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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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MERGERS AND ACQUISITIONS IN BANKING SECTOR

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ABSTRACT
The main objective of this research paper is to analyse the market share of mergers and acquisition in banking sector in India. Through this paper we will try to find out reasons of merger and acquisition from the experience of Indian banking sector. Indian banking sector is currently valued at rupees eighty one trillion (US$ 1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication and transactions are carried out through the Internet and mobile devices. Through this paper an attempt has been made to describe the reasons, impact and market share of banking sector. The main objective of this paper is to analyse the impact of mergers and acquisition in banking sector in India. A large number of international & domestic banks all over the world are engaged in M&A activities. Through M&A in the banking sector, the banks look for strategic benefits in the banking sector and it can be reckoned that size does not matter and growth in size can be achieved through M&A quite easily. Against such improvements, the present study has been carried out to study the literature review in mergers and acquisitions in banking sector.

KEYWORDS
Indian banking sector, Mergers & acquisitions, Market share, challenges.

INTRODUCTION
In today's globalized economy, competitiveness and competitive advantages have become the buzzwords for corporate around the world. Merger and Acquisition in the banking sector have been on the rise in the recent past, both globally and in India. In this backdrop of emerging global and Indian trends in the banking sector, this study illuminates the key issues surrounding M & A in banking sector with the focus on India. It also seeks to explain the motives behind some Merger and Acquisition that have occurred in India in post liberalisation era.

Mergers and Acquisitions is the only way for gaining competitive advantage domestically and internationally and as such the whole range of industries are looking to strategic acquisitions within India and abroad. In order to attain the economies of scale and also to combat the unhealthy competition within the sector besides emerging as a competitive force to reckon with in the International economy. Consolidation of Indian banking sector through mergers and acquisitions on commercial considerations and business strategies – is the essential pre-requisite. Today, the banking industry is counted among the rapidly growing industries in India. It has transformed itself from a sluggish business entity to a dynamic industry. The growth rate in this sector is remarkable and therefore, it has become the most preferred banking destinations for international investors‟. In the last two decade, there have been paradigm shift in Indian banking industries. The Indian banking sector is growing at an astonishing pace. A relatively new dimension in the Indian banking industry is accelerated through mergers and acquisitions. It will enable banks to achieve world class status and throw greater value to the stakeholders.

In the past three decades, India's banking system has earned several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to metropolises or cities in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main aspects of India's banking growth story. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct. The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955. The Government of India issued an ordinance and nationalised the 14 largest commercial banks in 1969. These banks have 85 per cent of bank deposits in the country. A second round of nationalisation of 6 more commercial banks took place in 1980. Nationalisation took place so that government get more control of credit delivery. With the second round of nationalisation, 91% of banking business was held by the Government of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalised banks and resulted in the reduction of the number of nationalised banks from 20 to 19. At present the number of nationalised banks is 26.

RECENT DEVELOPMENTS IN BANKING SECTOR
The central banks of Japan and India have agreed to a proposal that expands the maximum amount of the Bilateral Swap Arrangement between the two countries to US $50 billion. The agreement is for a three-year period (2012–15); the previous size of the BSA was US $15 million. The new agreement will enable the two countries to swap their local currencies against the US dollar for an amount up to US$50 billion.

Public sector banks will soon offer customers insurance products from different companies as against products from one company. The finance ministry has asked public sector banks to become insurance brokers instead of corporate agents. This move was one of the steps stated by finance minister P. Chidambaram in early 2013, as a way to increase insurance penetration.

Citi has promoted Mr Anand Selvakesari as the head of consumer banking for the Association of Southeast Asian Nations region. Mr Selvakesari will continue his present role as Citi's consumer banking business head in India – a post he has occupied since July 2013 – as well as look after the consumer banking operations in Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Indian Overseas Bank has received approval from the RBI to open a second branch in Bangkok, according to the bank's chairman and managing director Mr M Narendra. The bank will likely open the second branch before March 31, 2014. Also, the bank is looking to expand its presence. "Our focus is on opening more rural branches and taking banking to villages. We have covered 3,000 villages under the financial inclusion scheme," said Mr Narendra.

In an effort to expand its revenue streams, Bank of India plans to enter the merchant banking space through BOI Shareholding Ltd. BOI is looking to buy Bombay Stock Exchange's entire shareholding in their joint venture BOI Shareholding Ltd (BOISL). Another reason for BOI's inclination to foray into merchant banking is to offer a greater range of financial services to its customers.

REVIEW OF LITERATURE
Mehta Jay & Kakani Ram Kumar (2006) stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector and still contains to capture the interest of a research and it simply because of after the strict control regulations had led to a wave of merger and Acquisitions in the Banking industry and states many reason for merger in the Indian Banking sector.

Anand Manoj & Singh Jagandeep (2008) studied the impact of merger announcements on shareholder's wealth on the basis case study of five banks in the Indian Banking Sector. The study revealed that announcement of merger of Bank had positive and significant impact on share holder's wealth.

Aharon David Y (2010) analyzed the stock market bubble effect on Merger and Acquisitions and studied behaviour of investors during pre merger and post merger activities. According to the study, the bursting of bubble seems to have led to further consciousness by the investors and provide evidence which suggests that during the euphoric bubble period investor take more risk.

Kar Rabi Narayan (2011) has conducted a comprehensive study on mergers and acquisitions in Indian Scenario. Kar analyzed the trend for both pre liberalisation era as well as post liberalisation era in Indian scenario. The study also covers impact of M&A on shareholder's wealth, tax implications and due diligence practices in M&A exercises.

Mehroz Nida Dilshad (2012) measured the efficiency of market with respect to announcements of mergers and acquisitions using an event study methodology. The study analyzed the effects of banks mergers and their announcements on the prices of stocks, in Europe. Evidence here supports that significant cumulative abnormal returns were short lived for the acquirers.

OBJECTIVES OF THE STUDY

- To study the reasons for merger and acquisition in Indian banking sector.
- To analyse the market share of mergers and acquisition in banking sector.
- To study the challenges faced by banking sector in India.

RESEARCH METHODOLOGY

A comprehensive study has been undertaken for the banks those have gone for M&A during the post-reform period. Data require for the research paper is collected from secondary sources. Following secondary sources have been used for data collection: Annual Reports of R.B.I. ICRA and Website of SEBI, Websites of BSE and NSE, Annual Reports of Banking Companies that are involved in consolidation.

REASONS FOR MERGER

- Merger of weak banks- Practice of merger of weak banks with strong banks was going on in order to provide stability to weak banks but Narsimhan committee opposed this practice. Mergers can diversify risk management.
- Increase in market competition- Innovation of new financial products and consolidation of regional financial system are the reasons for merger.
- Markets developed and became more competitive and because of this market share of all individual firm reduced so mergers and acquisition started.
- Capability of generating economies of scale when firms are merged.
- Transfer of skill takes place between two organisation takes place which helps them to improve and become more competitive.
- Globalisation of economy impacted bank mergers.
- New services and products- Introduction of e- banking and financial instruments.
- Technology removal of entry barrier opened the gate for new banks with high technology and old banks can't compete with them so they decide to merge.
- Positive synergies- When two firms merge their sole motive are to create a positive effect which is higher than the combined effect of two individual firms working alone. Two aspects of it are cost synergy and revenue synergy. Cost Synergy is the savings in operating costs expected after two companies that complement each other's strengths join. Revenue Synergy is refers to the opportunity of a combined corporate entity to generate more revenue than its two predecessors stand-alone companies would be able to generate.

CURRENT MERGERS AND ACQUISITION IN INDIA

- The Indian banking industry may see a few mergers and acquisitions (M&A) deals this year, ahead of the banking regulator releasing the licensing norms for new banks that are expected to open for business in the next two years.
- At least three new generation private sector banks - HDFC Bank Ltd, Kotak Mahindra Bank Ltd and IndusInd Bank Ltd have set their eyes on acquisitions. Kotak Mahindra Bank has already created a war chest for acquisitions by selling 4.5% stake in the bank for $296 million (around Rs1, 400 crore today) to Sumitomo Mitsui Financial Group Inc. Its vice chairman and managing director Uday Kotak has previously said that he is "sniffing around" for acquisitions.
- ICICI Bank Ltd, India's largest private sector lender, is in the process of acquiring Bank of Rajasthan Ltd for its 463 branches. ICICI Bank had earlier acquired Bank of Madura Ltd and Sangli Bank Ltd, again for their branches, and their presence in southern and western India, respectively.
- Yes Bank Ltd is in talks to buy the local retail and commercial operations of Royal Bank of Scotland Group (RBS). A plan by RBS, majority owned by the UK government, to sell the Indian businesses to HSBC Holdings fell through in November last year, more than two years after the two banks started negotiations. Yes Bank, India's No. 4 private sector lender with assets of nearly $11 billion, is likely to start due diligence on the RBS unit soon. RBS has been shrinking its Indian business since the original deal with HSBC was struck in 2010 and it now has assets of just 190 million pounds. The unit has 31 branches, 400,000 customers and made revenue of 42 million pounds in the first nine months of last year, RBS said in a statement last November.

IMPACTS OF MERGER

- Diversification- When two firms merge their risk in investing assets diversify accordingly. When a firm is operating alone then they don't have many options to diversify their portfolio investment that they can get after merger.
- Mergers and Acquisition allows firms to obtain efficiency gains through cost reductions, revenue increases.
- Broader array of products- When two firms merge they have diversified variety of products and after the merger each consumer in both the firms will be benefited with the range of products or services to choose from.
- Mergers and Acquisition helps firms to widen its consumer portfolio but it also leads to a more diversified range of services and offer scope economies by optimizing the synergies between the merged activities.
- Domestic mergers cut costs for both the partners whereas for the majority of cases including domestic and cross border mergers and acquisition, the impact on profitability is insignificant but a clear trend to diversify the sources of revenue was apparent
- In terms of cost efficiency and revenue efficiency it has been noticed that in domestic merger organisation get the benefit of cost efficiency and in cross border merger organisation get the benefit of revenue efficiency because of the benefit of geographical expansion and diversification.
- Improvement in the activities of organisation, however, offer benefits from product complementarities which helps to enhance revenues.
- Efficiency may be improved after merger and acquisition, if the acquiring company is more efficient already and brings the efficiency of the target up to its own level by providing its managerial expertise, policies and other operations.

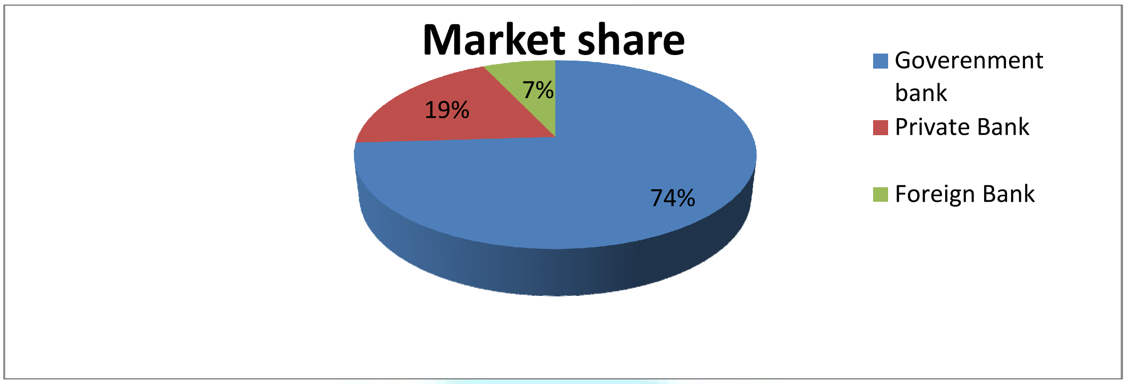
CHALLENGES OF BANKS IN INDIA

Today, banks are one of the most important parts of our daily life. Banks meet the needs and requirements of farmers, businessmen, entrepreneurs, governments and other segment of society. Banks contribute to speed up the economic growth of a country by mobilizing scarce financial resources for productive purpose. Hence, banking is the fundamental basis of economic, industrial, agricultural development of a country. Integration of economies leads to integration of banking industry catalyzing the globalization process. The growing role of the banking industry in allocation of resources has significant potential advantages for the efficiency with which our economy functions. Consequently, the adverse consequences of malfunction of the banking sector are likely to be more severe than they used to be in the past. Hence, all our efforts today are focused at ensuring greater financial stability. Given the significance of the Indian banking system, one cannot afford to underplay the importance of a robust and resilient banking system.

The enhanced role of the banking sector in the Indian economy, the increasing levels of deregulation along with the increasing levels of competition have facilitated globalisation of the India banking system and placed numerous demands on banks. Operating in this demanding environment has exposed banks to various challenges. The last decade has witnessed major changes in the financial sector - new banks, new financial institutions, new instruments, new windows, and new opportunities - and, along with all this, new challenges. While deregulation has opened up new vistas for banks to augment revenues, it has entailed greater competition and consequently greater risks. Demand for new products, particularly derivatives, has required banks to diversify their product mix and also effect rapid changes in their processes and operations in order to remain competitive in the globalised environment.

CURRENT SCENARIO OF INDIAN BANKS
The total assets of Indian banks, which are regulated by the Reserve Bank of India and the Ministry of Finance were pegged at Rs 82,99,220 crore (US$ 1564.8 billion) during Financial year

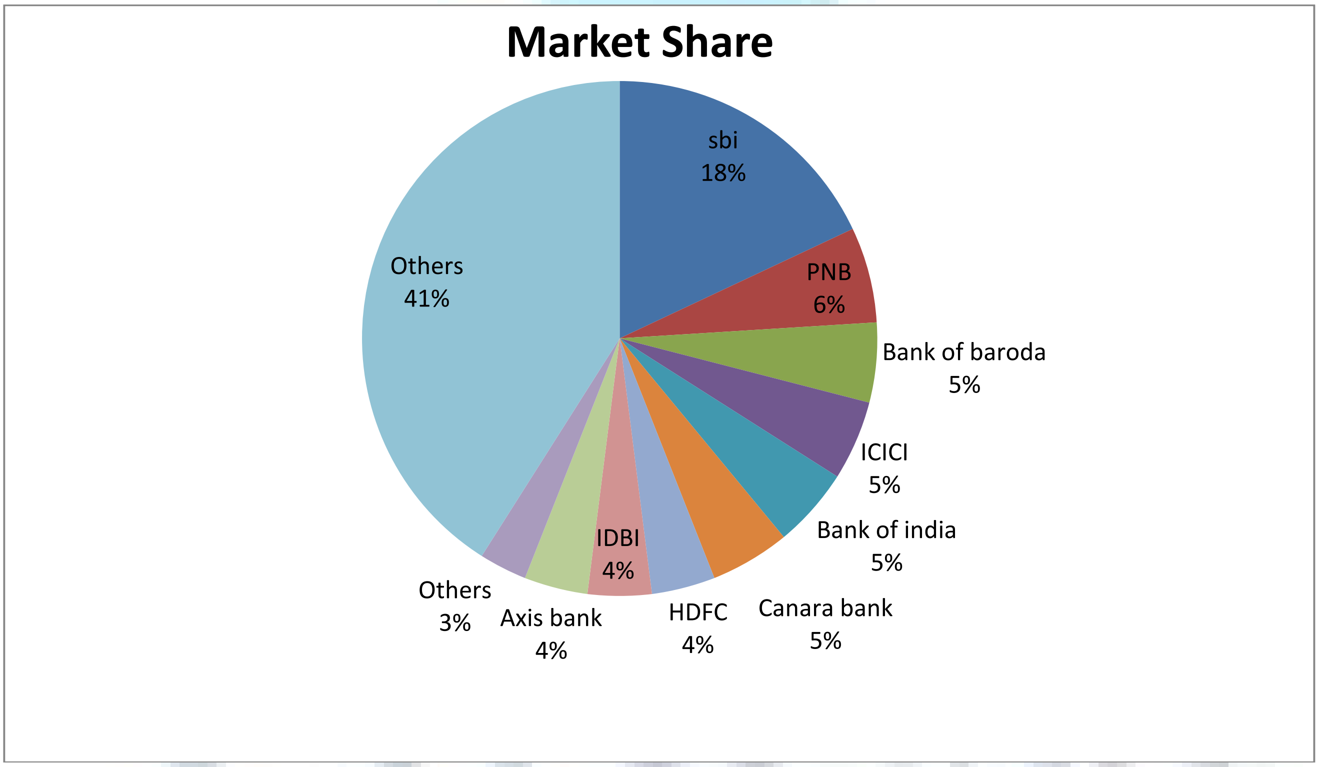
TABLE 1.1: CURRENT SCENARIOS OF BANKS



Source: ICRA, Thomas White Report on Indian Banking

Table 1.1 as per the study conducted by ICRA revealed that market share of Government bank is 74%, private bank 19%, and foreign bank market share is only 7%. Which revealed that the maximum share of Government bank.

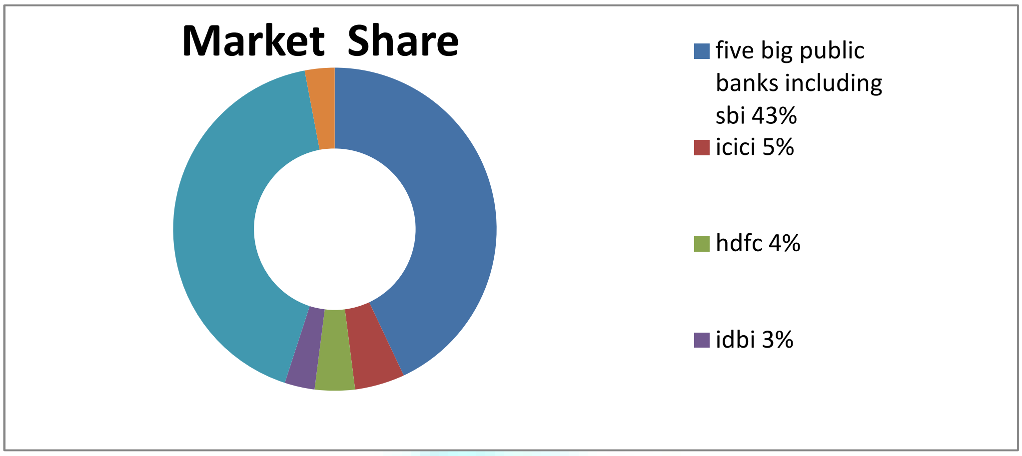
TABLE 1.2 CURRENT SCENARIOS OF BANKS



Source: ICRA, Thomas White Report on Indian Banking

Table 1.2 as per the study conducted by ICRA revealed that market share of sbi is 18%,PNB 6%,bank of Baroda 5%,ICICI 5%, Canara bank 5%,HDFC 4%, IDBI 4%, Axis Bank 4% 19%, and others bank market share is only 3%and 41%.

TABLE 1.3 AFTER MERGER SCENARIO OF BANKING SECTOR



Source: ICRA, Thomas White Report on Indian Banking

Table 1.3 as per the study conducted by ICRA revealed that market share of five big public banks including sbi is 43%, ICICI market share is 5%, HDFC market share is 4%, IDBI market share is 3%,And others market share is 42%and 3%.

CONCLUSION

The main 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. 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.

The recent years these trends have been changed. One striking feature which was noticed in comparison to domestic mergers and cross border mergers was that in domestic mergers if no competition issue were raised then cost will reduce because of reduction in operating cost. but in case of cross border mergers it has been noticed that revenue tends to improve without imposing negative impact on consumers. Setting of priorities in advance is beneficial for the acquiring company. 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.

Too many mergers inside or outside can be harmful for the economy and leads to economic failure. From society's point of view too many mergers should be avoided. But we cannot restrict all mergers which includes at least one big player in the economy instead we should reconsider our competition policies. Merger regulation by CCI would be therefore intended to ensure that such activities are not motivated by the desire to collude and make excessive profits at the expense of customers or to squeeze other players out of the market through abusive practices.

RECOMMENDATIONS

- Policies regarding mergers should be made in such a way so that it controls monopoly and anticompetitive practices in banking sector. But policies should not restrict the entry of any new firm because of the policies. Over protecting policies restrict the firm from taking risk and explore new areas which restrict the innovation process in any field.
- Present policies are ill framed and equipped to handle competition issues because of this we have seen so many unproductive mergers in the recent news. We should incorporate a full efficiency test in our competition policies and it would be desirable to restructure capital markets in small and medium banks.
- We should provide proper incentives to these small and medium banks so that they start innovating with their quality of services provided to common people.

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With sincere regards

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals