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A DESCRIPTIVE STUDY ON MERGERS AND ACQUISITION IN BANKING SECTOR

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ABSTRACT

This study examines the mergers and acquisitions (M&A) that have taken place in the Indian financial sector in order to understand the long-term effects of the merger as well as the cooperative synergies that followed. The study delves deeper into the observed patterns in the Indian financial system following mergers and acquisitions, and as a result, makes recommendations for future actions that institutions have to take into account. The research examines the effects of mergers and acquisitions by examining the trends and movements within the Indian banking sector. In order to analyse and assess the performance of M&As in the Indian financial sector, the article attempted to locate earlier research. The findings showed that although M&A in the Indian financial sector has been skillfully carved out, the economy has only reaped relatively small gains thus far. When merging strong banks with weaker banks, the government and policymakers should exercise caution because doing so could have a detrimental effect on the assets of the stronger banks rather than only serving to safeguard the interests of the troubled banks. The article also focuses on newly formed organisations and recently combined institutions. The report makes some recommendations based on accessible secondary evidence.

Keywords: *Mergers, Acquisition, Financial System, Consolidation, Indian Banking System,*

INTRODUCTION:

In today's world, starting a firm is relatively easy, but keeping it going after it reaches a certain level is more difficult. The most obvious way to strengthen and grow an organisation further is through mergers and acquisitions. It is also evident that, due to their numerous advantages, mergers and acquisitions are increasingly being considered as effective ways to grow an organisation and are being pursued in numerous nations worldwide. India, the largest and most diverse vote-based nation in the world, has achieved several remarkable feats in a short amount of time because to its financial innovations. By initiating new reforms and uniting strong and troublesome banks, innovation has skillfully assisted in resolving a number of the intricacies within the Indian financial industry. (Srinivasan and Kausingh, 2019). Evidently, these kinds of agreements, such as the merging of two current organisations into one, are referred to as consolidation. There aren't many explanations for why companies decide to proceed with consolidations. Typically, companies engage in consolidations and acquisitions to expand their market share, enter new markets, or broaden their product offerings. (2019, Ishwarya). When the Indian government passed a bill in 1968, it nationalised 14 of the biggest banks in the nation. At the time, these 14 banks held nearly 80 percent of all bank deposits. As time went on, a new nationalisation table was started, and six more massive commercial banks were approved by the government. This huge rise also

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brought about the direct takeover of 91 percent of the Indian financial system by the Indian government, resulting in the nationalisation of twenty banks. (Srinivasan and Kausingh, 2019).

An organisation buys the majority of a proprietorship holding in another company in order to gain control of that business. This is known as an acquisition. When a purchasing organisation purchases more than half of the equity shares of the target organisation, ownership of the purchased company is transferred to the purchasing organisation. As part of the trade, the acquiring organisation continuously purchases stock and other resources from the target organisation, allowing the acquiring organisation to make decisions about recently acquired resources without disclosing to or getting approval from the owners and investors of the target company. (2019, Ishwarya).

The banking industry's merger and acquisition activity is important and has a positive financial impact on the nation's economy in addition to the banks themselves. The inclinations and expectations of corporate clients are shifting these days, forcing banks to reassess their operations and additionally develop new solutions. The federal government has tight restrictions on the Indian financial system, which prevents it from being free to develop mechanically, continuously, and in a way that would pose a threat to the country's banking sector. Consolidation operations like M&A become one of the most practical strategies to take advantage of these circumstances. The following are the ultimate objectives of bank consolidations: (Kausingh and Sridharan, 2019).

- Development/ Expansion
- Upgradation of Innovation
- Loss making bank to be converged with more sound bank for restoration
- Sound bank converged with one more solid bank to turn out to be monetarily firmer, to meet cutthroat competition
- Development in benefits

RESEARCH METHODOLOGY

The data was gathered using an illustrative technique. Supplementary data has been gathered from several published sources, journals, and papers. Information is investigated more from a subjective than a quantitative basis.

LITERATURE REVIEW

The background of M&As spans more than 110 years and is divided into many eras or "waves." While the majority of financial experts focus on the five major M&A waves that have affected the US, later the UK, and Western Europe over the course of their existence, others have also mentioned a sixth wave that had a substantial impact on a wide range of economies around the world. (Das and Singh, 2018).

First Three Mergers and Acquisition Waves:

The main M&A wave happened between 1890 and 1905, following an extended period of economic stagnation. Because the consolidations were mostly flat, the affected businesses had extraordinary focus. That wave is therefore also regarded as the hour of convergence for syndication. After the First World War and a market collapse, the second wave emerged in the 1920s. As a result of the syndications' taboo creation during the first wave—which gave rise to more vertical than flat consolidation—the second wave—also known as oligopoly convergence—was presented. In the 1960s, following World War II, the third wave of M&A started to emerge. At that time, the main reason for consolidations was development; hence, the organisations' connections made no real impact. Because of this, the period of these merger and acquisitions is often frequently referred to as "converging for development." When compared to each other, these three waves exhibit similarities. All three of them emerged during a hardworking period of

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economic prosperity and primarily following significant modifications to the financial system, such as the introduction of a railway or power structure.

Fourth and Fifth Waves:

Following a severe recession in the 1980s, the fourth wave emerged, differing slightly from the preceding three waves. This wave was supported by a pattern of divestitures and started to worry Europe. The term "corporate bandit" has just recently been used in the business community. Many hostile takeover approaches were made by companies that were behaving like looters by bidding on different parts of a company once they had acquired it. The typical size and value of the acquired companies also significantly increased due to influence buyouts, a financial tool that came with significant commitments. The fifth wave was by far the greatest up to this point in terms of value and quantity of arrangements, with six times more extra esteem than the prior wave. This trend began in the 1990s and was strongly supported by the introduction of new technologies including the Internet, satellite communication, and digital television. Around that time, companies that relied heavily on innovation acquired important developments. Furthermore, this era was shaped by the restructuring of important businesses like the banking and finance sectors, the food and automotive industries, and Mannesmann Vodafone, which led to massive agreements for the history of M&A. Laws that forbade liberations in specific industries of commerce also contributed significantly to this wave.

Sixth Wave – A Global Wave:

The sixth wave of mergers and acquisitions took place from 2002 until the global economy was rocked by financial crises at the end of 2007. There was a definite upward trend for M&A during this time in both developed and developing countries. In terms of the value and quantity of M&A deals, the sixth wave outperformed the other waves. This can be explained by growing globalisation, which has increased international dependence between countries, as well as by a significant shift in the kind of acquisitions done in the last 10 years. Following the Asian financial crisis in 1999, more financially sound Western companies were able to acquire Asian companies at a discount. Meanwhile, emerging markets started to become equal competitors in the market and began looking for acquisitions in newly developed nations. Between 2002 and 2007, the United States of America was the most active nation in acquiring various projects and the largest acquisition target.

Recent Development in the Indian Banking Sector's Consolidation

Ten public sector banks were combined into four new banks not too long ago by Hon. Finance Minister of India, Shrimati Nirmala Sitharaman. The goal of this merger, according to FM Nirmala Sitharaman's concept, is to compete in the global market and elevate the Indian financial system.

Fourth-largest mergers First, we discuss the recent merger of Union Bank of India, Oriental Bank of Commerce, and Punjab National Bank. As a result of this consolidation, PNB is now the second-biggest Public Sector Bank in India, trailing only State Bank of India in terms of branches. Following the merger, PNB's overall branch count climbed to 11,437 locations nationwide, and the bank's total revenue reached an astounding Rs. 17.95 lac crore. Subsequently, the second significant merger took place between Canara Bank and Syndicate Bank, resulting in the formation of the fourth largest public sector bank in India. The recently established Canara Bank now has 10342 branches and a turnover of Rs. 15.20 lac crore.

Consolidating Andhra Bank with Corporation Bank and Union Bank of India is another significant merger that FM completed. Union Bank of India is now the fifth-most powerful public sector bank in India as a result of these merger activities. The UBI was able to increase its operations by 2-4.5 instances

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because to this consolidation. Here, the consolidation led to an increase in branches to 9609 units and a 14.59 lac crore increase in turnover. The merger of Allahabad Bank with the Indian Bank is FM Nirmala Sitharaman's fourth merger. Due to this consolidation, Allahabad Bank is now India's seventh-largest public sector bank.

Present Scenario and Upcoming Challenges

In order to acquire an interested bank, the consolidation of troubled and strong banks did not result in particularly high proficiency gains. The article also states that the observational disclosures of this review suggest that the consolidation pattern in the Indian financial system has up to this point only involved the reconstruction of financially unstable and helpless banks. 2014; Meena and Kumar. The review has concluded that there is undoubtedly an impact of the merger and acquisition on the operating exhibits of the included parts, after examining the working presentation of combined substance using monetary value-added notion. The development of the Indian economy is one of the major goals of Flood in the consolidation and acquisition activity. (2019, Sharma and Shukla).

According to a different study by Kausingh and Sridhadharan, consolidation outperformed the merging institutions in terms of cost efficiency. Currently, acquisition banks did not see any appreciable performance gains from consolidations among distressed and strict banks. (Srinivasan and Kausingh, 2019). Academics firmly believe that the Indian financial system necessitates that very large banks maintain distinct risks that arise from operating in both domestic and international environments. (Sensarma and Jayadev). According to the findings of another study, stop costs reveal the assumptions made by the market about future earnings, and actual execution may differ from these assumptions. This impression is especially true when it comes to bank consolidation. The results also suggest that the manager of the combined banks should take decisive steps towards consolidation.

Although the staff were first concerned about the consolidation of data, letters from the administration helped them adjust to the change. Das and Singh, 2018). In his review, Prof. Ritesh Patel discussed the impact of mergers and acquisitions on the Indian financial system. The investigator examined two cases to see whether or not their consolidation had resulted in a favourable outcome. In terms of net overall revenue, return on total assets, return on long-term fund, and return on resources, there is a correlation between pre- and post-consolidation execution for this. (Patel, 2014)

When an organisation obtains consolidation, it becomes apparent from its planning and process whether it will result in success or failure. It is evident from numerous case laws that it is not falling behind in these areas of global procurement and consolidation. B. Ravi (2019).

Starting about 2020, the COVID-19 pandemic has had a profound impact on the global economy. The financial recovery is facing challenges as the infection continues to spread rapidly over the world. Taking into account previous experiences, the big banks were better prepared when the pandemic struck because they had consistently pooled their resources and are far more resilient to shocks. Thus far, banks have reacted quickly to these events, received assistance from national banks, and adapted adequately to the financial shock caused by the pandemic. KPMG, 2020a. Even in the midst of the lockdown and health emergency, banks and financial institutions were under tremendous pressure to continue providing the same services.

The shortcomings and general lack of tact in our prohibit frameworks in a crisis situation were among the functional and specialised issues faced by both the customers and the representatives. (2019, Perwej).

The results clearly show how monopolistic contest behaviour occurs in the financial sector of Malaysia. In comparison to the traditional interest-based market, the report notes a cluster of more notable rivalry in

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the general market sector over the study period. This segment comprises working pay from expense and commission-based products. (Sufian and Habibullah, 2013)

RECOMMENDATIONS AND RESULT

- The factors that affect M&A performance may not be the same for all banks. • The merger of two strong banks can create a level of synergy that can enable them enter and fight the global competition.
- The powerful banks shouldn't collaborate with the underperforming banks since this will have a detrimental effect on both banks' resources. Instead, the weak banks should unite to form one strong bank.
- From our vantage point, we believe that mergers help to lower operating costs and raise professional standards.
- Negative effects of a botched merger include disrupted work processes, lowered client confidence, damage to the company's credit, employee attrition, and low levels of employee inspiration.

CONCLUSION

The monetary region's financial stability is expected to have a significant role in formulating strategies and identifying the crucial elements that determine whether an event of any significance should occur. A state or circumstance where the monetary system reaches its maximum potential and fosters the ability to withstand any financial shocks is known as money-related security. The existing formative approaches in banking are paving the way for a more straightforward framework by removing obstacles in their way. Mergers and acquisitions of a few banks are among the recent changes in regulations and reforms that have affected the Indian financial system. This essay described the recent bank mergers that FM Nirmala Sitharaman oversaw and the resulting impact on the banks' performance. It also came to the conclusion that combining two weak banks would be bad for the economy and the banks themselves, while combining two strong banks at the same time might provide the Indian financial system a better chance of competing internationally.

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