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A Study on mergers and acquisitions in the Indian Banking Sector

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Abstract
Mergers and acquisitions have become increasingly significant in the modern business environment. Organizational a restructuring is a common use of this method. The Indian government became the first to introduce the concept of mergers and acquisitions to the country. There has been a significant transition in the banking industry in India during the past two decades. The financial services industry in India is expanding at a breathtaking rate. Mergers and acquisitions have propelled a new phase in the history of India's banking sector. It will help financial institutions compete on a global scale and provide more value to their constituents. To become an influential player in the global economy and take advantage of economies of scale while simultaneously fighting off unhealthy rivalry inside the industry. As a result, this research focuses on the consolidations that have taken place in the Indian banking industry.

Keywords: Mergers, acquisitions, Indian banking sector, economy, government bodies

1. Introduction

Several both domestic and international banks are involved in merger and acquisition deals. Mergers and acquisitions in the banking industry are often motivated by a desire to increase size and take advantage of economies of scale (Srivastava, 2022) [1]. The Indian banking sector has been the subject of various recent media headlines. There are numerous reports on various issues (Mittal, 2016) [2]. Indian banks' customer service, the industry's readiness for the imminent Basel II deadline, and the growing interest of Indian financial institutions in international markets as a means of inorganic expansion have all been discussed. All sectors of the Indian economy are turning to strategic acquisitions both at home and abroad as the only option to get a competitive edge in the market (Agarwal *et al.*, 2012) [26]. Scaling up is necessary to become a competitive force in the global economy (Shakya, 2014) [4] and to counteract unhealthy rivalry inside the industry. Behara (2018) [5] argues that consolidation in the Indian banking system through mergers and acquisitions motivated by commercial concerns and business plans is a necessary condition. One of India's fastest-growing sectors today is the banking sector. It used to be a slow business but now it's a thriving sector of the economy. Due to its rapid expansion, this industry is already among the top choices for foreign banking customers (Durga, 2013) [6]. There has been a significant transition in the banking industry in India during the past two decades. The banking and finance sector in India is expanding at a breathtaking rate. Mergers and acquisitions have propelled a new phase in the history of India's banking sector. As a result, banks will be able to compete on a global scale and provide more value to their customers (Patil, 2021) [7].
Mergers and acquisitions have become increasingly significant in the modern business environment. Organizational reorganization is a common use of this method. The Indian government was the first to introduce the notion of mergers and acquisitions (Singh, 2014) [8]. Financial institutions of some renown also took the lead in restructuring India's business sector by implementing mergers and acquisitions strategies. Since 1991, when India began its economic reform, the country has faced several difficulties at home and abroad. Indian enterprises are increasingly using mergers and acquisitions as a means of survival in the face of rising global competition.

Merger and acquisition activity in India has followed varying patterns throughout the years. Mergers and acquisitions have had varying effects on different parts of the Indian economy almost immediately (Mankani, 2022) [9]. In terms of M&A activity, India is now among the world's top jurisdictions (Selvam, 2007) [10]. In India, $40 billion has been spent on merger and acquisition agreements in the first two months of 2007.

2. Purpose of Mergers and Acquisitions

The offer or company's stated objectives should indicate why it wants to acquire the target company. The organization must determine its precise acquisition-related goals. Combinations and other types of corporate consolidation are typically undertaken with the ultimate goal of accelerating the business's pace of growth. Product enhancement and market dominance are two avenues that might expedite expansion. The following is a list of some other reasons why an acquisition could be made.

3. Procurement of supplies

- Protecting a critical raw material or intermediate product source;
- To distribute the benefits of suppliers' economies of scale by standardizing the products, allowing for greater discounts, transportation cost reductions, reduced buying department overhead, etc.

4. Revamping production facilities

- By combining manufacturing sites and making greater use of machinery and personnel, they may decrease expenses.
- Product standardization, quality enhancement, and market expansion are all goals
- Strengthening after-sale services as a means of increasing customer satisfaction in the market.
- To get from the provided firm more advanced production technology and expertise
- To preserve and increase market share through cost reduction, product enhancement, and competitive manufacturing.

5. Market expansion and strategy

- In an effort to stifle competition and preserve the status quo,
- To expand the office’s reach into new markets;
- To broaden the office’s product offering through the introduction of complementary items.
- Increasing the effectiveness of existing retail locations and sales of goods in order to streamline distribution;
- To boost the offered company's public image and lower its advertising expenses; Strategic patent and copyright management.
- **Financial strength:** To increase cash flow and get unfettered access to capital.
- To generate funds for the merged business by selling off unused or obsolete assets.
- To, increase gearing by borrowing against stronger and more secure assets.
- **General gains:** To raise the company's profile and entice top-tier executives to run its operations; to increase customer satisfaction.
- **Own developmental plans:** The offer or company's intentions for growth support the acquisition's stated goals. After analyzing its strengths and weaknesses, a company will formulate a plan for growth and expansion before considering an acquisition (Verma, 2018) [11]. This plan will take into account the company's ability to raise capital and the availability of skilled management personnel. To augment its money through the issuing of securities, acquire more financial facilities, remove competition, and bolster its market position, it must seek for a suitable combination (Girnara, 2016) [12].
- **Strategic purpose:** Depending on the company's strategy, the acquiring company may see the merger as a way to achieve horizontal, vertical, product development, market extension, or other unrelated goals through a variety of different types of combinations (Yadav, 2017) [13]. In order to achieve this goal, several other sorts of combinations, such as vertical and horizontal combinations, are used.

6. Benefits of Mergers and Acquisitions

6.1 Growth or Diversification

Mergers may serve as an efficient way for companies to achieve their goals of quick expansion of size or market share or diversification of product offerings without having to go through the time-consuming process of organic growth or diversification (Kalra, 2013) [15]. A merger with another company may help the company accomplish the same goal more quickly. In addition, the cost of adopting such a strategy is typically lower than the cost of building up the required manufacturing capabilities and capacity from scratch. If a company is able to locate a viable going concern (Patel, 2015) [14], it may grow into new markets without having to start from scratch. Possible benefits include reduced danger during product development, production, and retail sales. In addition, acquiring another business is a great way to increase the product's offerings and eliminate a competition (Mubarak, 2021) [16].

6.2 Synergism

Synergy is fundamentally easy to understand. When the combined effects are more beneficial than the individual ones, there is synergies. In other words, synergism is “2+2=5”. However, it can be challenging to discover synergy while doing an evaluation, especially as its implementations can at times be rather subtle. The primary economic basis for a merger is synergy, which may be broadly defined to encompass any additional value emerging from a firm combination. Value growth can result from improved operational or financial efficiency (Mubarak, 2021) [16].

6.3 Operating Synergism

Operating synergism may be the result of economies of scale, monopolistic strength, or just plain better management. Increasing sales volume per unit of staff, boosting profit margins, or lowering operational risks are all viable options for generating value. Creating operational synergy often results from either vertical or horizontal integration, although conglomerate expansion can have similar effects. An additional reason for a company to buy another is so that it may get access to valuable intellectual property, copyrights, technical expertise, marketing know-how, specialized fixed assets, customer relationships, or managerial staff (Verma, 2018) [11]. When these intangible

assets can be integrated into the structure and operations of the purchasing business, it is said to have operational synergy. It's possible that estimating that worth is the driving force behind the purchase.

7. Research Methodology

The current review collected data using an exemplary approach. Various publications, books, and online sites have been mined for supplementary data. The emphasis of research is shifting from quantitative to qualitative circumstances.

8. Literature review

In order to put more light on the field of Mergers and Acquisitions (M & As), a number of researchers cooperated on this study by reviewing existing academic literature. Upon reviewing the pertinent literature on M & As it became clear that most of the studies done highlighted the impact of M & As on various areas of firms. Internal and external factors can contribute to a company's ability to expand. External expansion can come via M&As, takeovers, joint ventures, amalgamations, and so on, while internal growth can be done through expanding operations or forming new divisions. “Mergers and acquisitions (M & As) are a common occurrence in the business world, and there have been several studies done on the topic. One of the earliest attempts to analyze mergers in India was conducted by Rao and Rao (1987) [19], who used a sample of 94 merger orders issued between 1970 and 1986 under the MRTP Act 1969. Many scholars have tried to examine mergers and acquisitions (M & As) in India since 1991. Beena (1998) [27], Roy (1999) [25], Das (2000) [24], Sapple (2000) [23], Basant (2000) [22], Pawaskar (2001) [21], and Mantravedi and Reddy (2008) [20] are just a few of the most illustrious examples”. Sinha (2011) [28] conducted a before and after examination of companies and found a beneficial impact, as the firms' profitability improved although their liquidity declined. After a few years of M&A activity, it became clear that some firms weren't managing their liquidity well enough to take advantage of synergies created by the deals. The research compared the companies' analyses before and after the intervention. “The report also highlighted the favourable benefits based on a variety of financial metrics, including earnings before interest and taxes (EBIT), return on shareholder funds (ROSF), profit margin (P&L), interest coverage (IC), current ratio (CR), cost efficiency (CE), and others.

In their work, Kuriakose Sony and Gireesh Kumar GS (2010) [29] analyzed the strategic and financial similarities of the amalgamated banks by considering significant financial indicators from both banks.” The survey indicated that while private-sector banks are enthusiastic about the current wave of voluntary mergers in the Indian banking sector, their public-sector counterparts are hesitant. Banks that are the focus of the merger have more leverage (difference) than banks that are potential acquirers. The quality of the target companies' assets and the structure for potential bidders are both quite low.

“The effect of merger announcements on shareholder banks in the Indian banking sector was researched by Manoj & Singh (2008) [30]. The Times Bank and the HDFC Bank combined, the Bank of Madurai and the ICICI Bank merged, the Global Trust Bank and the Oriental Bank of Commerce merged, and the Bank of Punjab and the Centurion Bank merged. Shareholder wealth was significantly and favourably affected by the Bank merger announcement. Using pre- and post-merger financial ratios.

Pramod & Vidyadhar (2007) [31] assessed the effect of mergers on the operating performance of acquiring businesses across industries. Researchers chose all mergers involving publicly listed Indian firms between 1991 and 2003 and found minimal difference in the merger's effect on operating performance.

9. Impacts of Merger & Acquisitions

The Indian Banking Sector: Three distinct phases may be identified in Indian financial history:

Phase I (1786-1969): Initial phase of banking in India when many small banks were set up Phase II (1969-1991) - Nationalization, regularization and growth.

Phase III (1991 onwards): Liberalisation and its Aftermath.

1. **Growth:** Mergers are an alternative to the more gradual process of organic expansion and diversification for companies who are interested in rapidly increasing their size or market share or expanding the variety of items they provide. A merger with another company may help the company accomplish the same goal more quickly.
2. **Synergy:** The combined business is better positioned to increase profits and cut expenses. By combining their resources, merging businesses can save money (thanks to cost synergies) and make a greater profit (thanks to revenue growth), (Revenue synergies).
3. **Purchase of Assets at Bargain Prices:** M & A'S acquire assets, such as land mineral rights, plant, and equipment, at a discount compared to what it would cost to buy or build these things today.
4. **Enhanced Managerial Skills:** In certain cases, a company's potential isn't realized due of shortcomings in management or a lack of product/production technology. The company may decide to merge with a similar business that already has the necessary management, people, or technological competence if it is unable to employ the necessary personnel or acquire the necessary technology.
5. **Acquiring New Technology:** In today's business climate, success requires keeping abreast of the latest technical breakthroughs and how they might be used to the company's operations. A major firm can keep or gain an edge in the market by acquiring a smaller company that has developed cutting-edge technology.
6. **Broader Array of Products:** A Wider Selection of Goods and Services After a merger, customers of both companies will have access to a wider selection of goods and services. “Mergers and acquisitions not only help businesses reach a wider variety of customers, but they also result in a broader selection of service offerings”.
7. **Income Tax Advantages:** In certain circumstances, the financial synergy that motivates a merger is income tax consideration. A powerful bank might be incentivized to buy out a weak bank that has losses and unrecognized depreciation gains thanks to tax breaks.

The acquirer's own long-term intentions for growth support the acquisition's stated goals.

Only after assessing its own internal strength and coming up

with a growth strategy to extend its operations can a firm consider purchasing the other company. To augment its money through the issuing of securities, acquire more financial facilities, remove competition, and bolster its market position, it must seek for a suitable combination.

10. Conclusion

The Indian banking industry has been significantly influenced by mergers and acquisitions. Although there appear to be divergent views on this topic, there is always room for enthusiasm following bank mergers. Recent years have seen extensive M&A activity in the banking business, with the emergence of a number of global companies as a result of successive. Mergers and Acquisitions throughout all industries. This analysis shows that the profitability ratios of a subset of Indian banks did not significantly alter between before and after the era of mergers and acquisitions. Firms that are perfect match have seen the same performance decrease. As a result, the poorer performance of merged enterprises can't be blamed on the merger itself. However, there are promising possibilities for increased profits in the future. However, the data suggest that the merged banks were more efficient after the merger. There were no major advances in productivity for the combined institutions after a merger between weak and healthy financial institutions. Depositors of failing banks were safeguarded by the forced mergers among these institutions, however, the mergers have not benefited the firms' shareholders.

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