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Merger and Acquisition in Banking Sector

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Abstract: Mergers and acquisitions (M&A) is the area of corporate finances, management and strategy dealing with purchasing and/or joining with other companies. In a merger, two organizations join forces to become a new business, usually with a new name. Because the companies involved are typically of similar size and stature, the term "merger of equals" is sometimes used. With the help of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations and minimize their expenses to a considerable extent. Another important advantage behind this kind of merger is that in this process, competition is reduced because merger eliminates competitors from the banking industry. Through mergers and acquisitions in the banking sector, the banks look for strategic benefits in the banking sector. They also try to enhance their customer base. In this research paper, I have selected merger of Kotak Mahindra bank and ING Vyas bank as sample size to analyze merger and acquisition in banking sector. I have selected simple random sampling. My objective of this research paper is to analyze merger and acquisition in banking sector and analyze performance of bank after merger and acquisition.

Keywords: Merger and Acquisition, Kotak Mahindra Bank, ING Vyas Bank.

I. INTRODUCTION

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, *Mergers* is the combination of two companies to form one, while *Acquisitions* is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Mergers & Acquisitions can take place:

- by purchasing assets
- by purchasing common shares
- by exchange of shares for assets
- by exchanging shares for shares

Types of Mergers and Acquisitions:

Merger or amalgamation may take two forms: merger through absorption or merger through consolidation. Mergers can also be classified into three types from an economic perspective depending on the business combinations, whether in the same industry or not, into horizontal (two firms are in the same industry), vertical (at different production stages or value chain) and conglomerate (unrelated industries). From a legal perspective, there are different types of mergers like short form merger, statutory merger, subsidiary merger and merger of equals.

Merger and Acquisition in Banking Sector

Mergers and acquisitions in banking sector have become familiar in the majority of all the countries in the world. A large number of international and domestic banks all over the world are engaged in merger and acquisition activities. One of the principal objectives behind the mergers and acquisitions in the banking sector is to reap the benefits of economies of scale.

LIST OF MERGER AND ACQUISITION IN BANKING SECTOR IN INDIA

Name of the acquiring bank	Bank targeted	Year in which the merger took place
Kotak Mahindra Bank	ING Vyasa Bank	2014
ICICI Bank	Bank of Rajasthan Ltd.	2010
HDFC Bank	Centurion Bank of Punjab	2008
Indian Overseas Bank	Bharat Overseas Bank	2007
Federal Bank	Ganesh Bank of Kurandwad	2006
Industrial Development Bank of India	United Western Bank	
Centurion Bank of Punjab	Lord Krishna Bank	
ICICI Bank	Sangli Bank	
Bank of Punjab	Centurion Bank	2005
Industrial Development Bank of India	IDBI Bank Ltd.	2004
Bank of Baroda	South Gujarat Local Area Bank	
Oriental Bank of Commerce	Global Trust Bank	
Punjab National Bank	Nedungadi Bank Ltd.	2003
ICICI Bank	ICICI Ltd.	2002
Bank of Baroda	Banaras State Bank Ltd.	
ICICI Bank	Bank of Madura	2001
HDFC Bank Ltd.	Times Bank Ltd.	2000
Bank of Baroda	Bareilly Co-op Ltd.	1999
Union Bank of India	Sikkim Bank Ltd.	
Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
Oriental Bank of Commerce	Punjab Co-op Ltd.	1996
State Bank of India	Kashinath State Bank	1995
Bank of India	Bank of Karad Ltd.	1994
Punjab National Bank	New Bank of India	1993

Source: <http://www.ibpsexamadda.org.in/banking-awareness-49-mergers-and-acquisitions-of-banks-7469/>

Mergers and acquisitions in banking sector are forms of horizontal merger because the merging entities are involved in the same kind of business or commercial activities. Sometimes, non-banking financial institutions are also merged with other banks if they provide similar type of services.

In the context of mergers and acquisitions in the banking sector, it can be reckoned that size does matter and growth in size can be achieved through mergers and acquisitions quite easily. Growth achieved by taking assistance of the mergers and acquisitions in the banking sector may be described as inorganic growth. Both government banks and private sector banks are adopting policies for mergers and acquisitions.

II. LITERATURE REVIEW

1. DR.SMITA MEENA, DR.PUSHPENDER KUMAR “**MERGERS AND ACQUISITIONS PROSPECTS: INDIAN BANKS STUDY**” ISSN: 2349-7807 International Journal of Recent Research in Commerce Economics and Management (IJRRCEM) Vol. 1, Issue 3, pp: (10-17), Month: October - December 2014, In today's global marketplace, banking organizations have greatly expanded the scope and complexity of their activities and face an ever changing and increasingly complex regulatory environment. It has been realized globally that M&A is only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking for strategic acquisitions within India and abroad. Today, the banking industry is counted among the rapidly growing industries in India. In the last two decades, there has been paradigm shift in banking industries. A relatively new dimension in the Indian banking industry is accelerated through M&A. In order to attain the economies of scale and also to combat the unhealthy competition Consolidation of Indian banking sector through M&A's on commercial considerations and business strategies are the essential pre-requisite. Consolidation has been a significant strategic tool and has become a worldwide phenomenon, driven by advantages of scale-economies, geographical diversification, and lower costs through branch and staff rationalization, cross-border expansion and market share concentration. The new Basel II norms have also led banks to consider M&As.
2. DEVARAJAPPA S.” **MERGERS IN INDIAN BANKS: A STUDY ON MERGERS OF HDFC BANK LTD AND CENTURION BANK OF PUNJAB LTD**” INTERNATIONAL JOURNAL OF MARKETING, FINANCIAL SERVICES & MANAGEMENT RESEARCH VOL.1 ISSUE 9, SEPTEMBER 2012, ISSN 2277 3622, The purpose of the present paper is to explore various motives of merger in Indian banking industry. This includes various aspects of bank mergers. It also compares pre and post merger financial performance of merged banks with the help of financial parameters like, Gross Profit margin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Through literature Review it comes know that most of the work done high lightened the impact of merger and Acquisition on different companies. The data of Merger and Accusations since economic liberalization are collected for a set of various financial parameters. Independent T-test used for testing the statistical significance and this test is applied not only for ratio analysis but also effect of merger on the performance of banks. This performance being tested on the basis of two grounds i.e. , Pre-merger and Post- merger. Finally the study indicates that the banks have been positively affected by the event of merger.
3. DR. K.A. GOYAL, AND VIJAY JOSHI”**MERGER AND ACQUISITION IN BANKING INDUSTRY: A CASE STUDY OF ICICI BANK LTD.** “ISSN 2249-5908 Issue2, Vol. 2 (March-2012), To keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. We consider a case of ICICI Bank Ltd., the largest private sector bank in India, which has acquired nine financial firms to make the steps of the ladder of success. Therefore, the aim of this article is to study the growth of ICICI Bank Ltd. through mergers, acquisitions, and amalgamation. This article is divided into four parts. The first part includes introduction and conceptual framework of mergers and acquisition. The second part discusses the historical background of ICICI Bank Ltd. and followed by review of literature. The third part discusses all the mergers, acquisitions, and amalgamations in detail. Finally, the article concludes that a firm must devise a strategy in three phases i.e. Pre-merger phase, acquisition phase and post-merger phase. The article will be helpful for policy makers, strategy makers, HR people, bankers, researchers, and scholars.
4. **ANAND MANOJ & SINGH JAGANDEEP (2008)** studied the impact of merger announcements of five banks in the Indian Banking Sector on the share holder bank. These mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had positive and significant impact on share holder's wealth. The effect on both the acquiring and the target banks, the result

showed that the agreement with the European and the US Banks Merger and Acquisitions except for the facts the value of share holder of bidder Banks have been destroyed in the US context, the market value of weighted Capital Adequacy Ratio of the combined Bank portfolio as a result of merger announcement is 4.29% in a three day period (-1, 1) window and 9.71 % in a Eleven days period (-5, 5) event window. The event study is used for proving the positive impact of merger on the bidder Banks.

5. **Sinha Pankaj & Gupta Sushant (2011)** studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions(M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on share holder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

III. RESEARCH METHODOLOGY

Objective of the study:

✓ **Primary objective:**

- The main objective of study is analysis of merger and acquisition in banking sector in India.

✓ **Secondary objective:**

- To study the main purpose of merger and acquisition in banking sector
- To analysis of merger and acquisition deal in banking sector
- To know the challenges and problems related to merger and acquisition in India.
- To study post merger analysis of financial performance.
- To study post merger analysis of number customer bases and network.

➤ **Research design:**

There are three types of research design: exploratory design, descriptive design, and causal design. In this research paper, I have used descriptive research design.

➤ **Sources of data:**

There are two sources of data: primary and secondary data. I have used secondary data for merger and acquisition in banking sector.

➤ **Population:**

All the merger and acquisition done in banking sector in India.

➤ **Sample size:**

Merger of kotak Mahindra bank and ING vyas bank

➤ **Sampling design:**

There are two types of sampling design. Probability sampling design and non probability sampling design. I have used simple random sampling design.

IV. ANALYSIS

➤ **MERGER BETWEEN KOTAK MAHINDRA BANK AND ING VYSYA BANK (VYSYA)**• **INTRODUCTION OF KOTAK MAHINDRA BANK:**

Kotak Mahindra Bank is an Indian private sector banking headquartered in Mumbai, Maharashtra, India. In February 2003, Reserve Bank of India (RBI) gave the license to Kotak Mahindra Finance Ltd., to carry on banking business

• **INTRODUCTION OF ING VYAS BANK:**

ING Vysya was incorporated as Vysya Bank Limited (Vysya Bank) in 1930 in Bangalore, Karnataka, in Southern India. In 2002, ING Vysya came into existence when the ING Group acquired a major stake in Vysya Bank. This was the first acquisition of an Indian bank by any foreign bank. ING Vysya offered various financial services under four business segments ,Treasury, Corporate / Wholesale Banking, Retail Banking, and Other Banking Operations.

• **MERGER BETWEEN ING VYSYA BANK (VYSYA) AND KOTAK MAHINDRA BANK:**

Vysya and Kotak announced their intention to merge their respective businesses on 20 November 2014. On 31 March 2015 the Reserve Bank of India has approved this transaction with effect from 1 April 2015.

With the current climate of growing globalization and expanding international banks, the need to grow has been imminent for Indian banks. In late 2014, Kotak Mahindra Bank Limited (“Kotak”), one of India’s rapidly expanding banks, announced its all-stock acquisition of ING Vysya Bank Limited (“ING Vysya”), structured as a merger, resulting in a single merged entity that will be India’s fourth largest bank (the “Deal”).

• **THE PARTIES:**

A. Kotak Mahindra Bank Limited Established in 1985, Kotak Mahindra Finance Capital Management Limited, the flagship company of the Kotak Group, started off as a non-banking financial services company, initially providing financing for the purchase of automobiles. In 2003 it became the first ever NBFC to be converted into a bank.

B. B. ING Vysya Bank Limited With roots as far back as the 1930s, ‘Vysya Bank’ comes with a long heritage of banking in the trade communities of south India. In 2002, it became the first ever Indian bank to merge with a foreign one, when it officially announced its merger with the Dutch banking giant ING Group, which took a controlling stake in the bank. The bank has over time grown a strong presence in south India with over 500 branches in the south. It has also, because of its ties with the ING Group, grown its presence abroad with a presence in over 5 countries.

• **CHRONOLOGY OF EVENTS:**

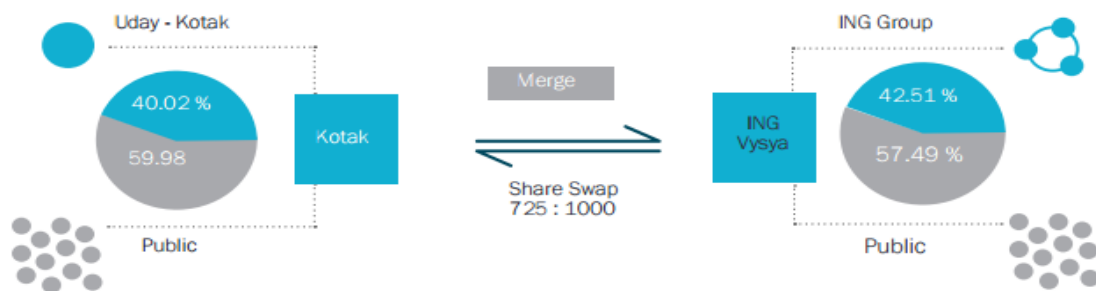
September 2013	Reports of ING’s intention to sell its stake in ING Vysya and Kotak being the front runner ⁸
November 20, 2014	Scheme is approved by the board of directors of Kotak and ING respectively
January 7, 2015	The Scheme is approved by the Shareholders of Kotak and ING respectively
February 12, 2015	Merger receives CCI approval
April 1, 2015	Appointed Date of the Scheme
April 1, 2015	Date on which RBI approved of the Scheme
July 3, 2015	Date of FIPB approval to increase the aggregate foreign investment in Kotak, pursuant to the Deal ⁹
September 30, 2015	Long Stop Date

Source:http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/ING_Bank_Merges_with_Kotak_Bank.pdf

• DETAIL OF DEAL:

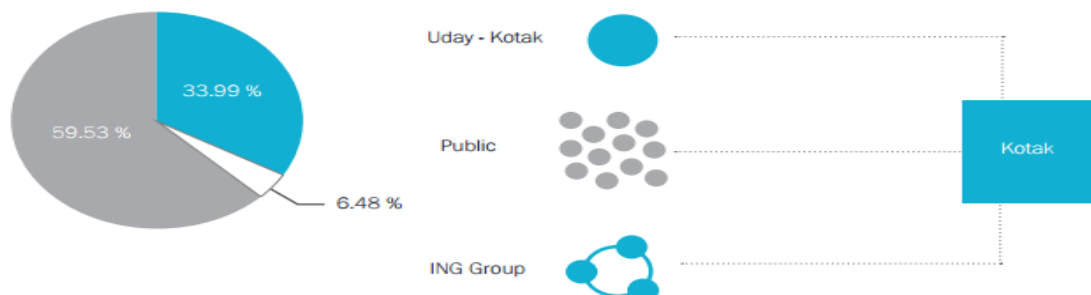
SWAP RATIO	<ul style="list-style-type: none"> Share Exchange Ratio: 0.725 : 1 725 shares of Kotak for every 1,000 share of ING Vysya
EFFECTIVE DATE	Upon obtaining all approvals, at effective date: <ul style="list-style-type: none"> ING Vysya including its business and branches merges into Kotak Kotak issues shares to ING Vysya shareholders All shareholders (that of Kotak and ING Vysya) participate thereafter in the (merged) Kotak business
TRANSFEREE BANK	Kotak Mahindra Bank Limited
TRANSFEROR BANK	ING Vysya Bank Limited
MODE OF TRANSACTION	The deal was entirely carried out through a single scheme of amalgamation merging ING Vysya into Kotak. The merger was carried out in accordance with Section 44A of the BR Act and the Merger Guidelines
SHAREHOLDING IN KOTAK BEFORE THE MERGER	Promoter Group: 40.02% Public Shareholding: 59.98% <ul style="list-style-type: none"> FII: 36.85% Mutual Funds/ UTI: 1.65% Financial Institutions/ Banks: 0.21% Foreign Banks: 4.25% Foreign Bodies: 2.04% Bodies Corporate: 3.30% Individuals: 10.27% Others: 1.41%
SHAREHOLDING IN ING VYSYA BEFORE THE MERGER	Promoter Group: 42.51% Public Shareholding: 57.49% <ul style="list-style-type: none"> FII: 26.98% Mutual funds/ UTI: 13.43% Financial Institutions/ Banks: 1.76% Bodies Corporate: 5.36% Individuals: 8.14% Others: 1.82%
POST-MERGER SHAREHOLDING IN KOTAK	Promoter Group: 33.99% Public Shareholding: 66.01% <ul style="list-style-type: none"> ING Group: 6.48% FII: 33.58% Domestic: 19.12% FDI: 6.83%

• PRE – MERGER:



Source:http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/ING_Bank_Merges_with_Kotak_Bank.pdf

• POST MERGER:



Source:http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/ING_Bank_Merges_with_Kotak_Bank.pdf

- **SYNERGIES FROM MERGER:**

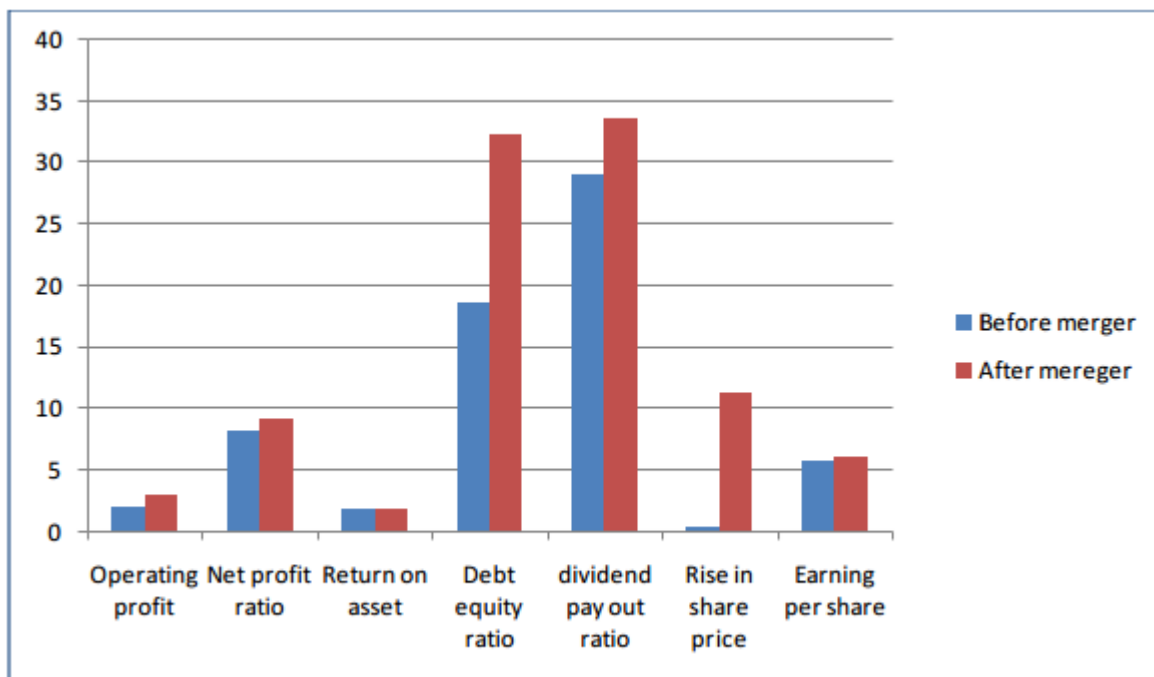
- Economies of scale
- Increase in branch network
- Increase in customer base
- Increase in deposit and advances
- Access to international business
- Increase ATM network in the country

- **CHALLENGES OF MERGER DEAL:**

- Major problem is related to human resource management
- Difference in salary structure of employees
- Different deposit rate

- **FINANCIAL PERFORMANCE ANALYSIS OF PRE MERGER AND POST MERGER OF KOTAK MAHINDRA BANK:**

NO.	PARTICULARS	POST MERGER ANALYSIS	CHANGE (%)
1	CURRENT RATIO	0.23	26.47
2	QUICK RATIO	0.21	-30
3	DEBT EQUITY RATIO	32.26	7.5
4	TOTAL DEBT RATIO	33.00	16.57
5	GROSS PROFIT RATIO	0	-0.6287
6	OPERATING PROFIT RATIO	2.39	17.02
7	NET PROFIT RATIO	9.2	10.42



Source: <http://ethesis.nitrkl.ac.in/7363/1/105.pdf>

• **REGION-WISE BRANCHES (%)**

BRANCHES	ING VYSYA	KOTAK	KOTAK (MERGED)
West	13	46	31
North	22	33	28
South	61	15	36
east	4	6	5

• **ANALYSIS OF NUMBERS OF BRANCHES AND CUSTOMERS**

PARTICULARS	ING VYSYA	KOTAK	KOTAK (MERGED)
Branches (nos)	573	641	1214
ATMs (nos)	635	1159	1794
Employees (nos)	10591	29220	39811
Customers (millions)	2	8	10

• **FINANCIAL ANALYSIS:**

(in crores)

Particulars	2013-2014	2013-14 (Merged)	Percentage increase
Net Total Income	10,923	13576	24.29%
Profit After Tax	2465	3169	28.56%

• **COMPARISON FOR HALF YEARLY RESULTS FOR FY 2015:**

(Rs. In crores)

Particulars	H1FY15	H1FY15 (Merged)	Percentage increase
Net Total Income	6617	8057	21.76%
Profit After Tax	1416	1740	22.88%

V. CONCLUSION

We can conclude that there are various advantages of merger and acquisition in banking sector like increase in customer base, increase in branches, increase in number of product and service offered, increase in number of ATM network, increase in number of employees, benefits of expertise employees, access to various region in the country, increase in deposit and advance amount. There are also various challenges like difference in deposit rate and interest rate, difficulty in managing nonperforming assets, difficulty in managing the employees because difference in salary structure, etc. after analysis post merger financial performance we can say that after merger and acquisition, there is increase in net interest income, increase in profitability, increase in number of customers, improve liquidity, share price has been increased.

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