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Indian Banks Mergers and Acquisitions- Conceptual Review

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ABSTRACT

Purpose- The paper aims to provide a conceptual review of mergers and acquisitions (M&A) in the Indian banking sector, highlighting the evolution, strategic motivations, legal aspects, and ethical considerations of M&A activities.
Design/methodology/approach- The research methodology involves a qualitative literature review of scholarly articles, books, and relevant academic sources. The review focuses on identifying key themes related to the motivations, processes, and outcomes of M&A in the banking sector.
Findings- The study finds that M&A activities in the Indian banking sector are primarily driven by the need for synergy, improved managerial efficiency, growth, and technological advancements. Synergies achieved through M&A can enhance revenue, performance, and cost efficiency. The paper also highlights the importance of ethical considerations and cultural integration during M&A processes to ensure smooth transitions and maintain organizational stability.
Research limitations/implications- This study is based on existing literature, and empirical validation through case studies or primary data could further substantiate the findings. Future research could explore the long-term impact of M&A on financial performance and stakeholder value in the Indian banking sector.
Practical implications- The findings provide valuable insights for banking sector stakeholders, by elucidating the strategic motivations and critical factors influencing successful M&A transactions.
Originality/value- The paper offers a detailed conceptual framework for understanding the dynamics of M&A in the Indian banking sector, contributing to the existing body of knowledge and guiding future research and practice in this field.

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Introduction

Banking Sector in India- An Overview

A bank is a financial institution that provides stakeholders with a platform to deposit and withdraw money, along with other financial services such as investment of deposits from the public, loans, credit card facilities, etc., as stated in the Banking Regulation Act of 1949. The history of banks in India dates back to the 18th century, with the establishment of the General Bank and the Bank of Hindustan in 1786. The Bank of Calcutta was established in June 1806 and later became the State Bank of India (SBI). In 1809, the East India Company established the Bank of Bengal (BOB), followed by the Bank of Bombay (BOB) in 1840, and the Bank of Madras in 1843. These institutions were known as the Presidency Banks. In 1921, these three banks were merged to form the Imperial Bank of India (IBI), a private bank with Europeans holding the largest share. Following this, the Reserve Bank of India was established in 1934. In 1955, the Indian government entered the banking industry and nationalized the Imperial Bank of India. The Reserve Bank of India (RBI) took a 60% stake and was renamed the State Bank of India (SBI). In 1969, the government nationalized 14 major banks.

Phases in the Indian Banking Sector:

Phase I- 1786-1969: Inception of Banking in India and establishment of several banks

Phase II- 1969-1991: Focused on nationalization, regulation, and expansion of the banking sector

Phase III- 1991 onwards: Indian banking has entered a new era with financial and structural adjustments

Mergers and Acquisitions (M&A)

Mergers and Acquisitions (M&A) deals are a part of corporate restructuring. Corporate restructuring has become increasingly important worldwide due to intense competition, globalization, and technological advancements (Azhagaiah, R., and Sathish Kumar, T., 2011; Beena, P.L., 2004). The process aims to streamline operations, reduce costs, and improve overall performance. Indian companies have also turned to mergers and acquisitions as a strategic approach to thrive and expand amid the rising competition in the global market (Leepsa & Mishra, 2012). In an ever-changing environment, there is a need to adopt a result-oriented approach to reach heights of achievement (Aurora et al., 2014). While a merger refers to the combination of two or more companies into a single entity, an acquisition involves one company purchasing another, resulting in the acquired company becoming a part of the acquiring company. This may involve the transfer of ownership, control, and assets from the acquired entity to the acquiring entity.

M&A in the Indian Banking Sector

In India, the baking sector is the backbone of the Indian economy. The Narasimhan Committee Report AUG 1991 indicated the need for financial sector and banking sector reforms. This report played an important role in recommending measures to liberalize and modernize the country's financial system, aiming to enhance efficiency, transparency, and competitiveness in banking and financial services. Both Public Sector Banks (PSBs) and Private Sector Banks have engaged in strategic acquisitions and mergers. In PSBs, in the year 2017, the State Bank of India (SBI) merged with its associate banks, and in the private sector, HDFC Bank acquired Centurion Bank of Punjab in 2008.

According to the Institute of Chartered Accountants of India (ICAI), under Statement of Accounting Standards (AS-14) - Accounting for Amalgamations, the terms "mergers" and "amalgamations" are used interchangeably in the Indian laws.

M&A concerning Public Sector Banks in India

In 1998, the Narasimhan Committee proposed a three-tier banking structure for India, suggesting the creation of three large banks with an international presence, eight to ten national banks, and a significant number of regional and local banks. Since the Narasimhan report recommended it, there have been many discussions about M&A of banks in India. The goal has always been to build

Table 1: Summary of mergers and acquisitions deals in the Indian Banking Sector - Public and Private Banks (2000-2020)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of mergers/ acquisitions	1	1	2	1	1	2	3	2	2	0	2	0	0	0	0	1	0	1	1	1	4

Source: Collated from various sources

scale and strengthen their risk-taking ability. It is also believed that larger banks are less risky than smaller banks (Gandhi, 2016).

Since 2016, efforts have been made to reduce the number of Public Sector Banks. In 2017, five associate banks of the State Bank of India (SBI) and Bhartiya Mahila Bank (BMB) were merged into SBI. In 2019, the government of India announced the merger of ten public sector banks into four. This initiative was aligned with the government's policy to strengthen the financial health of public sector banks, aiming for a robust national presence and international reach.

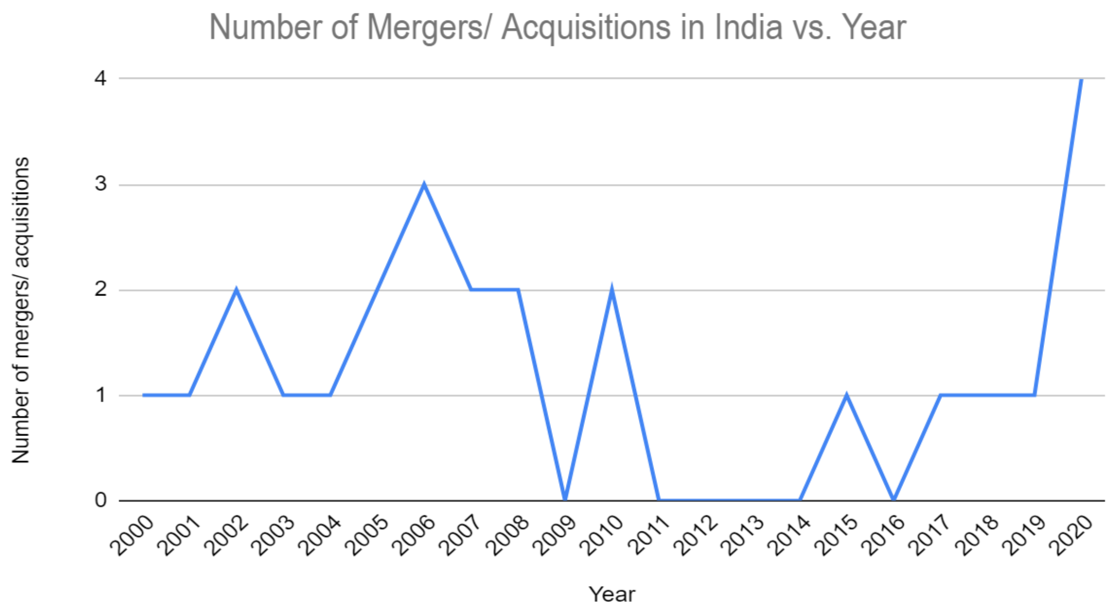

Fig. 1: Mergers and Acquisitions Deal Trend in the Indian Banking Sector (2000-2020)

Table 2: Summary of recent M&A in PSBs in India

List of Public Sector Banks in India (2024)			
S. No.	**Main Bank**	**Merged Bank**	**Event Date**
1	State Bank of India	State Bank of Travancore State Bank of Hyderabad State Bank of Mysore State Bank of Bikaner and Jaipur State Bank of Patiala Bhartiya Mahila Bank	April 1, 2017
2	Indian Bank	Allahabad Bank	April 1, 2020
3	Canara Bank	Syndicate Bank	April 1, 2020
4	Union Bank of India	Andhra Bank Corporation Bank	April 1, 2020
5	Bank of Baroda	Vijaya Bank Dena Bank	April 1, 2019
6	Punjab National Bank	Oriental Bank of Commerce United Bank of India	April 1, 2020
7	Bank of India	NA	NA
8	Bank of Maharashtra	NA	NA
9	Central Bank of India	NA	NA
10	Indian Overseas Bank	NA	NA
11	Punjab and Sind Bank	NA	NA
12	UCO Bank	NA	NA

Table 3: Summary of Major M&A in Private Sector Banks (2000-2020)

List of Private Sector Banks in India (2024)			
S. No.	**Main Bank**	**Merged Bank**	**Event Date**
1	HDFC Bank Ltd.	Times Bank Ltd.	February 26, 2000
2	ICICI Bank Ltd	Bank of Madura Ltd	March 10, 2001
3	Bank of Baroda	Benares State Bank Ltd.	June 20, 2002
4	ICICI Bank Ltd.	ICICI Ltd.	May 3, 2002
5	Punjab National Bank	Nedungadi Bank Ltd.	February 1, 2003
6	Oriental Bank of Commerce	Global Trust Bank	August 14, 2004
7	Bank of Punjab (POB)	Centurion Bank	October 1, 2005
8	IDBI Ltd.	IDBI Bank Ltd.	April 2, 2005.
11	IDBI Ltd.	United Western Bank	October 3, 2006
12	Indian Overseas Bank	Bharat Overseas Bank	March 31, 2007
13	ICICI Ltd.	Sangli Bank Ltd.	April 19, 2007
14	HDFC Bank	Centurion Bank of Punjab	May 23, 2008
15	State Bank of India	State Bank of Saurashtra	August 13, 2008
16	State Bank of India	State Bank of Indore	August 27, 2010
17	ICICI Bank	Bank of Rajasthan Ltd.	August 12, 2010
18	Kotak Mahindra Bank	ING Vyasa Bank	April 1, 2015
19	IDFC Bank	Capital First (Amalgamation)	December 18, 2018

M&A concerning Private Sector Banks in India

Mergers and Acquisitions between banking companies in India are governed under Section 44A of the Banking Regulation Act of 1949. The Reserve Bank of India (RBI) has discretionary powers to approve these mergers. The draft amalgamation scheme needs approval from the Boards of Directors of both merging banks. Shareholders of each bank must approve the scheme with a two-thirds majority. Shareholder meetings require public notices and approval by a majority present in person or by proxy. Finally, RBI approval is needed, considering systemic benefits and advantages to the remaining entity after shareholder consent (Reserve Bank of India, 2005).

Research Methodology

The research methodology consists of a qualitative literature review, examining existing scholarly articles, books, and other relevant academic sources. The selection process prioritized identifying reputable and peer-reviewed publications discussing key themes related to mergers and acquisitions.

The rationale behind the bank's M&A

a. Synergy: It can come in various forms, such as financial synergy, corporate synergy, and revenue synergy. When banks merge, they often see benefits like increased revenue, better performance, and reduced costs. This can be seen as operating synergy, which means merging operations to avoid duplication, improve logistics, and reduce costs. Another form is financial synergy, where the companies merge their balance sheets to gain financial benefits (Godbole, 2013)
b. Better Managerial Efficiency: Most of the time, a stronger firm acquires a weak firm. Banks with significantly lower performance are more likely to be targeted and amalgamated into a profitable entity (Awdeh & Moussawi, 2011). The acquiring firm can use the merged firm's resources, making it more efficient. To address the deficiencies in one firm, it should merge with a compatible entity that has an efficient managerial system and technical expertise (Lahoti, 2016).

c. Growth: For quick growth and to gain a larger market share and expand into a new geographical location, firms prefer M&A. When a firm has a large market share, it can set prices due to its larger market power. By eliminating existing competition, it can achieve super-normal profits in the long run (Kwabla-King, 2017).
d. New Technology: To develop new technology and stay competitive in the market, a large firm can merge with a small firm that is technologically advanced (Lahoti, 2016).

M&A Legal Aspects

M&A is a complex process that requires that an entity follow laws and regulations. The various acts in India that provide the governing framework are the SEBI Regulations, 2011, the Companies Act, 1956 (though this Act has been largely replaced by the Companies Act, 2013, it was foundational for corporate regulation), the Income Tax Act, 1961, the Foreign Exchange Management Act, 1999 (for cross-border M&A deals), and the Income Tax Act, 1961, among others.

Ethical Considerations in M&A

When entering into an M&A deal, it should be of the utmost priority for any entity to have ethical considerations. Two ethical approaches are typically considered in organizations: the utilitarian approach and the rights approach. The utilitarian approach views M&As as ethical if they increase productivity, focusing on efficiency outcomes despite procedural ethical concerns. In contrast, the rights approach considers actions unethical if they violate anyone's rights, regardless of productivity gains (McGee, 2004). Cultural differences during mergers require careful consideration to ease employee transitions into new corporate cultures (Appelbaum et al., 2000).

Conclusion

The paper provides a comprehensive review of the motivations, processes, and outcomes associated with M&A. It highlights the primary reasons for M&As. Ethical considerations play a crucial role in M&A activities, with two main approaches being the utilitarian approach and the rights approach. Legal aspects are also significant, as M&A processes must comply with various regulations. The paper further highlights the importance of cultural integration during mergers to ensure smooth transitions for employees and maintain organizational stability.

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