Mergers and acquisitions in Banking Industry in India.

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A merger is the same meaning of amalgamation and absorptions respectively. Amalgamation means takes place when two or more companies go on accumulating their business inclusive their assets and liabilities and form a new company where as absorption means takeover of a weak company organization, firm or bank by a strong organization. In this globalization where whole world is treated as a single market, it is very difficult for medium and small sized firm to stand before big bosses of their firm within the country and for big business homes to compile with their international counter parts. To overcome the situations mergers and acquisitions are looked as panacea. In technology merger is a combination of two firm, trade organizations and bank into one large company, firm and organization.

In the other words mergers is a fool used by companies for the purpose of expanding their business activities, operation his objectives at an increase of their long term profitability and their goodwill Mergers and acquisitions refers to the aspect of corporate strategy, corporate finance and management dealing with the buying selling and combining of difficult companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to corporate a another business entity corporate mergers may be aimed at reducing market competition cutting lost.

For Example :

- Laying off employers
- Operating at a more technologically efficient scale
- Reducing taxes
- Removing management
- Empire building

Or other purposes which may or may not be consistent with public policy or public welfare

Type of Mergers

- **Horizontal Mergers**
  In horizontal mergers where are two companies produce same product in the same industry.
- **Vertical Mergers**
  In Vertical mergers when two firm working at different stages in production of the similar or same product.
- **Conglomerate Mergers :-**
  In this mergers when the two firms operate in difference industries Amalgamation is the synonyms of Mergers for example. If a new company C ltd is formed to take over A ltd and is B Ltd. Which are existing companies; it is an instance of Amalgamation. So mergers & Amalgamation is when two or more companies does similar business go in to liquidation and a new company is formed to take over this business. It is known as mergers & Amalgamation.
  There is object to carrying similar business combine together to obtain the economies of larger scale production and avoid the competition.
  Objectives of mergers

- To eliminate cut throat competition and rivalry among the mergers companies
- To secure economics of large scale productions
- To increase the capital for achieving the targets requiring hug investment
- To have better control over the markets and distribute the manufactured goods in a large area.
- Tax saving
- Securing assured supply of raw material
- Increase of Assets
- Expansion of size
- Change technology
- Combating unhealthy competition
- To utilize the service of high salaried experts
- To attain all the other advantages of combinations

Sometimes the above mentioned objectives are achieved but in most of cases strategies fail some of the reasons behind failure of mergers may be :-

- Lack of proper research
- Excess of Integration cost
- Ego clash between the Top management of the both companies.
- Lack of proper communication
- Poorly managed
- Integration of the employees
- Expecting results too quickly

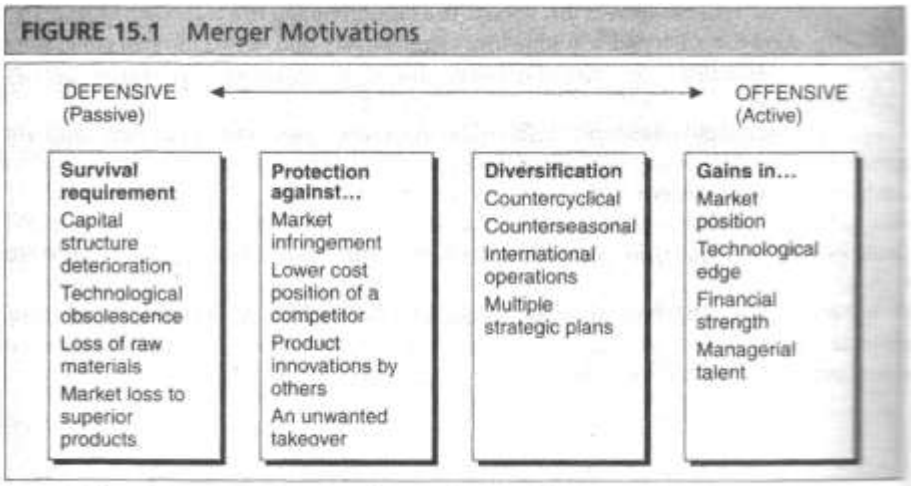
Next question arise why should a company, bank merge?

There are both defensive and offensive strategies for a merger as in indicated in figure 15.1

- Mergers motivation range from survival to protection to diversification to growth. When some technical obsolescence, market, or raw material loss or

deterioration of the capital structure has occurred in the venture, a merger may be the only means of survival.

- The mergers can also protect against market encroachment, product innovation, or an unwarranted take over.
- A merger can provide a great deal of diversification as well as growth in market technology and financial and managerial strength.



Source: F. T. Haner, *Business Policy, Planning, and Strategy* (Cambridge, MA: Winthrop, 1976), p. 399.

Acquisitions:-

Another way the entrepreneur can expand the venture is by acquiring an existing business acquisition usually refers to a purchase of a firm by a larger one sometimes, however a smaller firm will acquire management control of a larger or longest established company and keep its name for the combined. An acquisition is the purchase of the entire company or part of a company by definition the company is completely absorbed, and no longer exists independently. An acquisition can take many forms, depending on the goals and position of the parties involved in the transactions, the amount of money involved, and the type of company.

Although one of the key issues in buying a business is agreeing, and a price, successful acquisition of a business actually involves much, much more.

For example the radio station was successful after being acquired by a company primarily because the previous owner loamed the money and took no principal payment (only interest) on the until the third year of operation.

Benefits or advantage of acquisitions

- Established of business:- The most significant advantages is that the acquired firm has an established images and track record.
- Location : New customers are already familiar with the locations
- Established marketing structures:- This structures already in place, can improving the acquired business.
- More opportunity to be creative
- Existing employee: - The employee of an existing business can be an important asset to the acquisition process. They know how to run the business.

  Sometimes the above mentioned benefits are achieved but in most of cases strategies fail.

  The important of each of the advantages and disadvantages should be weighted carefully with other expansion options.
- Marginal success record

  For example, if the store layout is poor, this factor can be rectified but if the location is poor, the entrepreneur might do better using some other expansion method.
- Over confidence in ability

  Sometimes a company may assumed that he or she can succeed where other have failed
- Key Employee Loss:

  Often, when a business changes hands, key employee also leave.
- Overvalued: - If the company has to pay too much for a business, it is possible that the return on investment will be unacceptable.

Although we use both term merger and acquisition in the same sense but the mean slightly different things:-

- When one company takes over another and clearly established itself as the new owner, the purchase is called an acquisition.
- A purchase deal will also be called a merger when both CEOs agree that joining together is in the best interest of both of their companies. But when the deal is unfriendly-

  That is, when the target company does not want to be purchased- it is always regarded as an acquisition.

  In other word, the real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and share holders.

  In the last no market place currently exists for the mergers and acquisitions of privately owned small to mid-sized companies. Market participants often wish to maintain a level of secrecy about their efforts to buy or sell such companies. Their concern for secrecy usually arises from the possible negative reactions a company's employee, bankers, suppliers, customers and others might have if the effort or interest to seek a transaction were to become known' Qualified and interest buyers of multimillion dollar corporations are hard to find. Even more difficulties attend bringing a number of potential buyers forward simultaneously during negotiations.

  Potential acquires in an industry simply cannot effectively "Monitor" the economy at large for acquisition opportunities even though some may fit well within their company's operations or plans.

India banking Industry is open to public as well as to private sector. The list of service providers standards growing rapidly and we had private sector banks, foreign banks, regional rural bank, urban-cooperatives banks mutual's funds, capital markets all dying feverishly for the customer money and attention. In the process customers got a wide array of investment options, choice of various financial products. The customers truly became a 'King' so, the E marketing came in to the working of the banks as an essential and important factors.

However, under the proposed provisions in the amendment to competition Act, they will also have to seek approval from the CEF for Mergers & Acquisition activities.

The cabinet – recently approved the amendment to the CCI Act to clear the air over who would vet mergers and acquisitions. If brought all M & A activities under the CCI, except the amalgamation of a failed bank with another Bank. So it will have a clear say in mergers and acquisition across sectors, including banking

Future Challenges :-

In the present age of stiff competitions, the small and private sector banks are facing a number of challengers, some of which are follows :-

- Increased Competitions by way of increased players often operating in the areas of financial products.
- Customers has freedom to choose from multiple financial services providers
- And high expectations of the customers from the bank where they wan best of both the worlds speed efficiency of a machine.
- Change in number of technology.

  In the other words small banks are facing many problems, So overcome these situations big banks mergers in it. Mergers in banking field are not a new phenomenon. A large number of mergers have taken place since nationalization. Some of them are. Indian banking industry is open to public as well as to private sector. It comprises of state bank of India, its subsidiaries nationalization banks, Regional Rural bank, Private Bank and foreign Bank mergers in banking Industry is not a new trend. A large number of mergers have taken place since nationalization some of them are:-

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Year	Banks	Merged with
1997	Punjab Co-operative Bank	Oriental Bank of Commerce
2002	ICICI Limited	ICICI Bank
2003	Nendugadi Bank	PNB
2004	Global Trust Bank	OBC

Table 6 : Mergers and Acquisitions in India

	No. of Deals			Amount (Rs. crore)		
	1998-99	1999-2000	2000-01	1998-99	1999-2000	2000-01
1.	2.	3.	4.	5.	6.	7.
April	25	33	29	1477	775	4051
May	29	61	39	1585	2477	1423
June	34	48	21	485	2873	675
July	11	77	26	238	3040	868
August	17	56	32	445	1307	2246
September	21	72	47	1187	5784	998
October	18	63	NA	199	1182	NA
November	20	41	NA	1599	2498	NA
December	20	100	NA	780	6631	NA
January	24	65	NA	651	1107	NA
February	12	73	NA	474	4469	NA
March	61	76	NA	6851	4757	NA
Total	292	765	194 @	16070	36963	10261@

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	1998-99			1999-2000		
Months	Total No. of M&As	Number of Mergers	% Share of Mergers	Total No. of M&As	Number of Mergers	% Share of Mergers
1	2	3	4	5	6	7
April	25	18	72.0	33	15	45.5
May	29	5	17.2	61	17	27.9
June	34	6	17.6	48	12	25.0
July	11	3	27.3	77	12	15.6
August	17	2	11.8	56	20	35.7
September	21	4	19.0	72	15	20.8
October	18	2	11.1	63	14	22.2
November	20	12	60.0	41	16	39.0
December	20	4	20.0	100	24	24.0
January	24	13	54.2	65	11	16.9
February	12	2	16.7	73	16	21.9
March	61	9	14.8	76	21	27.6
Total	292	80	27.4	765	193	25.2

Note: Data are provisional.
Source: Centre for Monitoring Indian Economy.

Conclusions:-

Whenever a merger takes place between public sector bank and private Bank or public sector bank and public sector bank the main motive is to maintain the public confidence in banking system.

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