for the period from July 24, 2004 to the prescribed date. From the prescribed date, the rate of interest was similar to that offered to OBC deposit holders.\footnote{Supra Note 6.} Although, under such an

\footnotetext[121]{Id.}
\footnotetext[123]{http://www.banknetindia.com/banking/gtb5.htm.}
\footnotetext[124]{Supra Note 6.}
arrangement, depositors would maintain their principal, but they lost some interest. Post the merger, a drop of at least 75 bps in interest rate was incurred. Comparison with other South India-based private sector banks reveals that there is a 50-75 bps difference between interest rates. The same can be observed by the following table:

3) The merger had a favorable impact for OBC in terms of an increase in its reach and presence in South India and an addition of 1 million retail deposit holders. The bank’s branch network increased to 1092. OBC's risk weighted asset base increased, lowering the combined capital adequacy ratio (CAR) of the merged entity by 223 bps to 12.24 per cent.\(^\text{125}\)

4) The stock, which opened at Rs 263, slipped to a low of Rs 247 before bouncing back to touch a high of Rs 283 on the BSE after the RBI announced the amalgamation of Global Trust Bank (GTB) with the bank.\(^\text{126}\)

5) Synergy between the two banks

Synergy, or the potential financial benefit achieved through the combining of companies, is often a driving force behind a merger. Shareholders will benefit if a company's post-merger share price increases due to the synergistic effect of the deal. The expected synergy achieved through the merger can be attributed to various factors, such as increased revenues, combined talent and technology, or cost reduction.

II. Just before the RBI announced the amalgamation of GTB with OBC on July 26, the Union Finance Minister said that GTB had been ‘sliding for some time’. He also hinted that regulatory vigilance may have failed in the past. Referring to the health of OBC post-merger, Finance Ministry sources justified it by saying that OBC, which had only a small presence in South India, would now be able to grow rapidly in the region. The advances made by OBC in 2003-04 amounted to Rs.19,861 crores, compared to GTB's Rs.3,276 crores; the public sector bank made a net profit of Rs.686 crores, compared to a loss of Rs.272 crores registered by GTB in 2003-04; and while OBC had no non-performing assets GTB's NPAs accounted for almost 20 per cent of its assets.\(^\text{127}\) A bank in trouble could have chosen either to implement a course correction or to indulge in window-dressing. It is evident that the management preferred the latter course whenever the bank faced problems. The benefits of the same are put forth above. In these kinds of situations, the merger saves a company

\(^{125}\) Supra note 6.


\(^{127}\) Supra Note 2.
(such as GTB) and results in an advantage for the acquirer Company (such as OBC).

**VII Merger between BANK of PUNJAB & Centurion Bank (2005):**

**Bank of Punjab:** Established in 1989, in pursuance of The Bank of Punjab Act 1989 and was given the status of scheduled bank in 1994. Bank of Punjab is operating since April 1995 when its first branch was opened in Chandigarh. By March 1996, its deposit base was Rs. 2342.17 Crores. In 4 years, the annual growth rose to Rs. 3244.76 which was 200%. Bank of Punjab is the first bank to focus on retail banking and to introduce fax banking and tele-banking for its customers. It had a tie up with Master Card International for its MAESTERO, SWADHAN and CIRRUS International card network. It has set up ‘Dr. Inderjit Singh Institute of Banking and Insurance Management’ at Gurgaon, near Delhi, to provide ideal learning environment for banks’ professionals. The Bank of Punjab is working as a scheduled commercial bank with its network of 266 branches at all major business centres in the country. The Bank provides all types of banking services such as Deposit in Local Currency, Client Deposit in Foreign Currency, Remittances, and Advances to Business, Trade, Industry and Agriculture. The Bank of Punjab has indeed entered a new era of science to the nation under experience and professional hands of its management. The Bank of Punjab plays a vital role in the national economy through mobilization of promoting savings and providing funds for investments. Attractive rates of profit on all types of deposits, opening of Foreign Currency Accounts and handling of Foreign Exchange business such as Imports, Exports and Remittances, Financing, Trade and Industry for working capital requirements and money market operations are some facilities being provided by the Bank. As agriculture is considered as backbone of our economy the Bank of Punjab has introduced ‘Kissan Dost Agriculture Finance Scheme’ to small farmers.

**Centurion Bank:** The company was incorporated on 30 June, 1994 and the certificate of Commencement of Business on July 20th 1994. It is promoted as a joint venture between 20th Century Finance Corporation Ltd, and its associates and Keppel Group of Singapore. It has got a network of 10 branches. In 1995, 20th Century Finance Corporation Limited has been amalgamated With Centurion Bank Limited. In 1995, The Bank set up in a fully computerised environment with ATM facility at every branch and Computer networking. Same year Bank has introduced, for the first time in the country, the concept of `anywhere banking' which enables to operate the account from any other branch of the Bank.

In 1996, the Bank made an issue of 22,50,000 Equity Shares to the shareholders of promoter company and allotted 9,42,50,000 Equity Shares to the promoters as well as others including Keppel Group, International Finance Corporation and Asian
Development Bank out of the application money which had already been received by the Bank. In 1997, bank was awarded the highest safety ‘A1’ rating By the Industrial Credit Rating Agency.

In 1998, Centurion Bank Ltd proposes to be the first bank to offer Internet banking in its true sense. Same year, The company also recently spun off its Car finance division into a 49:51 joint venture with General Motors Acceptance Corporation (GMAC), one of the largest auto finance companies in the world. In 1999, The Bank is linked to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network enabling it to transmit worldwide the financial messages instantly. The Bank will also continue to focus on trade financing, both domestic and international, as a niche-market product.

**The Merger:** Private Banks are taking to the consolidation route in a big way. Bank of Punjab (Bop) and Centurion Bank (CB) have been merged to form Centurion Bank of Punjab (CBP). RBI has approved merger of Centurion Bank and Bank of Punjab effective from October 1, 2005. The merger is at a swap ratio 9:4 and the combined bank is called Centurion Bank of Punjab. The merger of the banks will have a presence of 240 branches and extension counters, 386 ATMs, about 2.2 million customers. As on March 2005, the net worth of the combined entity is Rs 696 crore and the capital adequacy ratio is 16.1 per cent in the private sector, nearly 30 banks are operating. The top five control nearly 65% of the assets. Most of these private sector banks are profitable and have adequate capital and technology edge. Due to intensifying competition, access to low-cost deposits is critical for growth. Therefore, size and geographical reach becomes the key for smaller banks. The choice before smaller private banks is to merge and form bigger and viable entities or merge into a big private sector bank. The proposed merger of Bank of Punjab and Centurion Bank is sure to encourage other private sector banks to go for the M&A road for consolidation. Centurion Bank of Punjab is a new generation private sector bank offering a wide spectrum of retail, SME and corporate banking products and services. It has been among the earliest banks to offer a technology enabled customer interface that provides easy access and superior customer service. The shares of the bank are listed on the major stock exchanges in India and also on the Luxembourg Stock Exchange.

**Gains from the Merger:** Combined entity the Punjab-centurion bank would be among the top 10 private sector banks in the country. Merged entity would benefit from the fact that centurion bank had recently written of its bad loans against equity. Branch network of the two banks will complement each other. The combined entity will have a nationwide reach. Centurion Bank is strong in South India, Maharashtra and Goa whereas Bank of Punjab is strong in Punjab, Haryana and Delhi. While Centurion Bank has 82 per cent of its business coming from retail,
Bank of Punjab is strong in the Small and Medium Enterprises (SMEs) segment and agricultural sector. The book value of the bank would also go up to around Rs 300 crore. The higher book value should help the combine entity to mobilize funds at lower rate. The combined bank will be full-service commercial bank with a strong presence in the Retail, SME and Agricultural segments.

**Share Holding Pattern Of Centurion Bank Of Punjab**: After the merger the share holding of Bank of Punjab (BoP) promoters will shrink to 5%. The family of Darshanjit Singh which promoted BoP currently holds 15.62%, while associates hold another 11.40% the promoter stake will now fall down to around 5% and for associate that would be 7-8%. The major stakeholder of the centurion bank, bank of Muscat’s stake will fall to 20.5% from 25.91%, Keppel’s stake will be at 9% from current level of 11.33% and Rana Talwar’s Saber capital will have a stake of 4.4% as against 5.61%. The promoters of the BoP and major stakeholders of centurion bank will have a combine stake of around 42% in the merged entity-centurion Bank of the Punjab.

**Post Merger Impact (Positive Impact)**: The merger has made a good impact on the 2 banks. Following are the post merger effect of CBOP:

1) After merger the Centurion Bank Of Punjab had become a 10 top largest private sector bank.

2) While Centurion Bank has 82 per cent of its business coming from retail, Bank of Punjab is strong in the Small and Medium Enterprises (SMEs) segment and agricultural sector. The combined entity will have a nationwide reach.

3) The Bank expanded its distribution significantly to tap into both existing as well as emerging market segments. The Direct Distribution channel of the Bank was focused on Mortgages, Personal Loans and Credit Cards. This channel widened the Bank's reach across different customer segments. The year 2006-07 has been another year of transformational growth for the Bank. The Bank continues to grow rapidly in all the business areas. The growth in the Bank's retail advances at 65% reiterates its retail focus. Additionally, the growth in the Corporate/SME advances at 89% demonstrates the emergence of the SME segment as a rapidly scaling up second growth engine for the Bank.

4) The Bank has a network of 279 branches across 147 locations, 47 Asset Finance Division offices, 77 administrative offices and 408 ATMs as on March 31, 2007. As on 2008, the Bank had a significantly larger distribution network with 1,229 branches and 2526 ATMs in 444 cities as against 761 branches and 1,977 ATMs in 327 cities as of March 31, 2008.
5) The Bank crossed the milestone of 100,000 credit cards with the Miracle Credit Card.

6) During the year 2006-07, the Bank's Information Technology (IT) Department successfully completed the implementation of Finacle 7.0.11 across all the branches of the Bank. The Bank now has a single Core Banking Platform. In addition new software systems for Retail Assets, ATMs, Cash Management, Depository Operations,

7) Electronic Payment Gateway and Wealth Management were implemented during the year.

8) The staff strength has increased to 5,832 as in 2007 from 4,471 as in 2006. Accordingly, the staff costs have increased to Rs.221.31 crores from Rs.142.4 3 crores.

9) The Bank stays committed to augment its talent with quality resources from the top Management Schools in the country. 253 Management Trainees joined the Bank during the year 2006 - 07. Further, 427 Management Trainees have been recruited who join in 2007-08.

10) Training programmes for Relationship Managers, Branch Heads, Financial Advisors and others were instituted to

11) enhance product knowledge, selling skills and customer service across the Bank . 63 training programmes were conducted for 1040 employees to facilitate smooth transfer to the new software.

12) The Bank continued to use the online HRMS system, now re-christened as 'OASIS' and additional modules like online transfers, confirmations leave records, etc. were launched during the year. The online Appraisal system was further refurbished and was used for conducting performance appraisals during the year.

13) The Perform net worth of combined entity as at March 2005 stood at Rs 696 crore with Centurion's net worth at Rs 511 crore and Bank of Punjab's net worth at Rs 181 crore, and the combine entity (Centurion Bank of Punjab) will have total asset 9,395 crore, deposit 7,837 crore and operating profit 43 crore.

**Highlights of the Merger:** Bank of Punjab was merged with Centurion Bank and the new entity will be named ‘Centurion Bank of Punjab’. Centurion Bank’s chairman Rana Talwar will take over as the chairman of the merged entity. Centurion Bank’s MD Shailendra Bhandari will be the MD of the merged entity. KPMG India Pvt Ltd and NM Raiji & Co are the independent valuers and
Ambit Corporate Finance was the sole investment banker to the transaction. Swap ratio has been fixed at 4:9, that is, for every four shares of Rs 10 of Bank of Punjab, its shareholders would receive nine shares of Rs 1 of Centurion Bank. There has been no cash transaction in the course of the merger; it has been settled through the swap of shares. There will no downsizing via the voluntary retirement scheme.

VIII Merger between Centurion Bank of Punjab and Lord Krishna Bank

Background of the Banks

The Centurion Bank of Punjab

The Centurion Bank of Punjab (formerly Centurion Bank) was an Indian private sector bank that provided retail and corporate banking services. It operated on a strong nationwide franchise of 403 branches and had over 5,000 employees. The bank listed its shares on the major Indian stock exchanges and on the Luxembourg Stock Exchange. On 23 May 2008 HDFC Bank acquired Centurion Bank of Punjab.128

Centurion Bank was incorporated on 30 June 1994 and received its certificate of Commencement of Business on 20 July. Centurion Bank was a joint venture between 20th Century Finance Corporation and its associates, and Keppel Group of Singapore through Kephinance Investment (Mauritius). Centurion had a network of ten branches, which grew to 29 branches the next year. Also in 1995 Centurion Bank amalgamated 20th Century Finance Corporation.129 On 29 June 2005, the boards of directors of Centurion Bank and Bank of Punjab agreed to a merger of the two banks. The combined bank took as its name Centurion Bank of Punjab. Bank of Punjab had been founded in 1994. The next year Centurion Bank of Punjab acquired Kochi-based Lord Krishna Bank.130

Lord Krishna Bank: Lord Krishna Bank was a private sector bank headquartered at Kodungallur, in Thrissur District of Kerala state in India.131 The bank was founded in 1940. In the 1960s, it acquired three commercial banks: Kerala Union Bank (est. 22 September 1952); Thiyya Bank, which was established in 1941, and merged on 16 November 1964; Josna Bank, which was established on 12 June 1944 in Cochin by N. Govinda Pai and N. Lakshmana Pai, of the Gowda Saraswath Brahmin community. In 1961, Josna Bank acquired the assets and liabilities of the Tripunithura Union Bank (est. 23 July 1929). The merger between Josna Bank and

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129 Supra n.1
130 http://en.wikipedia.org/wiki/Lord_Krishna_Bank
Lord Krishna Bank was effective 13 October 1965. At the time Josna Bank had 14 branches. Lord Krishna Bank became a scheduled commercial bank in 1971. In 2007, Lord Krishna Bank was merged with Centurion Bank of Punjab.\textsuperscript{133}

**Scheme of Merger/ Amalgamation As Proposed By Reserve Bank Of India**

The Reserve Bank of India has sanctioned the Scheme of Amalgamation of Lord Krishna Bank Ltd. with Centurion Bank of Punjab Ltd. The Scheme has been sanctioned in exercise of the powers contained in Sub-section (4) of Section 44A of the Banking Regulation Act, 1949. The Scheme will come into force with effect from August 29, 2007. All the branches of Lord Krishna Bank Ltd. will function as branches of Centurion Bank of Punjab Ltd. with effect from August 29, 2007.\textsuperscript{134}

1. The LKB-CBoP merger in the ratio 5:7 was approved by the AGMs of the respective banks in September 2006. However, one of the shareholders Umeshkumar Pai had challenged the merger and had sought an investigation into the affairs of LKB, while arguing that the decision was taken without sufficient discussion and many shareholders were not permitted in the meeting hall.\textsuperscript{135}

2. These shares would be issued in the ratio of seven equity shares of Re1 each of Centurion Bank of Punjab for every five equity shares of Rs10 each held by them in Lord Krishna Bank Ltd on the record date to be fixed for this purpose.\textsuperscript{136}

3. The merger will add Rs 300 crore to CBoP’s balance sheet, which is around Rs 18,480 crore at present, and another 112 branches to its current 279 branches. CBoP plans to add more than 200 branches by December 2007.\textsuperscript{137}

4. The all-stock merger deal of LKB with CBoP followed the acquisition of Bank of Punjab by Centurion Bank, after which it was rechristened as CBoP.\textsuperscript{138}

5. Rana Talwar will be the chairman and Shailendra Bhandari the managing director and CEO of the merged entity. It is proposed that Mohan Puri would join the board of Centurion Bank of Punjab, subject to regulatory approvals.\textsuperscript{139}


\textsuperscript{134}http://www.banknetindia.com/banking/70836.htm

\textsuperscript{135}Id

\textsuperscript{136}Id

\textsuperscript{137}Id

\textsuperscript{138}Id

\textsuperscript{139}Id
6. Centurion Bank of Punjab proposes to issue 75 million fully paid up equity shares at Rs24.54 per equity share for Rs184.05 crore to India Advantage Fund V and 95 million fully paid up equity shares at Rs25 per equity share for Rs 237 crore to Bank Muscat (S A O G).\[140]\n
7. The additional capital raised will enable the bank to maintain a strong capital position post merger and provide the support and drive that the bank requires to ensure accelerated growth over the following quarters.\[141]\n
8. As part of the integration of both banks, it is envisaged that there will be no retrenchment of staff of either bank and there will be no closure of any rural branches. Additionally, the scheme of amalgamation provides for a one-time increment to all existing employees of Lord Krishna Bank.\[142]\n
9. Centurion Bank of Punjab will have an extraordinary general meeting (EGM) of its shareholders on September 30, 2006, the date on which Lord Krishna Bank has scheduled its AGM, and both banks will seek approvals for the merger from their respective shareholders at these meetings.\[143]\n
Comments by Managing Directors: Mohan Puri, Director, Lord Krishna Bank, ‘The proposed merger is in the best interests of all the stake holders i.e. customers, employees and shareholders as all of them would greatly benefit from being part of a larger, rapidly growing bank. Centurion Bank of Punjab is fully committed to look after employees’ interest, which was one of the key considerations while choosing the merger partner.’\[144] Rana Talwar, Chairman, Centurion Bank of Punjab, ‘The proposed merger with Lord Krishna Bank firmly establishes Centurion Bank of Punjab’s role as an industry consolidator. The merger of Bank of Punjab with the erstwhile Centurion Bank has been an unqualified success, we are confident that the proposed merger will accelerate the Bank’s growth

140 Id
141 Id
142 Id
143 Id
144 Id
momentum and help it move towards becoming the best full service bank in the country.\footnote{Id}

**Analysis and Conclusion:** Primary purpose of mergers and acquisition is to reduce competition and protect existing markets in the economy. Overall mergers and acquisitions have their own pros and cons. But mergers are good for the growth and development of country only when it does not give rise to competition issues.\footnote{Id} Mergers improve the competition edge of the industry in order to compete in the global market but mergers shrink the industry because number of firms reduces. Mergers help banks to strengthen their financial base and access tax benefits and direct access to cash resources.\footnote{Id} If banks have priority to reduce capacity in domestic market then further consolidation is required in domestic market. Banks should opt for cross border merger if they have managed to reach the threshold level of concentration in domestic market.

Mergers and acquisition are done for consolidating strategies in order to expand the geographical area of operation but optimal level of cooperation should be allowed and followed so as to gain proper advantage of mergers.\footnote{Id}

Too many mergers inside or outside can be harmful for the economy and leads to economic failure.\footnote{Id}

In this particular merger the main benefit was that there was no retrenchment on either of the employees and no branches were closed down. Further Centurion Bank of Punjab reported its first profit in 5 years. It had a loss of 33 crores in the year prior to the merger and reported a profit of 195 crores in the year post the merger. Therefore one can conclude that the merger was a success.

**IX Merger of IDBI Bank Ltd. With IDBI Ltd (2005):**

IDBI Ltd: **Conversion into a banking Co.**

According to Central Governments notification the undertaking of IDBI was transferred to IDBI Ltd. on October 1, 2004. This was done in accordance with the provision of the Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003 (Repeal Act) and consequently the IDBI Act 1964 which was repealed in December 2003. The IDBI Repeal Act, 2003 provided that IDBI Ltd., the new

\footnote{Id} Merger and Acquisitions in the Banking Sector, Jagriti Kumari, Competition Commission of India, http://cci.gov.in/images/media/ResearchReports/mergers%20banking.pdf

\footnote{Id}

\footnote{Id}

\footnote{Id}
company would in addition to its existing activities as a Development Financial Institution (DFI), carry on with business of banking in accordance with the provision of the Banking Regulation Act, 1949. However, IDBI Ltd. has commenced commercial banking business in a limited way since October 1st, 2004. The Repeal Act allowed the IDBI Ltd. to function without a Banking License. All Fiscal and other concessions, licenses, benefits, privileges and exemptions, granted to the IDBI earlier, where also deemed to have been granted to IDBI Ltd. it is significant to know that RBI had included IDBI Ltd. as a ‘Scheduled Bank’ under the RBI Act, 1934 on September 30th, 2004. RBI had also classified IDBI Ltd. as ‘other Public sector banks’ on April 15th, 2005 considering that the government holding in IDBI Ltd. would always be above 51%.150

Merger with IDBI Bank Ltd. The transition to a banking co. needed the backdrop of a more favorable environment that would bring buoyancy to the operations of the new entity. As a result, the then IDBI board decided that IDBI Ltd. should leverage on its banking subsidiary, IDBI Bank Ltd. however, the scheme of amalgamation/merger – of IDBI Bank Ltd. with IDBI Ltd- was approved separately at the extra ordinary general meeting(EGMs) of IDBI Ltd. and IDBI Bank Ltd. held on 23rd February, 2005 and 25th February,2005 respectively. The RBI had approved the said amalgamation in accordance with sub-section (4) of Section 44A of The Banking Regulation Act, 1949 from 2nd April, 2005 onwards. Moreover, IDBI Ltd. issued 100 equity shares for 142 equity shares held by the shareholders of IDBI Bank Ltd. In the post merger, shareholding –of the Central Government in IDBI Ltd. – was a 52.83% as on 30 June, 2005.151

IDBI Bank Ltd will merge with Industrial Development Bank of India. The board of directors has taken in-principle decision to merge IDBI Bank Ltd with IDBI, the financial institution informed the Bombay Stock Exchange on Thursday. IDBI Bank Ltd informed the BSE that its board has given in-principle nod to merge the bank with Industrial Development Bank of India Ltd, to be formed and incorporated under the Companies Act, 1956, subject to regulatory, statutory and shareholders’ approvals. A BSE spokesperson said the IDBI Bank stock hit the upper limit of circuit filter while Industrial Development Bank of India stock continued to trade on the system. IDBI Bank stock, which opened at Rs 43.45 and

150 http://books.google.co.in/books?id=voI77SqQm64C&pg=PA107&lpg=PA107&dq=reasons+for+Merger+of+IDBI+Bank+Ltd.+in+2005&source=bl&ots=qxoj55xomI&sig=47Ig5_osfXc2Ko1G6VKrJ7ffE3Ihl=en&sa=X&ei=TbN8vJjXJuYCYBw&ved=0CFQQ6AEwCA#v=onepage&q=reasons%20for%20Merger%20of%20IDBI%20Bank%20Ltd.%20with%20IDBI%20Ltd.%20in%202005&f=false
151 Id.
hit the 20 per cent upper circuit in early trade, was locked at Rs 50.55. IDBI stock opened at Rs 64.25 and was ruling at Rs 68.25.  

IDBI has kept options open to merge its private banking arm IDBI Bank with itself or with a bank or even sell it off in future. 'There are four options before us for IDBI Bank -- one, it continues on its own; two, merge it with IDBI; three, sell it off; and fourth, merge it with another bank,' IDBI chairman M Damodaran told reporters in New Delhi on Tuesday. IDBI retail banking operations from April asked whether IDBI was considering merging IDBI Bank with UTI Bank, another private player, he said, 'That is the fourth option we are talking about.' Damodaran, who is also the chairman of UTI Mutual Fund, said the government will adopt a ‘structural approach’ to retain UTI Bank's stake with the special undertaking of UTI and there was no plan to sell it off. Foreign banking major HSBC had surprised everyone in the country and acquired 20 per cent stake in UTI Bank in the end of 2003. HSBC also obtained the permission of Foreign Investment Promotion Board recently to take its stake up to 40 per cent in UTI Bank asked whether, UTI Mutual Fund would allow HSBC to hike its stake, Damodaran said ‘it can happen when the existing shareholders sell their stakes in UTI Bank.'

IDBI Bank (Private Sector Bank) has been merged with IDBI Limited (Public Sector Bank) with effect from April 02, 2005. However, IDBI Bank (Private Sector Bank) has not submitted its balance sheet for the financial year 2004-05. For the financial year 2004-05, the balance sheet of IDBI Limited (Public Sector Bank) includes the data pertaining to IDBI Bank (Private Sector Bank).

**Industrial Development Bank of India:** Industrial Development bank of India (IDBI) was constituted under Industrial Development bank of India Act, 1964 as a Development Financial Institution and came into being as on July 01, 1964 vide GOI notification dated June 22, 1964. It was regarded as a Public Financial Institution in terms of the provisions of Section 4A of the Companies Act, 1956. It continued to serve as a DFI for 40 years till the year 2004 when it was transformed into a Bank.

**Industrial Development Bank of India Limited:** In response to the felt need and on commercial prudence, it was decided to transform IDBI into a Bank. For the purpose, Industrial Development bank (transfer of undertaking and Repeal) Act, 2003 [Repeal Act] was passed repealing the Industrial Development Bank of India Act, 1964. In terms of the provisions of the Repeal Act, a new company under the

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name of Industrial Development Bank of India Limited (IDBI Ltd.) was incorporated as a Govt. Company under the Companies Act, 1956 on September 27, 2004. Thereafter, the undertaking of IDBI was transferred to and vested in IDBI Ltd. with effect from the effective date of October 01, 2004. In terms of the provisions of the Repeal Act, IDBI Ltd. has been functioning as a Bank in addition to its earlier role of a Financial Institution.

**Merger Of IDBI with IDBI:** Towards achieving the faster inorganic growth of the Bank, IDBI Bank Ltd., a wholly owned subsidiary of IDBI Ltd. was amalgamated with IDBI Ltd. in terms of the provisions of Section 44A of the Banking Regulation Act, 1949 providing for voluntary amalgamation of two banking companies. The merger became effective from April 02, 2005. As on March 31, 2014 IDBI Bank has a balance sheet of Rs.3, 28,997 crore and business size (deposits plus advances) of Rs.4,33,460 crore. As a Universal Bank, IDBI Bank, besides its core banking and project finance domain, has an established presence in associated financial sector businesses like Capital Market, Investment Banking and Mutual Fund Business. Going forward, IDBI Bank is strongly committed to work towards emerging as the 'Bank of choice' and 'the most valued financial conglomerate', besides generating wealth and value to all its stakeholders.

**Return On Assets:** The return on average assets has declined from 8.6% for 18 months period ended September 2004 to 8.3% during the FY ended March 31, 2005, while the average cost of funds has also gone down from 7.6% to 6.2% over the same period. The major factor impacting the returns and costs is the sharp drop in interest rates during the last few years. In the long term loan segment, this has resulted in prepayment of borrowing by high credit clients which in turn has, to some extent impacted credit composition of the portfolio. This coupled with NPAs adversely affected return on assets. On the cost front, impact of drop in incremental cost of rupee borrowing (9.81% in FY 2002 to 8.35% in FY 2003 and further down to 7.6% for 18-month period ended September 30, 2004 and to 6.2% as at end March 2005) and exercising of call option on high cost borrowings by IDBI Ltd. has resulted in decline in cost of borrowing. The cost of borrowings is expected to further come down on account of the merger since IDBI is now in a position to access low cost funds by way of savings and current accounts, etc. The return on assets, however, can be expected to remain more or less stable considering that most of the high cost loans have come up for re-pricing and the impact of the fall in returns is already reflected in the accounts. Also, with the expansion of its retail reach, returns can be expected to improve with the


expansion of business in high-yielding segments like personal loans, credit cards, etc.\textsuperscript{157}

**Risk Of Competition:** Competition in the financial sector has increased and is likely to increase further with the stepped up operations of commercial banks and other new players in term lending. IDBI Ltd. faces competition both in corporate and retail lending as well as in raising resources. After conversion to a banking company, IDBI Ltd. is now in a position to tap low cost funds including savings and current deposits, float money, etc as also offer a host of retail and trade finance related products which it was earlier not able to offer as a DFI. Further, on the merger of its erstwhile subsidiary, IDBI Bank, IDBI Ltd. has gained a significant boost to its commercial banking activities in the form of readymade technology platform, branch network and operational expertise. IDBI Ltd. would seek to leverage these benefits to expand its retail reach while continuing to focus attention on its core business of project financing and infrastructure financing in particular. IDBI Ltd. is offering a host of products including working capital financing, corporate advisory services, forex services, non-fund based activities etc. IDBI Ltd. would simultaneously leverage its considerable brand equity to aggressively grow its retail loan and deposit book. The diversification to retail products would provide the much needed risk diversification enabling IDBI Ltd. to become a significant player in the financial sector. IDBI Ltd. has over the years strengthened its reach through its five Zonal, 154 Branch Offices, eight extension counters and 351 ATMs. IDBI Ltd. aims to further expand its reach and effectively leverage its brand for resource raising. IDBI Ltd. is also permitted to issue bonds of varying maturity as a supplemental source for meeting its long term fund requirement.\textsuperscript{158}

The Board of Directors of the erstwhile IDBI and IDBI Bank Ltd. at their respective meetings held on July 29, 2004 approved the merger of IDBI Bank Ltd. with IDBI Ltd. The same has been ratified by the Board of Directors of IDBI Ltd. at its meeting held on October 1, 2004. The Scheme of Amalgamation/Merger of IDBI Bank Ltd. with IDBI Ltd. has been approved at separate Extra Ordinary General Body Meetings of the two companies held on February 23, 2005 and February 25, 2005 respectively. The scheme has become effective from April 2, 2005, with effect from October 1, 2004 on approval from Reserve Bank of India.\textsuperscript{159} This merger has brought in noteworthy benefits in terms of enhanced size and enhanced quality of balance sheet, lower cost of funds, extended branch network, a higher technology platform, incline workforce, along with an extensive array of retail and

\textsuperscript{157} http://www.sebi.gov.in/dp/idbi01.pdf

\textsuperscript{158} Supra note 8

\textsuperscript{159} Id.
wholesale products. This has benefitted all the stakeholders by augmented value creation, along with the convenience of a universal bank. The benefits of economies of scale and the handiness of single-window servicing to clients is a major advantage. The opportunity for the Bank has come from the access to cheaper short-term retail funds. This has enabled the Bank to lower its cost of accountability and price its products attractively. Enlarging the customers base either through market penetration, product diversification or market development, market segmentation and providing structured products under a single roof are the other opportunities for the Bank. Also, the enlarged capital base of the Bank has provided impetus to mounting business. The in house knowledge and expertise in long term finance, including project finance, coupled with the skill of retail financing, has enabled the merged entity to surface as a preferred source of finance from all segments of the market. IDBI Ltd. is now a banking company, having a wide array of wholesale and retail products and a inimitable position in view of continuation of its development financial role. IDBI Ltd. has over the years strengthened its reach through its five Zonal, 154 Branch Offices, eight extension counters and 351 ATMs. IDBI Ltd. aims to further expand its reach and effectively leverage its brand for resource rising.

X. Merger of ICICI Bank and the Bank of Rajasthan in 2010: The Bank of Rajasthan (BoR) was owned and controlled by the Tayal Group. The promoters had 55% of shares(according to SEBI estimates) and 28.6% (according to the promoter’s estimates).\textsuperscript{160} The Bank was under scrutiny for irregular activities. Due to this, the RBI directed the promoters to dilute their control over the company and undergo restructuring. In 2010, the RBI levied a fine of Rs. 25 Lakhs on the BoR for poor corporate governance, exceeding intra-day overdraft limits, money laundering, irregular property deals and so on.\textsuperscript{161} The SEBI then placed a moratorium on 100 entities that allegedly held the securities of the BoR from trading them in the stock market on 8 March, 2010. The RBI changed the management- a new CEO and five directors were appointed by the RBI to the board of the Bank and on 9 March, 2010, the RBI ordered an internal audit. Thereafter, ICICI conducted due diligence, with a view to merge with BoR. On the completion of the due diligence, the news of the intended merger was announced in the newspapers. The Board of both banks agreed to the merger, vide resolution. The information was communicated to the stock exchange and then submitted to RBI for approval. On 12 August, 2010, the RBI granted approval for the merger.

\textsuperscript{160} Bank of Rajasthan to Merge with ICICI Bank \url{http://www.business-standard.com/article/finance/bank-of-rajasthan-to-merge-with-icici-bank-110051900028_1.html}

\textsuperscript{161} Bank of Rajasthan to Merge with ICICI Bank \url{http://articles.economictimes.indiatimes.com/2010-05-19/news/27574194_1_tayal-bor-md-private-sector-banks}
INFERENCES DRAWN FROM THE BALANCE SHEET, PROFIT AND LOSS ACCOUNT:
The balance sheet and profit and loss accounts of a company are indicators of its financial health. Here, the figures of three years prior to the merger are taken. An average is also calculated for each entity, for convenient comparison. It is noticed that ICICI is financially stronger. It has better liquidity and is better-equipped to address debts.

OBSERVATIONS:

1. The operating profit ratio of both ICICI and BoR steadily increased. However, since had a substantially lower operating profit ratio, the resultant figure on the merger was much less.

2. The swap rate offered by ICICI was 1 share of ICICI for every 4.72 shares of BoR. On this announcement, the share prices of BoR skyrocketed by 77% and that of ICICI fell slightly. Cumulatively, the EPS increased on merger.

3. The BoR had low liquidity, as seen from the Current Ratio whereas ICICI had a higher liquidity ratio. On merger, the liquidity fell below ICICI’s pre-merger liquidity. This low liquidity meant that the bank would need to restructure if it were to pay its depositors account on demand.

4. Debt/Equity- While ICICI had a moderate debt equity ratio, the debt of BoR was much greater. The equity was being over-stretched and even intra-day overdrafts were not settled appropriately. This coupled with the fact that the equity was privately owned by the Taneja Group didn’t bode well- BoR was charged with improper conduct from the RBI, and a fine of Rs. 25 Lakh was slapped on BoR.

5. When the merger took place, BoR was undergoing a considerable loss. This loss was close to the profit made in the previous financial year. With the loss and mismanagement, it was seen suitable to merge. ICICI, which had a high net profit, was able to absorb the losses of BoR on merger. Once merged, the net profit of the merged entity was greater than that of ICICI prior to the merger, even though one of the merging entities was facing losses when merged.
REASONS FOR THE MERGER: Mergers often happen when one of the companies is undergoing losses or has a comparatively lower value. In such cases, the merging entities stand to gain a high earnings per share and can leverage upon the company’s existing expertise and assets. The Bank of Rajasthan was undergoing loss, and scrutiny. The promoters were pressurised to dilute their shares and the RBI appointed a CEO and 5 Directors to the Board. As a result, the Bank of Rajasthan merged with ICICI. The shareholders of Bank of Rajasthan were given 25 shares of ICICI bank for every 118 shares of Bank of Rajasthan they owned. The valuation assigned to the shares of the Bank of Rajasthan in this swap agreement was a valuation at a high premium. The merger gave ICICI greater headway in the Northern and Western parts of India and enhanced ICICI’s nationwide presence by 27% at the cost of around 5% of ICICI’s equity. The deal enabled ICICI to raise low cost deposits. As a result of this deal, the valuation of small, privately owned banks also went up.

TERMS OF THE MERGER vis-a-vis SHAREHOLDERS INTEREST AND BANKING CONCERNS: A success or failure of a merger depends on shareholder build up and synergy generation, henceforth. An analysis of this activity between the said parties develops inference indicating affected shareholders interest. Qingxiong in his 2001 study of 84 mergers and acquisitions deals in 1999 suggested an expected wealth growth for acquiring firms shareholders. Whereas, Pawaskar taking a sample of 32 mergers between 1992 and 1995 suggested financial synergies and onetime growth as possible outcomes.162 Bank of Rajasthan was an old private sector bank headquartered in Jaipur. The bank was founded in 1943 and had a customer base of over 2 million. ICICI bank approved merger with Bank of Rajasthan (BOR). The bank then entered into agreement with certain shareholders of BOR consenting to the share swap ratio of 25:1 18 (25 shares of ICICI Bank for 118 shares of BOR), subject to necessary regulatory approvals. The Tayal group was a dominant shareholder in BOR with a declared stake of 28 percent as of March 2010. The deal, entered into, after the due diligence by Deloitte was found satisfactory in maintenance of accounts with no bad loans. 163 The proposed merger between India’s largest private-sector lender ICICI Bank and the much smaller Bank of Rajasthan may not be a marriage of equals but the scheme, which was approved in principle by both boards. The deal has restored normalcy in the Rajasthan lender’s operations. The bank was in trouble with India’s central bank for lapses in corporate governance and adherence to disclosure rules, as well as with the capital markets regulator for alleged fraudulent stock dealings and

162 http://www.thefreelibrary.com/Impact+of+M%26A+on+bank's+performance+and+its+shareholders+wealth-%3A+a...,af0338040040 as accessed on 20:00 hrs, 3rd of December, 2014
inconsistencies in its shareholding records. P.K. Tayal, one of the bank’s founders, has denied the stock-related charges.

While some concerns on dilution and integration have pulled ICICI Bank’s shares 3.6% lower to 857.40 rupees midday, the general market opinion is that the long-term positives overpower the negatives.

Barclays Capital says it is ‘concerned about potential integration risks’ but retains its Market Weight rating on the stock given the small size of the deal relative to ICICI’s capital position and as it estimates that the total transaction will account for just about 5% of bank’s shareholder equity. The investment bank says the deal shall boost ICICI’s current network of 1,741 branches by about 27%, enhancing the bank’s ability to raise low-cost deposits.

The deal gives ICICI Bank branch presence in India’s lucrative northern and western markets, which otherwise would have taken a long time coming. Banking sector is one of the fastest growing areas in the developing economies like India. M&A is discussed as one of the most useful tool for growth, which has evoked the interest of researchers and scholars. Indian economy has witnessed fast pace of growth post liberalization era and banking is one of them. M&A in banking sector has provided evidences that it is a useful tool for survival of weak banks by merging into larger bank. The present study analyzed the merger of Bank of Rajasthan with ICICI Bank. It examined the effect of the merger on the wealth of shareholders of both the banks and the ICICI Bank's performance before and after the merger. The results support the fact that value is created for the shareholders for the Bank of Rajasthan.

The performance of ICICI bank has also improved as they expanded their business in the region of northern and western India which was indicated by improvement in the ratios like Return on Average assets, Capital adequacy ratio, CASA ratio and reduction in the operating cost to asset ratio and NPA to net advances ratio. ICICI Bank Ltd. has used mergers as their expansion strategy in Indian market. They are successful in making their presence all over India. It strengthened their networks across geographical boundary, improved customer base and market share. Mergers are increasing day by day, every merger make a significant impact on the market as well as entities involved in this process. The present research study resulted that...
the acquiring bank (ICICI bank ltd) loses their market prices when the announcement came into the market on the other hand the bank of Rajasthan ltd gain with the announcement news. However, in long run ICICI Bank successfully merged Bank Of Rajasthan into itself and realized all its objectives.

XI. Merger between Mahindra Kotak Bank and ING&Vysya Bank: 2014: India has 40 publicly traded banks, 24 of them majority owned by the government. The state banks account for over 70 percent of a total of $1 trillion advances in India, leaving dozens of small lenders in their wake with tiny market shares. Analysts expect the sector to begin coalescing around a few major players after the country's central bank in April granted licences to set up two new banks. Deals, though, have been rare in a banking industry hampered by restrictive regulation, reluctant investors and strong unions. Kotak Mahindra Bank (KTKM.NS) has agreed to buy ING Vysya (VYSA.NS) in an all-share deal valuing its smaller rival at $2.4 billion, bulking up as analysts predict the start of long-awaited consolidation in a crowded banking sector. Dutch lender ING Groep NV (ING.AS) owns roughly a 43 percent stake in ING Vysya. It will be the second-largest shareholder in Kotak Mahindra after the deal, the largest in the Indian banking sector to date with a holding of about 7 percent.

A brief history of Kotak Mahindra Bank.

Kotak Mahindra group, established in 1985 by Uday Kotak, is one of India’s leading financial services conglomerates. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group’s flagship company, received a banking license from the Reserve Bank of India (RBI). With this, KMFL became the first non-banking finance company in India to be converted into a bank – Kotak Mahindra Bank Limited (KMBL).

In a study by Brand Finance Banking, published in February 2014 by the Banker magazine (from The Financial Times Stable), KMBL was ranked 245th among the world’s top 500 banks with brand valuation of around half a billion dollars ($481 million) and brand rating of KMBL is also ranked among the top 5 Best Ranked Companies for Corporate Governance in IR Global Ranking166.

In February 2003, Kotak Mahindra Finance Ltd, the group's flagship company was given the licence to carry on banking business by the Reserve Bank of India (RBI). Kotak Mahindra Finance Ltd. is the first company in the Indian banking history to convert to a bank.

Services rendered by the bank:\textsuperscript{167}

Kotak Mahindra Bank (KMB) offers complete retail financial solutions for varied customer requirements. The Savings Bank Account goes beyond the traditional role of savings, and provides a wide range of services through a comprehensive suite of investment services and other transactional conveniences like Online Shopping, Bill Payments, ASBA, Netc@rd, Active Money (Automatic TD sweep-in and Sweep-out) etc. Kotak’s Jifi, a first-of-its-kind fully integrated Social Bank Account, redefines digital banking by seamlessly incorporating social networking platforms like Twitter and Facebook with mainstream banking. KayPay, the world’s first bank agnostic payment product for Facebook users enables millions of bank account holders transfer money to each other at any hour of the day or night, without the need of net banking, or knowing various bank account related details of the payee. KMBL also offers an Investment Account where Mutual Fund investments are recorded and can be viewed in a consolidated fashion across fund houses & schemes. Further, the Bank offers loan products such as Home Loans, Personal Loans, Commercial Vehicle Loans, etc. Keeping in mind the diverse needs of the business community, KMBL offers comprehensive business solutions that include Current Account, Trade Services, Cash Management Services and Credit facilities.

A Breif History of ING Vysya Bank

ING Vysya Bank is a privately owned Indian multinational bank based in Bangalore, with retail, wholesale, and private banking platforms formed from the 2002 purchase of an equity stake in Vysya Bank by the Dutch ING Group. This merger marks the first between an Indian bank and a foreign bank.

As of March 2013, ING Vysya is the seventh largest private sector bank in India with assets totalling ₹54836 crore (US$8.9 billion) and operating a pan-India network of over 1,000 outlets, including 527 branches, which service over two million customers\textsuperscript{168}.

Services rendered by the bank:

ING is a global financial institution of Dutch origin offering banking services through its operating company ING Bank and holds significant stakes in listed insurers NN

\textsuperscript{167} http://www.kotak.com/media-center_overview.html

\textsuperscript{168} http://www.ingvysyabank.com/
Group NV and Voya Financial, Inc. ING Bank’s 53,000 employees offer retail and commercial banking services to customers in over 40 countries.

**Reasons behind merger of these two banks**  
169
- Significant complementarity and growth potential drives merger
- Compelling Revenue synergies
- Share exchange ratio of 725 shares for 1,000 shares

**Terms of the merger**  
170
The Boards of Kotak and ING Vysya respectively considered the results of a due diligence review covering areas such as advances, investments, deposits, properties & branches, liabilities, material contracts etc. Accordingly ING Vysya shareholders will receive 725 shares in Kotak for 1,000 shares of ING Vysya. The share exchange ratio is considered fair and reasonable given the underlying value of ING Vysya, as also giving shareholders the ability to benefit from the potential that can be realised uponmerging into Kotak. This exchange ratio indicates an implied price of Rs.790 for each ING Vysya share based on the average closing price of Kotak shares during one month to November 19, 2014, which is a 16% premium to a like measure of ING Vysya market price.

**Benefit of such Merger**  
171
- Kotak, with 641 branches and relatively deeper presence in the West and North, has a differentiated proposition for various customer segments including, deep corporate relationships including emerging corporates, a wide product portfolio, including agricultural finance and consumer loans, and a robust capital position.
- ING Vysya has a strong customer franchise for over 8 decades, with a national branch network of 573 branches and deep presence in South India, particularly in Andhra Pradesh, Telengana and Karnataka.
- Customers and employees will benefit from the combined Kotak having a wider geographical spread, expertise across customer segments, such as SME, HNI, Corporates, and on products such as private banking, asset management, insurance, investment banking, NRI offerings etc.

- Kotak’s strong capital position potentially avoids capital raising and attendant dilution in the near to medium term for ING Vysya shareholders.

- Additionally, with ING Vysya nearing the cap for foreign shareholding, the merger would yield more liquidity with significant foreign headroom in Kotak even after merger, with foreign shareholding at 47%.

**Benefit in terms of employees**

Kotak has been rated among the best employers in the country and is renowned for its employee orientation and retention of talent. ING Vysya has a diverse set of employees, who have expertise in dealing with different customer segments. The combined entity will generate ample career opportunities for staff as well as a wider array of products to serve their customers, aided by management development opportunities across different businesses of Kotak Group. Both organizations have strong cultures and employee best practices and the combined entity will work towards imbibing these and building a world-class organization.

**Statement issued by the Chief of Kotak Mahindra Bank on recent merger.**

The banking industry is largely fragmented in India with 46 commercial banks, nearly half of which are state-run entities, but only two of them figure among the world’s 100 largest banks. ‘This is a momentous occasion that brings together two banking institutions with significant complementary strengths. The opportunities and synergies that this merger will create will place Kotak and its incoming stakeholders from ING Vysya on a new trajectory of excellence and leadership. The statement also stated that this merger will pave the way for a bigger and better financial services player with deep Indian roots and global standards of service.

**Statement made and issued by MD & CEO Shailendra Bhandari on behalf of ING & Vysya Bank.**

The statement stated that the two companies are a perfect match at a perfect time. The customers will see tremendous value from the combined entity as we fill the gaps, in terms of a much larger footprint and a complete product suite, both national and international. Together, both companies will participate in the growth of one of India’s strongest and most successful banking franchise.


Reserve Bank’s Review Process

Reserve bank of India has laid down guidelines for the process of merger proposal, determination of swap ratios, disclosures, the stages at which boards will get involved in the merger process and norms of buying and selling of shares by the promoters before and during the process of merger Reserve bank of India (RBI) in its capacity of the primary regulator and supervisor of the banking systems has information on the present functioning of all the banks in India, the RBI is the best suited to undertake the merger review process. While undertaking the merger review process, RBI will need to examine the proposal for the merger from a prudential perspective to gauge the impact on the stability and the financial well being of the merger applicants and on the financial systems.

Broadly the information that will need to be examined by RBI while evaluating a proposal for merger would include:

• The objective to be achieved by the merger.

• What impact could the merger have on the financial markets?

• What impact could be the creations of mega bank have on monetary policy, the management of interest rates? What threat to the Indian economy would be posed by the difficulties experienced by a mega bank in its international activities?

• The impact that the merger might have on the overall structure of the industry.

• The possible costs and benefits to customer and to small and medium size businesses, including the impact on bank branches the availability of financing price, quality and the availability of services.

• The timing and the socio–economic impact of any branch closures resulting from the merger.

• The manner in which the proposal will contribute to the international competitiveness of the financial services sector.

• The manner in which the proposal would indirectly affect employment and the quality of jobs in the sector, with a distinction made between transitional and permanent effects.

174 http://www.rbi.org.in/home.aspx

• The manner in which the proposal would increase the ability of the banks to develop and adopt new technologies.

• Remedial steps that the merger applicants would be willing to take to mitigate the adverse effects identified to arise from the merger.
Annexure-II

List of Public Sector Banks in India

NATIONALISED BANKS

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Bank
11. Indian Overseas Bank
12. Oriental Bank of Commerce
13. Punjab & Sind Bank
14. Punjab National Bank
15. Syndicate Bank
16. UCO Bank
17. Union Bank of India
18. United Bank of India
19. Vijaya Bank
TOTAL OF 19 NATIONALISED BANKS

State Bank of India (SBI)

ASSOCIATES OF SBI

State Bank of Bikaner & Jaipur
State Bank of Hyderabad
State Bank of Mysore
State Bank of Patiala
State Bank of Travancore

Other Public Sector Bank

IDBI Ltd.
Mahila Bank Ltd

TOTAL 27 PUBLIC SECTOR BANKS
Annexure-III

List of Private Sector Banks in India

1. City Union Bank Ltd.
2. ING Vysya Bank Ltd.
3. Tamilnad Mercantile Bank Ltd.
4. The Catholic Syrian Bank Ltd.
5. Dhanlaxmi Bank Ltd.
6. The Federal Bank Ltd.
7. The Jammu & Kashmir Bank Ltd.
8. The Karnataka Bank Ltd.
9. The Karur Vysya Bank Ltd.
10. The Lakshmi Vilas Bank Ltd.
11. Nainital Bank Ltd.
12. RBL Bank
13. The South Indian Bank Ltd.
14. Axis Bank Ltd.
15. Development Credit Bank Ltd.
16. HDFC Bank Ltd.
17. ICICI Bank Ltd.
18. Indusind Bank Ltd.
19. Kotak Mahindra Bank Ltd.
20. YES Bank
Annexure-IV

List of Foreign Banks having place of business in India

1. AB Bank Limited
2. Abu Dhabi Commercial Bank Limited
3. American Express Banking Corporation
4. Antwerp Diamond Bank N.V.
5. Australia & New Zealand Banking Group Limited
6. Bank International Indonesia
7. Bank of America NA
8. Bank of Bahrain and Kuwait B.S.C.
9. Bank of Ceylon
10. Barclays Bank PLC
11. BNP Paribas
12. CTBC Bank Co., Ltd.
13. Citibank N.A.
14. Commonwealth Bank of Australia
15. Credit Agricole Corporate & Investment Bank
16. Credit Suisse AG
17. DBS Bank Ltd.
18. Deutsche Bank AG
19. FirstRand Bank Ltd.
20. HSBC Bank Oman S.A.O.G.
21. Industrial & Commercial Bank of China Limited
22. JPMorgan Chase Bank
23. JSC VTB Bank
24. Krung Thai Bank Public Company Ltd.
25. Mashreqbank psc
26. Mizuho Bank Ltd.
27. National Australia Bank Ltd.
28. Rabobank International
29. Sberbank
30. Shinhan Bank
31. Societe Generale
32. Sonali Bank Ltd.
33. Standard Chartered Bank
34. State Bank of Mauritius Ltd.
35. Sumitomo Mitsui Banking Corporation
36. The Bank of Nova Scotia
37. The Bank of Tokyo-Mitsubishi UFJ, Ltd.
38. The Hongkong and Shanghai Banking Corpn.Ltd.
39. The Royal Bank of Scotland
40. UBS AG
41. United Overseas Bank Ltd.
42. Westpac Banking Corporation
43. Woori Bank
## Annexure - V

### List of RRBs Functioning in the Country as on 31.03.2015

<table>
<thead>
<tr>
<th>Name of Regional Rural Bank</th>
<th>Sponsor Bank</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allahabad UP Gramin Bank</td>
<td>Allahabad Bank</td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td>Andhra Pradesh Grameena Vikas Bank</td>
<td>State Bank of India</td>
<td>Andhra Pradesh</td>
</tr>
<tr>
<td>Andhra Pragathi Grameena Bank</td>
<td>Syndicate Bank</td>
<td>Andhra Pradesh</td>
</tr>
<tr>
<td>Arunachal Pradesh Rural Bank</td>
<td>State Bank of India</td>
<td>Arunachal Pradesh</td>
</tr>
<tr>
<td>Assam Gramin Vikash Bank</td>
<td>United Bank of India</td>
<td>Assam</td>
</tr>
<tr>
<td>Bangiya Gramin Vikash Bank</td>
<td>United Bank of India</td>
<td>West Bengal</td>
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<td>Baroda Gujarat Gramin Bank</td>
<td>Bank of Baroda</td>
<td>Gujarat</td>
</tr>
<tr>
<td>Baroda Rajasthan Kshetriya Gramin Bank</td>
<td>Bank of Baroda</td>
<td>Rajasthan</td>
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<td>Bank of Baroda</td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td>Bihar Gramin Bank</td>
<td>UCO Bank</td>
<td>Bihar</td>
</tr>
<tr>
<td>Central Madhya Pradesh Gramin Bank</td>
<td>Central Bank of India</td>
<td>Madhya Pradesh</td>
</tr>
<tr>
<td>Chaitanya Godavari Grameena Bank</td>
<td>Andhra Bank</td>
<td>Andhra Pradesh</td>
</tr>
<tr>
<td>Chhattisgarh Rajya Gramin Bank</td>
<td>State Bank of India</td>
<td>Chhattisgarh</td>
</tr>
<tr>
<td>Dena Gujarat Gramin Bank</td>
<td>Dena Bank</td>
<td>Gujarat</td>
</tr>
<tr>
<td>Ellaquai Dehati Bank</td>
<td>State Bank of India</td>
<td>Jammu &amp; Kashmir</td>
</tr>
<tr>
<td>Gramin Bank of Aryavart</td>
<td>Bank of India</td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td>Himachal Pradesh Gramin Bank</td>
<td>Punjab National Bank</td>
<td>Himachal Pradesh</td>
</tr>
<tr>
<td>Jharkhand Gramin Bank</td>
<td>Bank of India</td>
<td>Jharkhand</td>
</tr>
<tr>
<td>Karnataka Vikas Grameena Bank</td>
<td>Syndicate Bank</td>
<td>Karnataka</td>
</tr>
<tr>
<td>Kashi Gomti Samyut Gramin Bank</td>
<td>Union Bank of India</td>
<td>Uttar Pradesh</td>
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<tr>
<td>Kaveri Grameena Bank</td>
<td>State Bank of Mysore</td>
<td>Karnataka</td>
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<tr>
<td>Kerala Gramin Bank</td>
<td>Canara Bank</td>
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<td>Assam</td>
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<tr>
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<td>Bihar</td>
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<td>Punjab and Sind Bank</td>
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<td>Vidharbha Konkan Gramin Bank</td>
<td>Bank of India</td>
<td>Maharashtra</td>
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</table>
Annexure – VI

Guidelines for merger/amalgamation of private sector banks & Amalgamation of an NBFC with a banking company

BI/2004-05/462

Ref.DBOD.No.PSBS.BC. 89/16.13.100/2004-05

May 11, 2005

All Scheduled Commercial Banks

Reserve Bank of India had constituted, on the recommendations of the Joint Parliamentary Committee (2002), a Working Group to evolve guidelines for voluntary mergers involving banking companies. Based on the recommendations of the Group, the guidelines laying down the process of merger proposal, determination of swap ratios, disclosures, the stages at which Boards will get involved in the merger process and norms of buying/selling of shares by the promoters before and during the process of merger have since been finalised. The detailed guidelines are enclosed.

2. While dealing with the merger proposals between two banking companies or between a banking company and a non-banking financial company, banks may act in accordance with the enclosed guidelines. Boards of the banks have to play a crucial role in the process. It may be ensured that the decision of merger should be approved by two third majority of the total Board members and not those present alone. However, in view of the importance of the responsibility implicit in such merger decisions, it will be necessary that the directors who participate in such meetings are signatories to the Deeds of Covenants as recommended by Ganguly Working Group on Corporate Governance, forwarded to banks vide our circular DBOD.No.BC.116/08.139.001/2001-02 dated June 20, 2002.

3. The principles underlying the above guidelines would also be applicable as appropriate to public sector banks.

Yours faithfully

(Prashant Saran)
Chief General Manager

Guidelines for merger/amalgamation of private sector banks
1. General

1.1 The Reserve Bank has discretionary powers to approve the voluntary amalgamation of two banking companies under the provisions of Section 44A of the Banking Regulation Act, 1949.

1.2 These powers do not extend to the voluntary amalgamation of a banking company with a non-banking company where amalgamations are governed by sections 391 to 394 of the Companies Act, 1956 in terms of which, the scheme of amalgamation has to be approved by the High Court.

1.3 However, in both situations, the Reserve Bank is concerned that while amalgamations are normally decided on business considerations such as the need for increasing the market shares, synergies in the operations of businesses, acquisition of a business unit or segment etc., it is essential that considerations like sound rationale for the amalgamation, the systemic benefits and the advantage accruing to the residual entity are evaluated in detail.

1.4 These guidelines cover two situations namely :-

(a) An amalgamation of two banking companies
(b) An amalgamation of a non-banking finance company (NBFC) with a banking company.

2. Amalgamation between two banking companies

2.1.1 Section 44A of the Banking Regulation Act, 1949 requires that the draft scheme of amalgamation has to be approved by the shareholders of each banking company by a resolution passed by a majority in number representing two-thirds in value of the shareholders, present in person or by proxy at a meeting called for the purpose.

2.1.2 Before convening the meeting for the purposes of obtaining the shareholders' approval, the draft scheme of amalgamation needs to be approved individually by the Boards of Directors of the two banking companies. When according this approval, the Boards need to give particular consideration to the following matters :-

(a) The values at which the assets, liabilities and the reserves of the amalgamated company are proposed to be incorporated into the books of the amalgamating banking company and whether such incorporation will result in a revaluation of assets upwards or credit being taken for unrealized gains.
(b) Whether due diligence exercise has been undertaken in respect of the amalgamated company.
(c) The nature of the consideration, which, the amalgamating banking company will pay to the shareholders of the amalgamated company.
(d) Whether the swap ratio has been determined by independent valuers having
required competence and experience and whether in the opinion of the Board such
swap ratio is fair and proper.
(e) The shareholding pattern in the two banking companies and whether as a
result of the amalgamation and the swap ratio the shareholding of any individual,
entity or group in the amalgamating banking company will be violative of the
Reserve Bank guidelines or require its specific approval.
(f) The impact of the amalgamation on the profitability and the capital adequacy
ratio of the amalgamating banking company.
(g) The changes which are proposed to be made in the composition of the board
of directors of the amalgamating banking company, consequent upon the
amalgamation and whether the resultant composition of the Board will be in
conformity with the Reserve Bank guidelines in that behalf.

2.2.1. Section 44A of the Banking Regulation Act, 1949 also requires that after the
scheme of amalgamation is approved by the requisite majority of shareholders in
accordance with the provisions of the Section, it shall be submitted to the Reserve Bank
for sanction.

2.2.2. To enable the Reserve Bank to consider the application for sanction, the
amalgamating banking company should submit to the Reserve Bank the information and
documents specified in Annexure A.

2.3.1 The aforementioned Section provides that a dissenting shareholder is entitled, in the
event of the scheme being sanctioned by the Reserve Bank, to claim from the banking
company concerned, in respect of the shares held by him in that company, their value as
determined by the Reserve Bank when sanctioning the scheme and such determination by
the Reserve Bank as to the value of the shares to be paid to the dissenting shareholders
shall be final for all purposes.

2.3.2 To enable the Reserve Bank to determine such value, the amalgamated banking
company should submit the following: -

(a) a report on the valuation of the share of the amalgamated company made for
this purpose by the valuers appointed for the determination of the swap ratio
(b) detailed computation of such valuation
(c) where the shares of the amalgamated company are quoted on the stock
exchange:-

(i) details of the monthly high and low of the quotation on the exchange
where the shares are most widely traded together with number of shares
traded during the six months immediately preceding the date on which the
scheme of amalgamation is approved by the Boards.
(ii) the quoted price of the share at close on each of the fourteen days
immediately preceding the date on which the scheme of amalgamation is
approved by the Boards.
(d) Such other information and explanations as the Reserve Bank may require.

3. Amalgamation of an NBFC with a banking company

3.1 Where the NBFC is proposed to be amalgamated into a banking company, the banking company should obtain the approval of the Reserve Bank of India after the scheme of amalgamation is approved by its Board but before it is submitted to the High Court for approval.

3.2 When according its approval to the scheme, the Board should give consideration to the matters listed in paragraph 2.1.2 above. In addition, it should examine whether:-

(a) The NBFC has violated / is likely to violate any of the RBI/SEBI norms and if so, ensure that these norms are complied with before the scheme of amalgamation is approved.
(b) The NBFC has complied with the 'Know Your Customer' norms for all the accounts, which will become accounts of the banking company after amalgamation.
(c) The NBFC has availed of credit facilities from banks/FIs and if so, whether the loan agreements mandate the NBFC to seek consent of the bank/FI concerned for the proposed merger/amalgamation.

3.3 To enable the Reserve Bank of India to consider the application for approval, the banking company should furnish to Reserve Bank of India information and documents listed in Annexure A excluding item 4 and also the information and documents listed in paragraph 2.3.2 above.

3.4 The provision of paragraphs 3.1 to 3.3 above will also apply mutatis mutandis in the rare cases where a banking company is amalgamated into an NBFC.

4. Norms for promoter buying or selling shares directly/indirectly, before, during and after discussion period

4.1 Regulation 2(ha) of the SEBI (Prohibition of Insider Trading) Regulations, 1992, which is applicable to the securities of listed companies, defines price sensitive information, as ‘any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of the securities of the company’.

4.2 SEBI regulations on Prohibition of Insider Trading should be strictly complied with, as the various information relating to takeover/merger and transfer of shares of listed banks / NBFCs are price sensitive. Even the unlisted banks / companies should follow the SEBI guidelines in spirit and to the extent applicable.
Annexure A

Information and documents to be furnished along with the application of Scheme of Amalgamation

1. Draft scheme of amalgamation as placed before the shareholders of the respective banking companies for approval.

2. Copies of the notices of every meeting of the shareholders called for such approval together with newspaper cuttings evidencing that notices of the meetings were published in newspapers at least once a week for three consecutive weeks in two newspapers circulating in the locality or localities in which the registered offices of the banking companies are situated and that one of the newspapers was in a language commonly understood in the locality or localities.

3. Certificates signed by each of the officers presiding at the meeting of shareholders certifying the following:

   (a) a copy of the resolution passed at the meeting;
   (b) the number of shareholders present at the meeting in person or by proxy;
   (c) the number of shareholders who voted in favour of the resolution and the aggregate number of shares held by them;
   (d) the number of shareholders who voted against the resolution and the aggregate number of shares held by them;
   (e) the number of shareholders whose votes were declared as invalid and the aggregate number of shares held by them;
   (f) the names and ledger folios of the shareholders who voted against the resolution and the number of shares held by each such shareholder;
   (g) the names and designations of the scrutineers appointed for counting the votes at the meeting together with certificates from such scrutineers confirming the information given in items (c) to (f) above;
   (h) the name of shareholders who have given notice in writing to the Presiding Officer that they dissented from the scheme of amalgamation together with the number of shares held by each of them.

4. Certificates from the concerned officers of the banking companies giving names of shareholders who have given notice in writing at or prior to the meeting to the banking company that they dissented from the scheme of amalgamation together with the number of shares held by each of them.

5. The names, addresses and occupations of the Directors of the amalgamating banking company as proposed to be reconstituted after the amalgamation and indicating how the composition will be in compliance with Reserve Bank regulations.

6. The details of the proposed Chief Executive Officer of the amalgamating banking company after the amalgamation.
7. Copies of the reports of the valuers appointed for the determination of the swap ratios.

8. Information which is considered relevant for the consideration of the scheme of amalgamation and the swap ratio including in particular:

   (a) annual reports of each of the banking companies for each of the three completed financial years immediately preceding the Appointed Date for amalgamation;
   (b) financial results, if any, published by each of the banking companies for any period subsequent to the financial statements prepared for the financial year immediately preceding the Appointed Date;
   (c) pro-forma combined balance sheet of the amalgamating banking company as it will appear as of the Appointed Date consequent on the amalgamation;
   (d) computation based on such pro-forma balance sheet of the following:

       (i) Tier I Capital
       (ii) Tier II Capital
       (iii) Risk - Weighted Assets
       (iv) Gross and Net NPAs
       (v) Ratio of Tier I Capital to Risk-Weighted Assets
       (vi) Ratio of Tier II Capital to Risk Weighted Assets
       (vii) Ratio of Total Capital to Risk Weighted Assets
       (viii) Tier I Capital to Total Assets
       (ix) Ratio of Gross and Net NPAs to Advances

9. Information certified by the valuers as is considered relevant to understand the proposed swap ratio including in particular:

   (a) the methods of valuation used by the valuers;
   (b) the information and documents on which the valuers have relied and the extent of the verification, if any, made by the valuers to test the accuracy of such information;
   (c) if the valuers have relied upon projected information, the names and designations of the persons who have provided such information and the extent of verification, if any, made by the valuers in relation to such information;
   (d) details of the projected information on which the valuers have relied;
   (e) detailed computations of the swap ratios containing explanations for adjustments made to the published financial information for the purposes of the valuation; (f) if these adjustments are made based on valuations made by third parties, details regarding the persons who have made such valuations;
   (g) capitalisation factor and weighted average cost of capital (WACC) used for the purposes of the valuation and justification for the same;
   (h) if market values of shares have been considered in the computation of the swap ratio, the market values considered and the source from which such values have been derived;
   (i) if there are more than one valuer, whether each of the valuers have recommended a different swap ratio and if so, the above details should be given
separately in respect of each valuer and it may be indicated how the final swap ratio is arrived at.

10. Such other information and explanations as the Reserve Bank may require.
Annexure-VII

Requirement for Obtaining Prior Approval of RBI in Cases of Acquisition / Transfer of Control of NBFCs

--------------------------------------RESERVE BANK OF INDIA--------------------------------------

www.rbi.org.in

RBI/2014-15/46

DNBS (PD) CC No.397/03.02.001/2014-15 July 1, 2014

To

All Non-Banking Finance Companies (except Primary dealers)

Dear Sirs,

Master Circular - Requirement for Obtaining Prior Approval of RBI in Cases of Acquisition / Transfer of Control of NBFCs

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues updated circulars / notifications. The instructions on the captioned subject as updated on June 30, 2014 are reproduced below. The updated notification has also been placed on the RBI web-site (http://www.rbi.org.in).

Yours faithfully,

(K. K. Vohra)
Principal Chief General Manager

1. Introduction
Under Section 45 IA (4)(c) of the RBI Act, 1934, a certificate of Registration can only be given to a company if the Bank is satisfied, inter alia, that the general character of the management or the proposed management of the non-banking financial company shall not be prejudicial to the public interest or the interests of its depositors. In this connection, to enable RBI to ensure that the 'fit and proper' character of the management of NBFCs, both deposit accepting and non-deposit accepting, is continuously maintained, NBFCs were advised the following directions vide notification dated May 26, 2014.

2. Non-Banking Financial Companies (Approval of Acquisition or Transfer of Control) Directions, 2014

i. Definitions

For the purpose of these Directions, unless the context otherwise requires,-(a) ‘control’ shall have the same meaning as is assigned to it under clause (e) of sub-regulation (1) of Regulation 2 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

(b) ‘NBFC’ means a non-banking financial company as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934.

ii. Requirement to obtain prior approval of Reserve Bank of India for acquisition or transfer of control of NBFCs

The prior written permission of the Reserve Bank of India shall be required for –

(a) any takeover or acquisition of control of an NBFC, whether by acquisition of shares or otherwise;

(b) any merger / amalgamation of an NBFC with another entity or any merger / amalgamation of an entity with an NBFC that would give the acquirer / another entity control of the NBFC;

(c) any merger / amalgamation of an NBFC with another entity or any merger / amalgamation of an entity with an NBFC which would result in acquisition / transfer of shareholding in excess of 10 percent of the paid up capital of the NBFC.

(d) Prior written approval of the Reserve Bank would also be required before approaching the Court or Tribunal under Section 391-394 of the Companies Act,
iii. **Application of other laws not barred**

The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

iv. **Repeal and saving**

(a) The Non-Banking Financial Companies (Deposit Accepting) (Approval of Acquisition or Transfer of Control) Directions, 2009 issued vide Notification No. DNBS.(PD).208/CGM(ANR)-2009 dated September 17, 2009 shall stand repealed.

(b) Notwithstanding such repeal, any action taken, purported to have been taken or initiated under the directions hereby repealed shall continue to be governed by the provisions of the said directions.

3. **General**

(a) Applications in this regard may be submitted to the Regional Office of the Department of Non-Banking Supervision in whose jurisdiction the Registered Office of the Company is located.

(b) Any transfer of shares in violation of the notification would result in adverse regulatory action including cancellation of Certificate of Registration (CoR).

4. **Others**

i. In terms of DNBS (PD)CC.No.259/03.02.59/2011-12 dated March 15, 2012 there can be no change in ownership of the NBFC prior to commencement of business and regularization of its CoR.

ii. In terms of DNBS.(PD).CC.No.11/02.01/99-2000 dated November 15, 1999, read with DNBS.(PD).CC.No.12 /02.01/99-2000 dated January 13, 2000 and DNBS (PD) C.C. No. 63/02.02/2005-06 dated January 24, 2006, a public notice of 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares, except in cases of merger and amalgamation in terms of High Court order in pursuance of Sections 391 and 394 of the Companies Act 1956. Such public notice shall be given by the NBFC and also by the transferor, or the transferee or jointly by the parties concerned. The public notice should indicate the intention to sell or transfer ownership / control, the particulars of transferee and the reasons for such sale or transfer of ownership / control. The notice should be published in one leading national and another in leading local (covering the place of registered office) vernacular language newspaper. Further it would be obligatory on the
part of NBFC-D seeking change in management or merger or amalgamation with any other company to give an option to every depositor to decide whether to continue the deposits with the company under the new management or the transferee company or not. The company would also be obliged to make the payment to the depositors who seek the repayment of their deposits. The Bank would view the non-compliance of the above instructions very seriously and penal action would be initiated against the defaulter company on the merits of each case.
Annexure-VIII

List of Important Bank mergers and Acquisitions since Nationalization of Banks in 1969

<table>
<thead>
<tr>
<th>Sl.No</th>
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<th>Transferee Bank</th>
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<td>Lakshmi Commercial Bank Ltd.</td>
<td>Canara bank</td>
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<td>5.</td>
<td>Bank of Cochin Ltd.</td>
<td>State Bank of India</td>
<td>August 26, 1985</td>
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<td>7.</td>
<td>Traders Bank Ltd</td>
<td>Bank of Baroda</td>
<td>May 13, 1988</td>
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<tr>
<td>8.</td>
<td>United Industrial Bank Ltd</td>
<td>Allahabad bank</td>
<td>October 31, 1989</td>
</tr>
<tr>
<td>11.</td>
<td>Parur Central Bank Ltd</td>
<td>Bank of India</td>
<td>February 20, 1990</td>
</tr>
<tr>
<td>19.</td>
<td>Sikkim Bank Ltd</td>
<td>Union Bank of India</td>
<td>December 22, 1999</td>
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<td>20.</td>
<td>Bank of Madura Ltd.</td>
<td>ICICI Bank Ltd</td>
<td>March 10, 2001</td>
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<tr>
<td>No.</td>
<td>Bank Name 1</td>
<td>Bank Name 2</td>
<td>Date</td>
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<td>21.</td>
<td>ICICI Ltd</td>
<td>ICICI Bank Ltd</td>
<td>May 3, 2002</td>
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<td>22.</td>
<td>Benares State Bank Ltd</td>
<td>Bank of Baroda</td>
<td>June 20, 2002</td>
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<td>26.</td>
<td>IDBI Bank Ltd</td>
<td>IDBI Ltd</td>
<td>April 2, 2005</td>
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<td>27.</td>
<td>Bank of Punjab Ltd.</td>
<td>Centurion Bank Ltd</td>
<td>October 1, 2005</td>
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<td>29.</td>
<td>United Western Bank Ltd</td>
<td>IDBI Ltd.</td>
<td>October 3, 2006</td>
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<td>30.</td>
<td>Bharat Overseas Bank Ltd</td>
<td>Indian Overseas Bank</td>
<td>March 31, 2007</td>
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<td>31.</td>
<td>Sangli Bank Ltd.</td>
<td>ICICI Bank Ltd</td>
<td>April 19, 2007</td>
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<td>34.</td>
<td>The Bank of Rajasthan</td>
<td>ICICI Bank Ltd</td>
<td>August 13, 2010</td>
</tr>
<tr>
<td>35.</td>
<td>State Bank of Indore</td>
<td>State bank of India</td>
<td>August 26, 2010</td>
</tr>
<tr>
<td>36.</td>
<td>ICICI Bank</td>
<td>Bank of Rajasthan</td>
<td>Aug 13, 2010</td>
</tr>
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<td>37.</td>
<td>State Bank of India (SBI)</td>
<td>State Bank of Indore</td>
<td>Aug 26, 2010</td>
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