CONSOLIDATION OF BANKS IN INDIA

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Abstract: *Consolidation of business entities, through mergers and acquisitions, is a world-wide phenomenon. The numerous mergers and acquisitions all over the world, including in India, in the real as well as in the financial services sector, appear to be driven by the objective of leveraging the synergies arising from the process of merger and acquisition This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well-known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. The aim of this paper is to understand the behavior of various* ***"Mergers and Acquisitions in Indian Banking Sector".*** *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.*

Key Words: *Banking, Indian, Competition, Consolidation.*

1. INTRODUCTION:

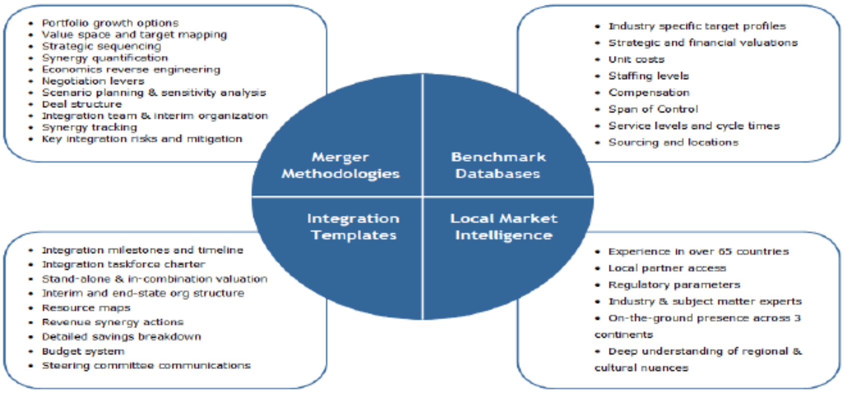
The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice. The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy. India has emerged as one of the top countries with respect to merger and acquisition deals. In 2007, the first two months alone accounted for merger and acquisition deals worth $40 billion in India.

2. MERGER:

It is a financial tool that is used for enhancing long-term profitability by expanding their operations. Mergers occur when the merging companies have their mutual consent as different from acquisitions, which can take the form of a hostile takeover. Managers are concerned with improving operations of the company, managing the affairs of the company effectively for all round gains and growth of the company which will provide them better deals in raising their status, perks and fringe benefits. If we trace back to history, it is observed that very few mergers have actually added to the share value of the acquiring company and corporate mergers may promote monopolistic practices by reducing costs, taxes etc.

3. ACQUISITION:

An Acquisition usually refers to a purchase of a smaller firm by a larger one. Acquisition, also known as a takeover or a buyout, is the buying of one company by another. Acquisitions or takeovers occur between the bidding and the target company. There may be either hostile or friendly takeovers. Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.



4. PURPOSE OF MERGERS AND ACQUISITIONS

The basic purpose of merger or business combination is to achieve faster growth of the corporate business. Faster growth may be had through product improvement and competitive position. Other possible purposes for acquisition are short listed below: -

(1) Procurement of supplies: 1. To safeguard the source of supplies of raw materials or intermediary product; 2. To obtain economies of purchase in the form of discount, savings in transportation costs, overhead costs in buying department, etc.; 3. To share the benefits of suppliers‟ economies by standardizing the materials.

(2) Revamping production facilities: 1. To achieve economies of scale by amalgamating production facilities through more intensive utilization of plant and resources; 2. To standardize product specifications, improvement of quality of product, expanding 3. Market and aiming at consumers satisfaction through strengthening after sale services; 4. To obtain improved production technology and know-how from the offered company 5. To reduce cost, improve quality and produce competitive products to retain and improve market share.

(3) Market expansion and strategy: 1. To eliminate competition and protect existing market; 2. To obtain a new market outlets in possession of the offered; 3. To obtain new product for diversification or substitution of existing products and to enhance the product range; 4. Strengthening retain outlets and sale the goods to rationalize distribution; 5. To reduce advertising cost and improve public image of the offeree company; 6. Strategic control of patents and copyrights.

(4) Financial strength: 1. To improve liquidity and have direct access to cash resource; 2. To dispose of surplus and outdated assets for cash out of combined enterprise;
3. To enhance gearing capacity, borrow on better strength and the greater assets backing; 18
4. To avail tax benefits; 5. To improve EPS (Earning per Share).

(5) General gains: 1. To improve its own image and attract superior managerial talents to manage its affairs; 2. To offer better satisfaction to consumers or users of the product.

(6) Own developmental plans: The purpose of acquisition is backed by the offeror company's own developmental plans. A company thinks in terms of acquiring the other company only when it has arrived at its own development plan to expand its operation having examined its own internal strength where it might not have any problem of taxation, accounting, valuation, etc.But might feel resource constraint with limitations of funds and lack of skill managerial personnel. It has to aim at suitable combination where it could have opportunities to supplement its funds by issuance of securities; secure additional financial facilities eliminate competition and strengthen its market position.

(7) Strategic purpose: The Acquirer Company view the merger to achieve strategic objectives through alternative type of combinations which may be horizontal, vertical, product expansion, market extensional or other specified unrelated objectives depending upon the corporate strategies. Thus, various types of combinations distinct with each other in nature are adopted to pursue this objective like vertical or horizontal combination.

(8) Corporate friendliness: Although it is rare but it is true that business houses exhibit degrees of cooperative spirit despite competitiveness in providing rescues to each other from hostile takeovers and cultivate situations of collaborations sharing goodwill of each other to achieve performance heights through business combinations. The corporate aims at circular combinations by pursuing this objective.

5. LIMITATIONS:

1) Number of merger cases analyzed by various studies is much less and have taken only mergers and acquisitions.
2) It is noticed that none of the studies dealt comprehensively on trend of M&A's for the post 1991 period.
3) From the survey of Indian M&A's literature, it is mainly found that apart from growth and expansion, efficiency gains and market power are the two important motives for M&As. Apart from measuring post-merger profitability of the merged entity, there have been no reported works on these issues in the Indian context.

6. CONCLUSION:

The banking industry is one of the prominent indicators of the health of an economy. Consolidation in the Banking sector is very important in terms of Mergers and Acquisitions for the growing Indian Banking Industry. This can be achieved through cost reduction and increasing revenue. To be concluded that Mergers and Acquisitions of banking sector has vital role and global phenomenon in the world wide. The impact of mergers changes in profitability i.e. Return on Capital Employed, Return on Net Worth, Operating Profit Margin and other financial ratio is compared using the performance of pre-merger and post-mergers for the need of the study to analyze the consolidation of banks.

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