Merger and Acquisition in Banking Sector

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Abstract

Merger and Acquisition is the management and strategy dealing with purchasing and/or merging with another entity .In merger two different organizations combine to make a new business ,usually with a new name.Because the companies involved are typically of smaller size and structure. With the help of merger and acquisition in the banking sector the banks can achieve significant growth in their operation and minimize their expenses .Merger eliminates competitor from banking Industry .This study shows the impact of Merger and Acquisition in the Banking Sector.For this purpose ,a comparison between pre and post merger i.e ROE(Return on equity,EPS(Earning per share),Debt Equity Ratio, Net profit Ratio,.In this research paper I have selected merger of ICICI Bank and Bank of Rajasthan,HDFC Bank and Centurion Bank and Kotak with ING Vysya.

Keywords: Merger,Acquisition, profitability ,Financial performance and Ratios

Introduction

At the moment's request, the main idea of the establishment is to make gains and produce shareholder wealth. Growth can be achieved by introducing new products and services or by expanding its present operations to include products. This growth can be achieved with the help of combinations. Combinations and accessions as an external growth strategy has again gained popularity in recent times due to globalization and liberalization, which have been espoused by several companies around the world. India has also witnessed a storm of combinations and accessions in recent times. The Financial Act of 1999 clarified numerous issues relating to business reorganizations, thereby easing and making business restructurings duty-neutral. According to the finance minister, junction assists to manage capital more significantly. The admixture of public sector banks is grounded on the bad loans intensity and indigenous factors. The junction installations enable the objectification of global- sized banks. Combinations and accessions are considered a veritably rapid-fire and methodical approach to developing new requests and bringing in new technologies. For an establishment, the main motive for M&A is to sustain and strengthen their position in the request. M&A has played a major part in restructuring the commercial and fiscal services diligence. We can find important substantiation that their success is by no means certain. Pressure on the workers of banks around the world has indeed been multiple times across entry of new players and products with superior technology, globalization of fiscal requests, changing demographic client, consumer pressure for wider and low- cost service, shareholder wealth demands, shrinking perimeters. According to the finance minister(FM), this has been done to accelerate internal liberalization and to release the productive powers and creativity of Indian businesses. Deals worth further than Rs. 21000 crores were inked between 1999 and 2000. In the Indian commercial sector, this position of exertion was no way seen. Media, InfoTech, Pharma, Cement, Banking, and Power are the sectors that are more active in combinations and accessions.

Objective

Primary objective:

- ➢ The main objective of the study is to analyzes the merger and acquisition in the banking sector in India.

  Secondary objective:
- ➢ To study post-merger analysis of financial performance.
- ➢ To understand the challenges faced during merger and acquisition in India.
- ➢ To study merger and acquisition in banking sector

  Research design:
- ➢ There are three types of research: causal design, descriptive design, exploratory design. I have used descriptive research design in this project..

  Sources of data:
- ➢ There are two sources of data: primary and secondary data. I have used secondary

  The objective of this project is to study the mergers and acquisitions and as to why organizations undertake the inorganic mode of expansion. Also, we will study the operating performance and shareholder value of amalgamated company and compare their performance before and after Merger.

Literature review

This literature review will examine some of the key factors that lead to successful mergers and acquisitions in the banking sector, using four case studies: ICICI Bank and Bank of Rajasthan, HDFC Bank and Centurion Bank, Kotak Mahindra Bank and ING Vysya Bank.

ICICI Bank and Bank of Rajasthan:

ICICI Bank, one of the largest private sector banks in India, acquired Bank of Rajasthan, a smaller regional bank, in 2010. According to Mohan (2013), the acquisition was driven by ICICI Bank's desire to expand its presence in Rajasthan and to diversify its product offerings. The acquisition also helped ICICI Bank to increase its market share in the region.

The acquisition, however, was not without its challenges. There were issues related to the integration of the two banks, particularly with regards to the cultural differences between them. The management style of ICICI Bank was also different from that of Bank of Rajasthan, which led to some initial resistance from employees. However, these challenges were eventually overcome, and the acquisition was considered to be a success.

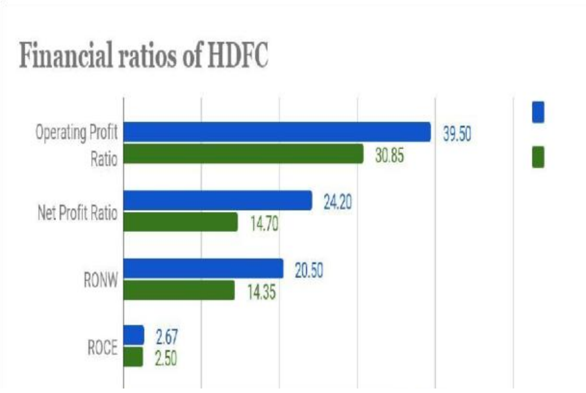
HDFC Bank and Centurion Bank:

HDFC Bank, one of the largest private sector banks in India, acquired Centurion Bank, a mid-sized bank, in 2008. According to Kapoor and Pant (2010), the acquisition was driven by HDFC Bank's desire to expand its retail banking business and to increase its market share. The acquisition also helped HDFC Bank to increase its presence in the southern and western regions of India.

The acquisition was relatively smooth, with few integration issues. This was largely due to the fact that both banks had similar management styles and cultures. The acquisition was considered to be a success, with HDFC Bank benefiting from increased market share and a larger customer base.

Kotak Mahindra Bank and ING Vysya Bank:
Kotak Mahindra Bank, a leading private sector bank in India, acquired ING Vysya Bank, another mid-sized bank, in 2015. According to Bansal a Bansal and Bhakar (2017), the acquisition was driven by Kotak Mahindra Bank's desire to expand its presence in southern India and to diversify its product offerings. The acquisition also helped Kotak Mahindra Bank to increase its market share in the region.
The acquisition was challenging, with several issues related to the integration of the two banks. These included cultural differences, differences in management styles, and redundancies in the workforce. However, Kotak Mahindra Bank was able to successfully overcome these challenges, and the acquisition was considered to be a success.

Research methodology



For the purpose of this project archival research strategy has been used. This research does make use of existing research done on banking sector mergers and acquisitions. This strategy focuses on past and current changes, is it exploratory, descriptive or explanatory. The project primarily relies on Secondary Data. When a researcher is expected to further analyze the data that has been collected already for some other purpose, such data is known as secondary data. It includes both the raw data & published summaries. For the purpose of this project I have gathered the required data from websites of ICICI bank, HDFC bank, Kotak bank, and Money Control and various other sources. The study is carried out over various years by using Accounting Based Approach using different financial parameters and Ratios. The pre-merger and post-merger averages for a set of key financial ratios were computed for 3 years prior to, and 3 years after, the year of merger completion. For the years prior to a merger, the key financial ratios of the acquiring firm alone are considered. Post the merger, the operating ratios for the combined firm are taken.

Source of data:

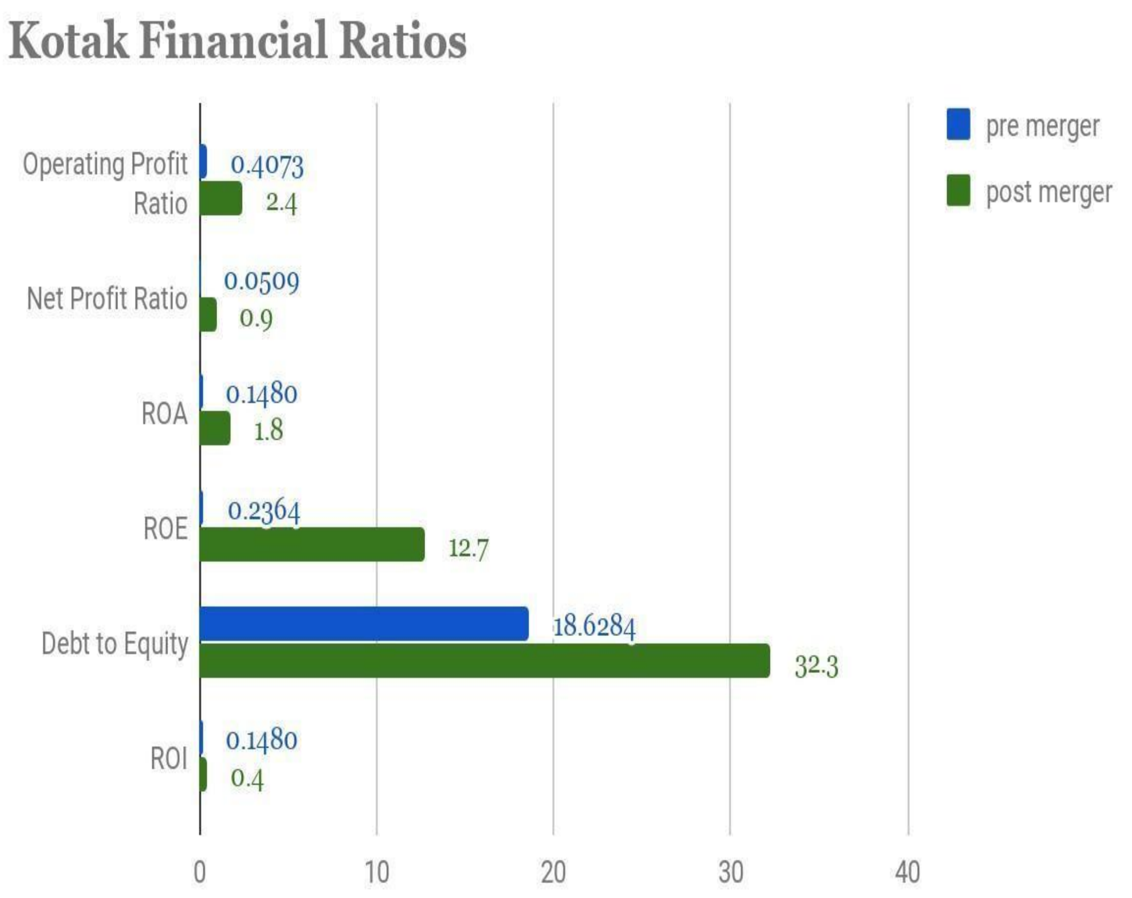
- There are two sources of data: primary and secondary. I have used secondary data for mergers and acquisitions in the banking sector in India.

Sample Taken:

- Junction of ICICI Bank and Bank of Rajasthan.
- Junction of HDFC Bank with Centurion Bank.
- Junction of Kotak Mahindra Bank and ING Vysya Bank.

Result

These are the financial performance of three big banks i.e ICICI, HDFC, KOTAK



Conclusion

Mergers and acquisitions in the banking sector can be successful if they are driven by a clear strategic vision, and if the banks involved are able to effectively integrate their operations. Cultural differences and differences in management styles can present challenges, but these can be overcome with careful planning and communication. The case studies reviewed here demonstrate that successful mergers and acquisitions can lead to increased market share, a larger customer base, and a more diversified product offering, thereby creating value for the banks and their shareholders. Combinations help ameliorate and strengthen the fiscal base and give access to duty benefits and cash coffers. In the banking assistance, combinations and accessions help weaker banks strengthen their position by incorporating large and strong banks. From the below analysis, we can say that the junction between Kotak Bank and INGVysya was a huge success. In the case of ICICI bank, the junction shows a profitable situation, and the junction of HDFC and Centurion Bank shows increased profitability rates due to the reduced debt structure of both banks. Therefore, we can say that the junction in the banking assistance is fruitful in utmost cases. While the public sector banks operating in India can maintain their position in the arising requests by incorporating with each other? We can conclude that there are colorful advantages of junction and accession in the banking sector, like an increase in client base, an increase in branches, an increase in the number of products and services offered, an increase in the number of ATM networks, an increase in the number of workers, the benefits of expert workers, access to colorful regions in the country, and an increase in deposit and advance quantities. There are also colorful challenges, like the difference in deposit rate and interest rate, difficulty in managing non performing means, difficulty in managing workers because of the difference in payment structure, etc. After analyzing post-merger fiscal performance, we can say that after junction and accession, there's an increase in net interest income, an increase in profitability, an increase in the number of guests, better liquidity, and an increase in the share price. The end of the study was to assay the artistic and social factors that impact the junction and accession opinions of investors. The results showed that social factors like education and life expectation and artistic factors like bureaucracy, informal payments, and the legal system play a significant part in explaining the number of combinations and accessions in the banking sector. The loftiest number of combinations took place in the most developed husbandry in the world in 2014.

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