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# Merge and Acquisition of Bank in India

REPORT FINANCIAL ACCOUNTING
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***Abstract***
*To address the problem of the economic slowdown, the Minister of Finance announced the merger of 10 public banks into 4, reducing the number of public banks from 27 to 12 in order to support the economy by increasing liquidity, diversifying risk and also addressing the problem of Combat distressed assets. A bank merger will help your institution grow quickly and gain a large number of new customers immediately. An acquisition not only gives your bank more capital to work with on lending and investing, it also gives your bank a wider geographic presence to operate in. When allocating funds for an acquisition, the bank typically analyzes the projected cash flow, profit margins, and liabilities of target companies. Asset-backed finance is a method of debt financing that enables banks to lend funds based on the collateral offered by the target company. Mergers and acquisitions are developing even in Indian financial system particularly, with the implementation of monetary reforms in 1991, a good monetary and regulatory surrounding has recommended groups to lodge to consolidation path to setting up big length enterprise firms, enhance performance and increase competitiveness. However, with worldwide proof of cost destruction by mergers and acquisitions, it will become vital to have a look at if shareholders in Indian corporations are capable of make any significant long-time profits. The merger will help banks pool resources and use them effectively and efficiently. The mergers will result in the streamlining of branches, roles and functions being reduced. However, the finance minister has confirmed that there will be no cuts and that employees will only benefit from the mergers.*
*Keywords: Merge and Acquisition, Banking industry in India, Value of market, influence of merging banks on population, the association between market and company.*

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## I. Introduction

Bank merger is a mixture of two or more banks. This means when a bank merges with another bank and buys its assets and possessions and creates a new bank or starts with the presence of a bank of the acquirer (buyer). it is relevant [related] to the acquisition. And takeover is also known as takeover. The trends in mergers and acquisitions in India have changed over the years. The immediate effects or consequences of the mergers and acquisitions also varied across sectors of the Indian economy. The invention of new financial products and the amalgamation of the regional economic system are the motivation for the merger. The markets industrialized and became more competitive, and because of this, the market shares of all individual companies increased and mergers and acquisitions began. Mega Bank Merger List 2020 10 PSU merger of 4 Valid from April 1, 2020. The Federal Government's resolution to merge 10 PSU banks of 4 will come into force on April 1, 2020. Now let's learn all about the Bank's 2020 Merger List. The names of 12 PSBs are: Punjab National Bank, Bank of Baroda, Bank of India, Central Bank of India, Canara Bank, Union Bank of India, Indian Overseas Bank, Punjab and Are Bank, Indian Bank, UCO Bank and Bank of Maharashtra, State Bank of India. The main inspirations for mergers and acquisitions in the banking sector are reducing costs, increasing efficiency, economies of scale, expanding the customer base and market coverage, introducing new products and specializing them. observed] had lower operational efficiency and productivity than non-merging banks and their profitability did not improve after the mergers, but credit availability, productivity, loan losses, deposit service fees and interest rate risk increased.

Mergers help banks and the economy function more efficiently as they help increase resources and, consequently, profits. It is done to reduce competition and survive in the market, but it is only good when the economy is not affected by competition problems.

-  It will be easier for the government to keep govern of the expanded institution. The financial engineering of the expanded institution will be more profitable and protected.
-  Develop the capacity to meet the needs for credit and sustain financial growth. The merger will make it easier for the government to pay more attention to the enlarged institution.
-  It will protect [defend] the financial system and depositors' money as the enlarged institution is more profitable and better able to handle any stressed credit

A merger or takeover depends on the intent of the offering company that it wants to achieve. Based on the vendor's target profile, blends could be vertical, horizontal, circular, and
Conglomerate, as described below with reference to the goal in the concept of the provider company.

## II. Background

The bank consolidation hypothesis has existed since 1991, when former RBI Governor M. Narsimha proposed to the government that banks should be grouped into a three-tier structure, with three large banks with a global presence at the top, 8 to 10 national banks in the 2nd one large number of regional and local banks below.

## III. Objectives

1) To find the influence of merge on population.
2) Reasons of merge and acquisition of banks in India.
3) Merits and demerits of merge of banks in India.
4) To understand the deserves and demerits of merging of banks in India. To find out the impact of merger on company's stock.
5) To examine the consequences of merger of equity shareholders.
6) To study the association between market and company.

**TO UNDERSTAND DESERVES OF MERGING OF BANK IN INDIA**

The merger is the process by which two or more companies decide to come together and get merged to create a new company often with a new name rather than remain separately owned and operated. In the merger process, the merging companies share information with each other related to debt, resources, technology, and assets, etc. The merger helps in reducing the weakness and get a competitive edge in the market. The aim of creating an Indian bank that will in an international league of giants is there since the early 1990s. Bank consolidation procedures are provided for in the Banking Regulation Act of 1949. The significance of mergers will reduce their dependence on the government for capital since it will increase the role of internal and market resources. It will open up more capital generation chances, both internally and externally from the market, for merged entity. Abolition of opposition among the banks is every other element for financial institution mergers. By doing this full-size quantity of finances used for assisting opposition may be used for the increase banking business. Sometimes, a financial institution with a massive terrible debt portfolio and terrible sales will merge itself with every other financial institution to searching for backing for survival. Merger in India among unviable banks ought to develop faster in order that the vulnerable banks may be reformed imparting continuity of employment with the operating force, operation of the belongings blocked up withinside the unviable banks and including beneficially to the prosperity of the kingdom via expanded glide of finances.

An employer can make some increase internally and externally. Internal increase can be attained via way of means of growing its operation or via way of means of growing new units, and outside increase can be withinside the shape of Merger and Acquisitions, takeover, Joint venture, Amalgamation etc. Many research have investigated the diverse motives for Merger and Acquisitions to take place, to awareness at the consequences of Merger and Acquisitions on Indian economic offerings a part.

Sinha Pankaj & Gupta Sushant (2011) studied a pre and put up evaluation of corporations and said that it had advantageous impact as their profitability, in maximum of the cases, deteriorated liquidity. After some years of Merger and Acquisitions it got here to the factor that organizations might also additionally were capable of leverage the synergies springing up out of the merger and Acquisition which have now no longer been capable of manipulate their liquidity. Study confirmed the assessment pre and put-up evaluation of the corporations. It additionally indicated the advantageous consequences on the idea of a few economic parameter like Earnings earlier than Interest and Tax (EBIT), Return on shareholder finances, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency.

**NEGOTIATION IN BANKING**

Negotiation is the most important step in the process of execution of deal. The negotiation in merger and acquisition deal is sometimes perceived as simply a process of striking an agreement on the purchase price. Negotiations with banks is much more different than negotiating with a traditional seller for a potential deal. This type of negotiation definitely takes a certain amount of time with patience and persistence to complete a successful bank owned transaction. Even a rock solid deals may fall apart without the fault of any person in it. In negotiating process, one must see who provided the draft at first of the acquisition contract. In general, both parties prefer to come up with the draft first, which tends to give them a first mover advantage and greater room to negotiate.Therefore, to avoid such a situation, strategically plan adeal of merger and acquisition in banking companies, effective negotiation is very much important.

**REASONS OF MERGE AND ACQUISITION OF BANKS IN INDIA**

A bank merger will help your institution grow quickly and gain a large number of new customers immediately. It will protect the financial system and depositors' money as the expanded institution will be more profitable and better able to handle any stressed credit.

It will protect the financial system and depositors' money as the enlarged institution will be more profitable and better handle any strained credit. In order to improve the situation of the public banks, the Modi government decided on the merger process in two different phases. In 2019, 10 public sector banks were merged. A total of six weak banks were merged into four big banks. These banks are the ones whose mergers with other banks took place on Jan.

To address the problem of the economic slowdown, the Finance Minister has announced the merger of 10 public banks into 4, thereby reducing theNumber of public banks from 27 to 12 to stimulate the economy by increasing liquidity and risk diversification and also to address thisthe problem of distressed assets.

Merger banks are trying to improve service income, but the increase is offset by higher staff costs; The return on equity improves due to a decrease in capital. Acquisitions aim to restructure the acquired bank's loan portfolio; improved credit leads to higher.

Merger allows banks to diversify their service and grow rapidly with expanded market access. An acquisition not only gives your bank more capital to work with on lending and investing, it also gives your bank a wider geographic presence to operate in.

**MERITS OF MERGING OF BANKS IN INDIA–**

- Bank merger helps us reduce operating costs
- It helps improve professional standards.
- Bank mergers improve risk management.
- Government recapitalization needs to reduce.
- Service delivery can be improved.
- Multiple jobs are eliminated, resulting in significant financial savings, bank mergers improve Risk management.
- Larger bank able to face global competition.
- Decisions about high credit needs can be made in a timely manner.
- Large economies.
- Availability of cheap credit.
- Improving customer base.
- India needs huge investments to turn India into a $ 5 trillion dollar. Transform economy. If banks have enough money to finance large projects, the country's economic development would accelerate.

Acquiring national banks were found to be less operationally efficient and productive than merging banks, and their profitability did not increase after the mergers, but credit availability, productivity, credit losses, deposit service fees and interest rate risk all increased due to the amalgamation of the assets of the merged entity, which increases the value of shareholders.

After these mergers, the public banks' lending capacity will increase and their balance sheets would also be strong. These big banks would also be able to compete globally and increase their operational efficiency by lowering their borrowing costs.

**DEMERITS OF MERGING OF BANKS IN INDIA**

Mergers can make it difficult for private banks to gain market share faster because most anchor banks are large. Chances of bankruptcy. Risk of fraud and robbery. Public debt risk. Mergers can make it difficult for private banks to gain market share faster because most anchor banks are large. Also destroy the idea of decentralization as many banks have to serve a regional audience.

- Acquiring banks have to handle the burden of weaker banks.
- Larger banks are more vulnerable to global economic crises.
- It’s difficult to manage the people and cultures of different banks.

- Dealing with employee disappointment could be another challenge for the new bank's board of directors that could lead to employment problems.
- Mergers and acquisitions tend to result in job losses.

**TO FIND THE INFLUENCE OF MERGE ON POPULATION**

By merging the comparatively weaker banks with the stronger banks, the government has made efforts to ensure that the weaker bank does not get pushed out of the market because of the NPLs / NPAs. By merging the banks, the legal costs and other ancillary costs are comparatively lower, as it can be seen that the same borrower has taken out a loan from several banks. A large customer base will help banks achieve good profitability as a merged bank enjoying synergies. The merged banks will have the better business portfolio, asset quality, improved market capitalization, risk appetite and risk management strategies. The merged banks will achieve economies of scale and lower business costs.

After the merger, the banks will be able to better finance mammoth projects that they were previously unable to finance independently, making the funding process for these projects quick and easy. With banks that are comparatively less manageable, the RBI will be able to implement the banking standards followed by the developed economies, thus bringing the Indian banks in line with the banks with an international presence. Various internal conflicts and disputes may arise regarding advertising and other potential issues.Different banks use different software platforms so adapting them to the merged bank will be a difficult nut to crack.

It is said that when the bank becomes oversized, it becomes difficult to manage its functioning, and if the bank begins to fall, the entire economy is at risk. In the short term, not only can consolidation of public sector banks (PSBs) divert a significant portion of the breadth of management and employees from growth, but it can hurt credit growth, slow recovery and give away market share to private banks. It is clear that the benefits of the mega-merger of these ten public banks would only accrue after two to three years. Although the government has provided additional capital and is pushing for joint lending, experts say there will be a slowdown in credit growth, as seen in previous mergers, which may not be good at a time when liquidity flow is severely constrained.

**TO FIND OUT THE IMPACT OF MERGER ON COMPANY'S STOCK**

When one company buys another, the acquiring company's share price tends to fall temporarily, while the target company's share price tends to rise. Since the acquiring business often pays a premium for the target company or goes into debt to finance the purchase, its share price will fall. Put simply, an increase in trading volume leads to rising share prices. During the pre-merger phase of a merger, the newly formed company's share price often exceeds the value of any underlying company. Cash is occasionally exchanged, although stock exchanges are more common. Before a merger, the shareholders usually have the opportunity to vote on it. Companies are joining forces to save money, increase market share and strengthen their financial position. Merged companies save money by spreading fixed costs over larger production volumes, reducing unit costs and increasing profits, and negotiating lower input prices with suppliers. Higher asset productivity, better operating margins, lower expenses, improved market performance and other factors can all help increase profitability after a merger or acquisition.

**TO EXAMINE THE CONSEQUENCES OF MERGER ON EQUITY SHAREHOLDER**

The main goal in mergers and acquisitions is to maximize shareholder value in the form of dividends and stock prices so that they can make more capital gains. There are two methods we can use to assess the impact of mergers and acquisitions. The first method is how accounting information can be used to determine the company's financial performance and profitability. The second method, measuring the direct increase or decrease in shareholder wealth and the experience from the reality that no market is efficient, also leads to false conclusions due to its price movements. However, the second method appears to be more efficient for the market as it is used to monitor stock price movements in order to gauge the economic impact of the event.

When mergers and acquisitions cost billions, mistakes can not only cripple an acquiring company financially by tying up its capital reserves, but a catastrophic failure can seriously damage a company's reputation with shareholders and other stakeholders. The share price of the two companies involved will be affected differently during a merger or acquisition, it may be based on market capitalization, macroeconomic conditions and the proper execution of the merger / acquisition process.

The acquiring company will typically experience a temporary decline in its stock value, but the target company used will observe an increase in its stock value before the merger or acquisition takes place. It does this primarily due to stock price transactions that describe the actions of stock trading that are subject to mergers. The increase in trading volume causes stock prices to skyrocket. After a merger has officially taken place, the share price of the newly formed organization or company usually exceeds the value of the two companies involved in the pre-merger phase. In the absence of unfavorable economic conditions, the shareholders of the merged company usually achieve favorable long-term performance and dividends.

In order to determine whether or not a merger or acquisition results in the creation of shareholder wealth, it must be determined whether the present value of the financial benefits expected from the merger and acquisition are greater than the present value of the costs incurred in carrying out the merger and acquisition. The reaction of the stock markets to the announcement of the merger of two organizations also reflects the possible consequences for shareholders. Therefore, results may be affected by other than the minor impact of the merger and acquisition.

Shareholders in both companies may experience a decline in their voting rights due to the increased number of shares released during the merger process, which also attracts more shareholders. This phenomenon occurs particularly in stock mergers, in which the new company can offer its shares in exchange for the shares of the target company at an agreed and affordable price. Shareholders of the acquiring company also suffer a slight loss of voting rights, while shareholders of a smaller target company can experience a significant loss of voting rights among a relatively large group of shareholders.

Some argue that mergers and acquisitions create shareholder wealth, while others argue that mergers and acquisitions do not create shareholder wealth. It is therefore difficult to judge whether mergers and acquisitions are actually creating shareholder wealth or leading them into their pitfalls. Most studies tend to conclude that mergers and acquisitions do not create wealth for shareholders.

However, the merger and acquisition will affect the shareholders of the participating companies or organizations that will conduct a merger and acquisition. Upon acquisition, the shareholders of the acquired company receive the most benefits than the acquiring company, since the acquiring company usually pays more than it is supposed to pay.

## THE DESERVES OF MERGING OF BANK IN INDIA

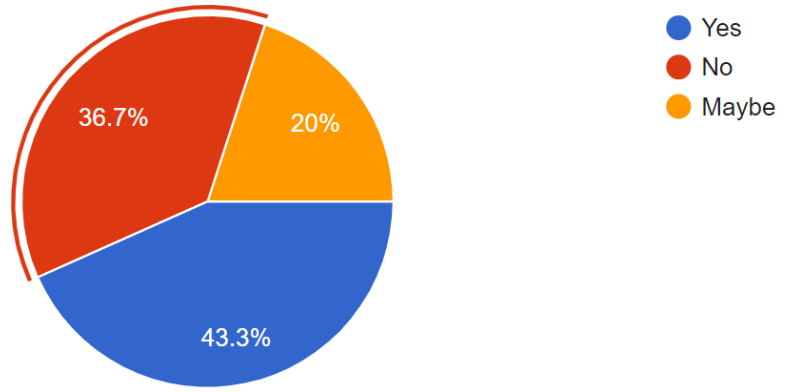
The mergers of Banks will lead to a higher scale of operations, resulting in improved efficiency and lower costs. It is to develop the capacity to satisfy the demand for loan and sustain the economic growth. It gives the better efficiency ratio for operations as well as banking operations which is beneficial for the economy. Public Sector Banks (PSBs) in India is highly fragmented compared to other key economies.Themerging helps geographically concentrated regionally present banks to expand their coverage. After these mergers, the lending capacity of the Public Sector Banks will increase and their balance sheet would also be strong. The merger of banks will facilitate the government to pay attention to the enlarged institution. The multiple posts get abolished, this results in substantial financial savings. The Banking merger improves risk management.

## KEY FINDINGS

Through this report, we were able to find answers to all the questions we have perked up on. Using this opportunity in hand, we have made a list of questions and were able to successfully receive our answers through a survey conducted online. We were able to get responses from around 60 different people about their opinion on what they thought about 'mergers and acquisition of Indian Banking sector'. Here are the summarized answers to our enquiries with their true statements

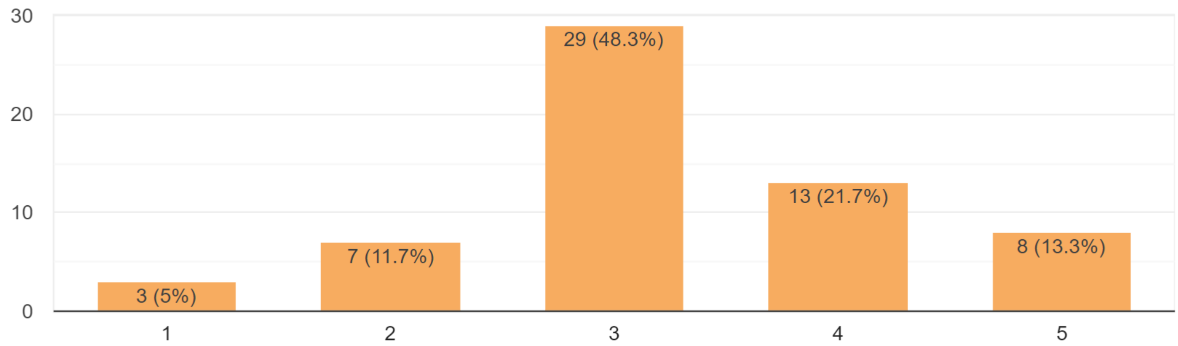
***Q.1. Have you ever come across any merged/ acquisitioned Indian Bank?***

The first step for knowing about anything is to ensure that people are aware of what they are discussing about, this is a mandatory thought that occurs when you talk about something which is not a very familiar topic to talk on. We asked our audience if they were aware of what a merger and acquisition is? If they have ever heard about it or came across any merged or acquisitioned Indian Bank, the results were satisfactory. 43.3% people were aware of what merged and acquisitioned banks were. While the 36.7% people were sure they had no idea about this, 20% people were unaware if they knew about it or not.




***Q.2. Could you try to be involved in a Bank that has been merged/ acquisitioned?***

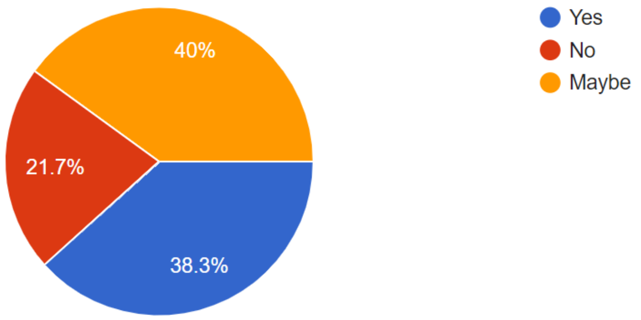
This is a question which we all could think about, if we could trust a bank that has undergone a merger or acquisition? As normal citizens, people often tend to assume that bank sectors which had to go under either of these two, must have been a fraud organization or were in a very bad position that they were not able to take care of themselves enough, that they had to turn to mergers and acquisitions. Asking this question on a linear scale for 5 point, on if they could definitely get involved or they could never get involved, which gave us the following results:




At point 1 there was definitely whereas on the point 5 there was never. Though the highest number of people (48.3%) think that point 3 which is neutral, can be the best option because they were not certain if getting involved with such banks could be a good thing or a bad thing. 5% people think that it could be good to get involved with such banks because they could have the financial stability of two banks, even though they are merged, while 13.3% people think it is a big NO to ever get involved with any bank sectors that have been merged or acquisitioned.

***Q.3. Do you think merging/ acquisition can affect the common people connected to them, if something goes wrong?***

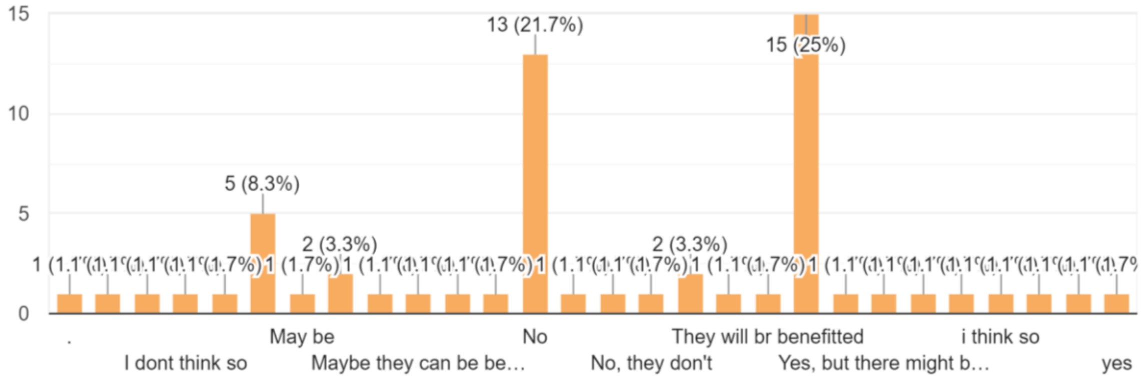
When two banks merge together, they share the profit and loss together, but what if the merging banks brings down the other bank along with it? What if the citizens who have an account in either of these banks face loss due to changes in the financial plans or marketing strategies. People may hesitate to keep their accounts in such banks. In the survey we asked if common people might face any problems if something goes wrong in such banks, will it affect the common people who have an account in those banks? 38.3% people think that it could cause a downfall for such people while 21.7% think it that their accounts and money will be safe even if the banks face any small changes or problems. 40% still think that the people could be affected if any issues arise, but it won't affect very widely.




***Q.4. Other than the parties involved, do you think the people get benefitted?***

There are fair chances that the people involved in these banks may get some benefits if the bank's profits bloom. But at the same time, there might be no chances that the commoners will get any benefit. 25% people in all, think that the commoners will definitely get some benefits if the banks get some benefits or profits. Most of the responses vary from, "Yes" to "No" to "Maybe". There is guarantee that people may or may not benefit, but one could hope so!

Someone had also commented saying "*Yes, but there might be small drawbacks like, customer's cheque book might be invalid after the merging of banks*." There can be all sorts of possibilities.

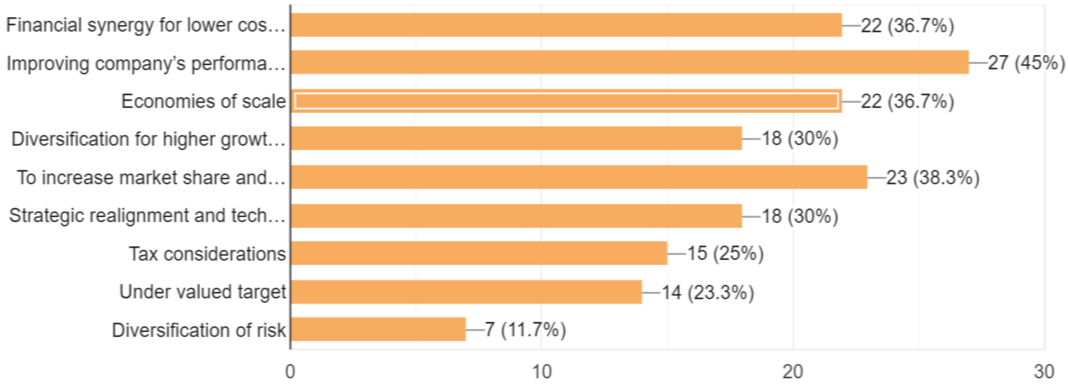



***Q.5. What do you think the reason behind merging and acquisition of banks is?***

There can be many reasons as to why a bank/ organization had to resort to getting along with other banks to undergo a merger or acquisition. Here is a list of options we provided our viewers for while asking this question:-

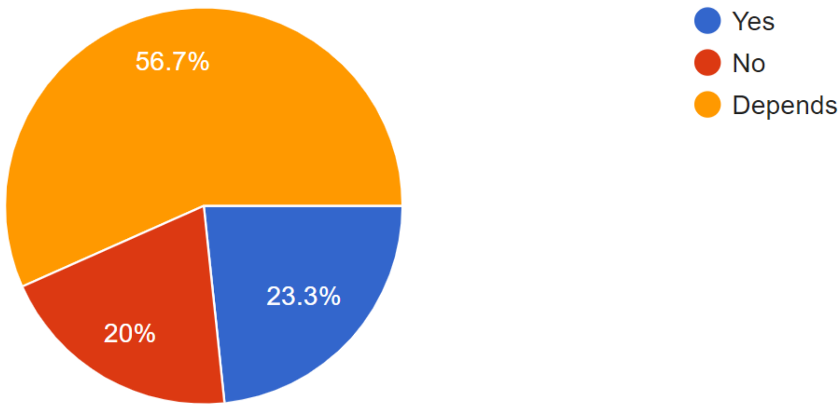
- Financial synergy for lower cost of capital
- Improving company's performance and accelerate growth
- Economies of scale
- Diversification for higher growth products or markets
- To increase markets share and positioning giving broader market access
- Strategic realignment and technological change
- Tax considerations
- Under- valued target
- Diversification of risk

These options can be considered as some of the few reasons as to why a bank/organization undergoes a merger or acquisition. Almost all the options are given a good ranking, Improving company's performance and accelerate growth is one of the main reason why people think that mergers take place, 45% people think it is the most valid reason, while there are very few people, nearly 11.7% think diversification of risk could be the least option to consider for merging reasons. The below are the responses we received from our survey.




***Q.6. Is merging of banks considered good or not?***

This is a question which puts us in dilemma, whether mergers can be considered as good or not, people have different opinions on each of the methods any organization or company can get together for the betterment of their company. While personally we think mergers are a great way to improve the status of any company, then it also gives limited access to authority and freedom for their own company thought it is in a merger. But it also depends on what the situation is for when they agree to a merger or acquisition. This is a chart with all the responses that are measured. 56.7% responses say that the merger can be good depending on the situation a merger takes place. 23.3% think it is a good method to improve the conditions of the bank sectors. 20% people think it is a bad option to opt for mergers and acquisitions.




***Q.7. what type of merger do you think can help the banks?***

There are around five different types of mergers that can help the banks to flourish, they are as follows:-

- *Horizontal mergers*:- Horizontal merger is a business consolidation that occurs between firms who operate in the same space, often as competitors offering the same good or service

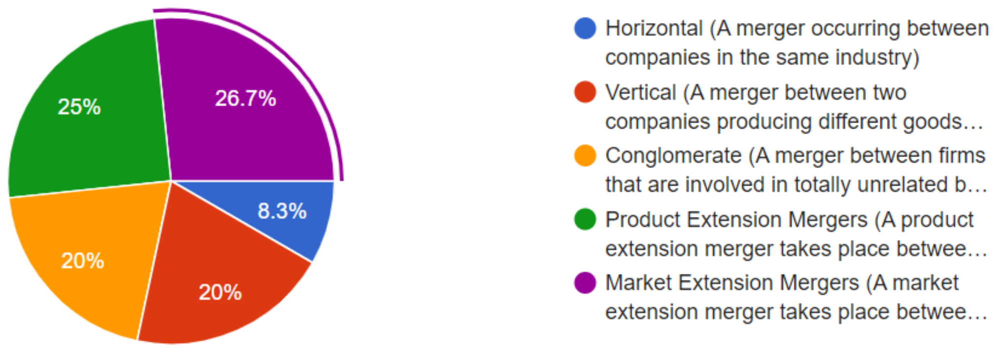
- *Vertical mergers:-* A vertical merger occurs when two or more firms, operating at different levels within an industry's supply chain, merge operations.

- *Conglomerate merger*:- A merger between firms that are involved in totally unrelated business activities. There are two types of conglomerate mergers: pure and mixed. Pure conglomerate mergers involve firms with nothing in common, while mixed conglomerate mergers involve firms that are looking for product extensions or market extensions.

- *Product extension merger*:- The product extension merger allows the merging companies to group together their products and get access to a bigger set of consumers. This ensures that they earn higher profits.

- *Market extension mergers*:- A market extension merger takes place between two companies that deal in the same products but in separate markets. The main purpose of the market extension merger is to make sure that the merging companies can get access to a bigger market and that ensures a bigger client base.

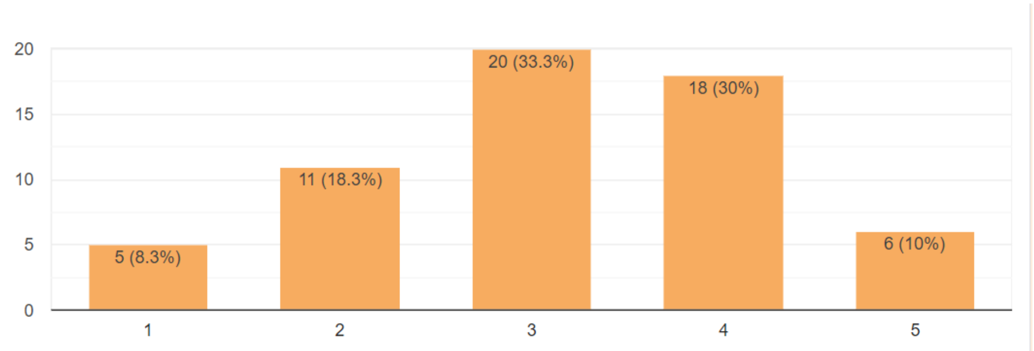
These are the responses collected through surveys on what people think is the best type of merger to benefit an organization or banking sector. Most people think that market extension merger is the best type of merger, which is followed by product extension merger. Vertical and conglomerate merger both have 20% of approval for being a good type of merger. Horizontal merger is the least preferred among all the other.




***Q.8. Do you agree with the concept of Indian banks going through mergers/ acquisitions, rather than business organizations?***

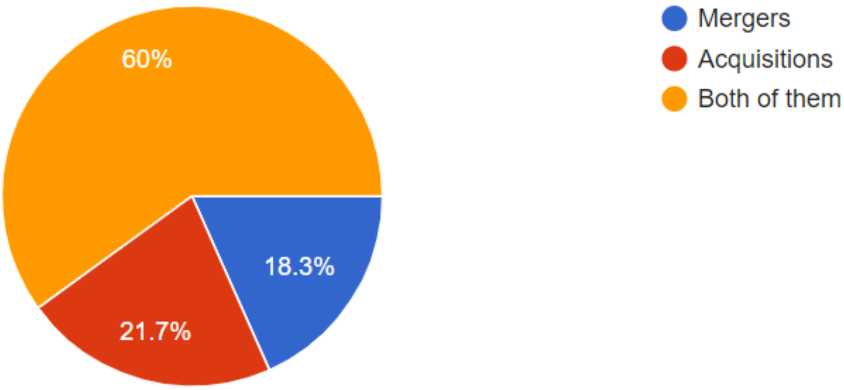
The concept of mergers and acquisitions is quite common in today's world but seeing a bank going through such mergers is a bit questionable, because people assume that its going to affect the users linked to it as well. Merging of bank can put the thought in mind that it is not a good enough bank for being stable on itself, if the bank was not able to take care of itself, there might be no guarantee that it will be able to safeguard the accounts and valuable and high earned money of common people. We asked how, people could like if the merger and acquisitions actually happened in banking sector as well. Could they be as comfortable to trust and continue their service with that bank or will they end their relation with that bank.

On a linear scale of 5 ratings, with point 1 being Agree and point 5 being Disagree. Most the responses showed that they felt neutral about banks going through mergers. 33.3% think the answer should be neutral for this question. About 30% people are leaning more towards the disagree side. There seems to be more number of people who disagree with the concept of banking sectors opting for mergers and acquisitions.




***Q.9. Which is more useful, merging or acquisition, or are both of them equally important?***

There is always a confusion about which is the better option among mergers and acquisitions. Mergers are a way of combining two different companies or organizations into one single unit while acquisitions is buying or obtaining a said company completely. Here's what our survey was able to collect the answers for the above question. Through this chart we can say that people prefer acquisitions more than mergers.

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