UNIVERSITY OF MUMBAI

RAJIV GANDHI COLLEGE OF MANAGEMENT STUDIES

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"CASE STUDY ANALYSIS OF MERGERS AND ACQUISITIONS WITH RESPECT TO THREE SET OF BANK MERGERS"

A PROJECT SUBMITTED IN THE PARTIAL FULFILLMENT OF

THE REQUIREMENT FOR THE AWARD OF

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SUBMITTED BY

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Roll No - 77

UNDER GUIDANCE OF

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MMS (FINANCE) – SEM III
Batch: 2019-2021

CERTIFICATE

This is to certify that ***Mr.*** **RAJDEEP CHAKRAVORTY** *is a bonafide student of this Institute. As a part of the University curriculum, the student has undergone study* project in *Rajiv Gandhi college of management studies during the period from ……… to .... in the partial fulfillment of the requirement for the award of the Degree of* ***"****Master in Management* Studies

(MMS)

Date………………

Place……………..

Prof. NIYATI JOSHI **Dr. ANIL MATKAR**

(Teacher Guide) *(Director)*

(External examiner)

UNDERTAKING

I, **RAJDEEP CHAKRAVORTY** have completed the Summer Internship Project titled "**CASE STUDY ANALYSIS OF MERGERS AND ACQUISITIONS WITH RESPECT TO THREE SET OF BANK MERGERS"** under the guidance of **Prof. NIYATI JOSHI** in the partial fulfillment of the requirement for the award of degree of Master in Management Studies (MMS) of Mumbai University. This is an original piece of work & I have neither copied and nor submitted it earlier elsewhere.

RAJDEEP CHAKRAVORTY

(Signature)

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EXECUTIVE SUMMARY

Industrial maps across the world have been constantly redrawn over the years through various forms of corporate restructuring. The most common method of such restructuring is Mergers and Acquisitions (M&A). The term "mergers & acquisitions (M&A's)" encompasses a widening range of activities, including joint ventures, licensing and synergizing of energies. Industries facing excess capacity problems witness merger as means for consolidation. Industries with growth opportunities also experience M&A deals as growth strategies. There are stories of successes and failures in mergers and acquisitions. Such stories only confirm the popularity of this vehicle.

Merger is a tool used by companies for the purpose of expanding their operations often aiming at an increase of their long term profitability. There are 15 different types of actions that a company can take when deciding to move forward using M&A. Usually mergers occur in a consensual (occurring by mutual consent) setting where executives from the target company help those from the purchaser in a due diligence process to ensure that the deal is beneficial to both parties. Acquisitions can also happen through a hostile takeover by purchasing the majority of outstanding shares of a company in the open market against the wishes of the target's board. In the United States, business laws vary from state to state whereby some companies have limited protection against hostile takeovers. One form of protection against a hostile takeover is the shareholder rights plan, otherwise known as the "poison pill".

Mergers and acquisitions (M&A) have emerged as an important tool for growth for Indian corporates in the last five years, with companies looking at acquiring companies not only in India but also abroad.

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CHAPTER 1

INTRODUCTION

1. INTRODUCTION

We have been learning about the companies coming together to form another company and companies taking over the existing companies to expand their business.

With recession taking toll of many Indian businesses and the feeling of insecurity surging over our businessmen, it is not surprising when we hear about the immense numbers of corporate restructurings taking place, especially in the last couple of years. Several companies have been taken over and several have undergone internal restructuring, whereas certain companies in the same field of business have found it beneficial to merge together into one company. In this context, it would be essential for us to understand what corporate restructuring and mergers and acquisitions are all about. The phrase mergers and acquisitions (abbreviated M&A) refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Thus important issues both for business decision and public policy formulation have been raised. No firm is regarded safe from a takeover possibility. On the more positive side Mergers & Acquisitions may be critical for the healthy expansion and growth of the firm. Successful entry into new product and geographical markets may require Mergers & Acquisitions at some stage in the firm's development.

Successful competition in international markets may depend on capabilities obtained in a timely and efficient fashion through Mergers & Acquisitions. Many have argued that mergers increase value and efficiency and move resources to their highest and best uses, thereby increasing shareholder value. To opt for a merger or not is a complex affair, especially in terms of the technicalities involved. We have discussed almost all factors that the management may have to look into before going for merger.

Considerable amount of brainstorming would be required by the managements to reach a conclusion. e.g. a due diligence report would clearly identify the status of the company in respect of the financial position along with the net worth and pending legal matters and details about various contingent liabilities. Decision has to be taken after having discussed the pros & cons of the proposed merger & the impact of the same on the business, administrative costs benefits, addition to shareholders' value, tax implications including stamp duty and last but not the least also on the employees of the Transferor or Transferee Company.

1.1 RESEARCH GAP

Banking sector occupies a very important place in every economy and is one of the fastest growing sectors in India. The competition is intense and irrespective of the challenge from the multinational players, domestic banks - both public and private are also seen rigorous in their pursuit of gaining competitive edge by acquiring or merging with potential opportunities as present today. As a result, Mergers and acquisitions are the order of the day. Alternatively, growth process can be facilitated 'externally' by acquisition of existing firms. This acquisition may be in the form of mergers, acquisitions, amalgamations, takeovers, absorption, consolidation, and so on. There are strengths and weaknesses of both the growth processes.. However the main question remains whether the merger and acquisition will increase the shareholder's value of the banks which will be answered in the course of this project. This basically forms the basic need of the project.

While selecting the topic for the project this very topic really excited me and I slowly and gradually started getting inclined towards it. Moreover after introspecting through this topic I found that it had a lot of scope and also it is quite interesting.

Many students from different management colleges have already ventured through this topic but more or less I have tried to select different banks and cover different areas.

1.2 MERGER

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. Merger is the fusion of two or more existing companies. All assets, liabilities and the stock of one company stand transferred to Transferee Company in consideration of payment in the form of:

1. Equity shares in the transferee company,
2. Debentures in the transferee company,
3. Cash
4. A mix of the above modes

1.3 TYPES OF MERGERS

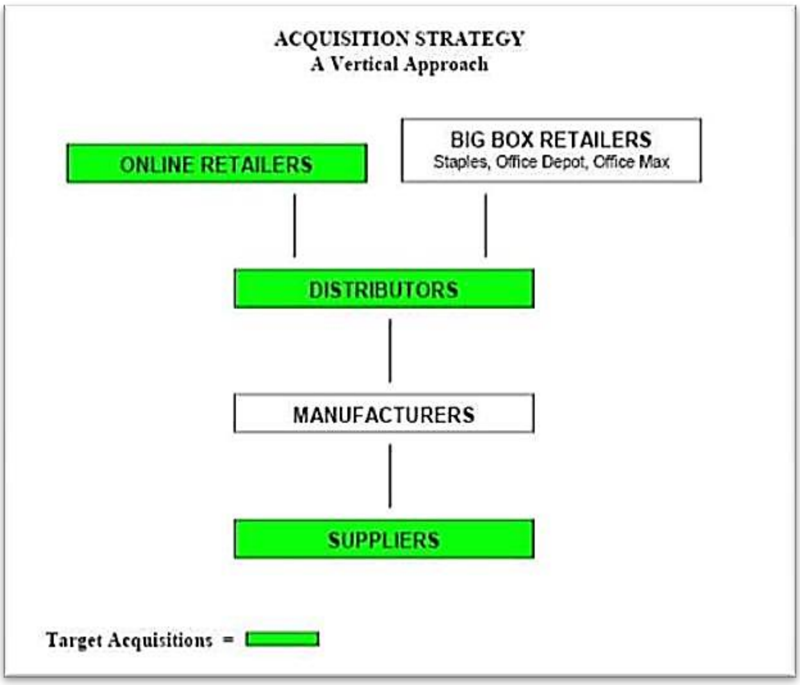
Merger or acquisition depends upon the purpose of the offeror company and what it wants to achieve. Based on the offeror's objectives profile, combinations could be vertical, horizontal, circular and conglomeratic as precisely described below with reference to the purpose in view of the offeror company.

(A) Vertical combination:

A company would like to takeover another company or seek its merger with that company to expand espousing backward integration to assimilate the resources of supply and forward integration towards market outlets. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production. Example:- **TATA Motors (automotive manufacturing company) and Trilix Srl (Design and Engineering company)**

The following main benefits accrue from the vertical combination to the acquirer company i.e.

1. It gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;
2. Has control over products specifications.



(B) Horizontal combination:

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company.

The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising. Costs, increase in market segments and exercise better control on market.

Horizontal mergers are those mergers where the companies manufacturing similar kinds of commodities or running similar type of businesses merge with each other. Two companies that are in direct competition and share similar product lines and markets. In the context of marketing, horizontal merger is more prevalent in comparison to other mergers in the context of production or manufacturing.

The principal objective behind this type of mergers is to achieve economies of scale in the production procedure through carrying off duplication of installations, services and functions, widening the line of products, decrease in working capital and fixed assets investment, getting rid of competition, minimizing the advertising expenses, enhancing the market capability and to get more dominance on the market. Horizontal mergers can sometimes result in monopoly and absorption of economic power in the hands of a small number of commercial entities. Sometimes, horizontal merger is also called as horizontal integration. Example :- **Lipton India and Brooke bond (Tea manufacturing company)**

(C) <u>Circular combination:</u>

Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification. Example:- **McLoed Russel (Tea Manufacturing company) and Eveready (Battery manufacturer)**

(D) Conglomerate combination:

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries. The basic purpose of such amalgamations remains utilization of financial resources and enlarges debt capacity through re-organizing their financial structure so as to service the shareholders by increased leveraging and EPS, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company's total portfolio of diverse products and production processes.

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. Example :- **L&T (expertise in infrastructure, oil and gas, power and process) and Voltas limited (Electro Mechanical Engineering)**

There are two main types of conglomerate mergers:-

1. Pure conglomerate merger
2. Mixed conglomerate merger

1. Pure conglomerate merger

The pure conglomerate merger is one where the merging companies are doing businesses that are totally unrelated to each other.

2. Mixed conglomerate merger

The mixed conglomerate mergers are ones where the companies that are merging with each other are doing so with the main purpose of gaining access to a wider market and client base or for expanding the range of products and services that are being provided by them There are also some other subdivisions of conglomerate mergers like the financial conglomerates, the concentric companies, and the managerial conglomerates.

Reasons of Conglomerate Mergers

There are several reasons as to why a company may go for a conglomerate merger. Among the more common reasons are adding to the share of the market that is owned by the company and indulging in cross selling. The companies also look to add to their overall synergy and productivity by adopting the method of conglomerate mergers.

Benefits of Conglomerate Mergers

There are several advantages of the conglomerate mergers. One of the major benefits is that conglomerate mergers assist the companies to diversify. As a result of conglomerate mergers the merging companies can also bring down the levels of their exposure to risks.

1.4 ACQUISITION

Methods of Acquisition:

An acquisition may be affected by:-

- Agreement with the person holding majority interest in the company management like members of the board or major shareholder commanding majority of voting power
- Purchase of shares in open market
- To make takeover offer to general shareholders
- Purchase of new shares by private treaty ;

The different types of acquisitions are mentioned below:-

A. Reverse takeover - Sometimes, however, a smaller firm will acquire management control of a larger or longer established company and keep its name for the combined entity. This is known as a reverse takeover.

a. Reverse takeover occurs when the target firm is larger than the bidding firm. In the course of acquisitions the bidder may purchase the share or the assets of the target company.

b. In the former case, the companies cooperate in negotiations; in the latter case, the takeover target is unwilling to be bought or the target's board has no prior knowledge of the offer.

B. Reverse merger - A deal that enables a private company to get publicly listed in a short time period.

a. A reverse merger occurs when a private company that has strong prospects and is eager to raise financing buys a publicly listed shell company, usually one with no business and limited assets.

b. Achieving acquisition success has proven to be very difficult, while various studies have showed that 50% of acquisitions were unsuccessful. The acquisition process is very complex, with many dimensions influencing its outcome.

1.5 PHASES OF MERGERS & ACQUISITIONS

PHASE I: STRATEGIC PLANNING

Stage 1: Develop or Update Corporate Strategy

To identify the Company's strengths, weaknesses and needs

1) Company Description
2) Management & Organization Structure
3) Market & Competitors
4) Products & Services
5) Marketing & Sales Plan
6) Financial Information
7) Joint Ventures
8) Strategic Alliances

Stage 2: Preliminary Due Diligence

1) Financial
2) Risk Profile
3) Intangible Assets
4) Significant Issues

Stage 3: Preparation of Confidential Information memorandum

1) Value Drivers
2) Project Synergies

PHASE II: TARGET/BUYER IDENTIFICATION & SCREENING

Stage 4: Buyer Rationale

1) Identify Candidates
2) Initial Screening

Stage 5: Evaluation of Candidates

1) Management and Organization Information
2) Financial Information (Capabilities)
3) Purpose of Merger or Acquisition

PHASE III: TRANSACTION STRUCTURING

Stage 6: Letter of Intent

Stage 7: Evaluation of Deal Points

1) Continuity of Management
2) Real Estate Issues
3) Non-Business Related Assets
4) Consideration Method
5) Cash Compensation
6) Stock Consideration
7) Tax Issues
8) Contingent Payments
9) Legal Structure
10) Financing the Transaction

Stage 8: Due Diligence

1) Legal Due Diligence
2) Seller Due Diligence
3) Financial Analysis
4) Projecting Results of the Structure

Stage 9: Definitive Purchase Agreement

1) Representations and Warranties
2) Indemnification Provisions

Stage 10: Closing the Deal

PHASE IV: SUCCESSFUL INTEGRATION

1) Human Resources
2) Tangible Resources
3) Intangible Assets
4) Business Processes
5) Post-Closing Audit

1.6 SYNERGY

When most people talk about mergers and acquisitions they talk about synergy. But what is synergy?

Synergy is derived from a Greek word "synergos", which means working together, synergy "refers to the ability of two or more units or companies to generate greater value working together than they could working apart". The ability to make 2 + 2 = 5 instead of 4.

Typically synergy is thought to yield gains to the acquiring firm through two sources

1) Improved operating efficiency based on economies of scale or scope

2) Sharing of one or more skills.

For managers synergy is when the combined firm creates more value than the independent entity. But for shareholders synergy is when they acquire gains that they could not obtain through their own portfolio diversification decisions. However this is difficult to achieve since shareholders can diversify their ownership positions more cheaply.

For both the companies and individual shareholders the value of synergy must be examined in relation to value that could be created through other strategic options like alliances etc.

Synergy is difficult to achieve, even in the relatively unusual instance that the company does not pay a premium. However, when a premium is paid the challenge is more significant. The reason for this is that the payment of premium requires the creation of greater synergy to generate economic value.

The actual creation of synergy is an outcome that is expected from the managers' work. Achieving this outcome demands effective integration of combined units' assets, operations and personnel. History shows that at the very least, creating synergy "requires a great deal of work on the part of the managers at the corporate and business levels".

The activities that create synergy include

1) Combining similar processes

2) Co-ordinating business units that share common resources

3) Centralizing support activities that apply to multiple units

4) Resolving conflict among business units

TYPES OF SYNERGY

1) Operations Synergy

This is obtained through integrating functional activities. It can be created through economies of scale / or scope.

2) **Technology Synergy**

To create synergies through this, firms seek to link activities associated with research and development processes. The sharing of R&D programs, the transfer of technologies across units, products and programs, and the development of new core business through access to private innovative capabilities are examples of activities of firms trying to create synergies.

3) **Marketing – Based Synergy**

Synergy is created when the firm successfully links various marketing-related activities including those related to sharing of brand names as well as distribution channels and advertising and promotion campaigns.

4) **Private Synergy**

This can be created when the acquiring firm has knowledge about the complementary nature of its resources with those of the target firm that is not known to others

1.7 HISTORY OF MERGERS AND ACQUISITIONS

Tracing back to history, merger and acquisitions have evolved in five stages and each of these are discussed here. As seen from past experience mergers and acquisitions are triggered by economic factors.
The macroeconomic environment, which includes the growth in GDP, interest rates and monetary policies play a key role in designing the process of mergers or acquisitions between companies or organizations.

First Wave Mergers

The first wave mergers commenced from 1897 to 1904. During this phase merger occurred between companies, which enjoyed monopoly over their lines of production like railroads, electricity etc.
The first wave mergers that occurred during the aforesaid time period were mostly horizontal mergers that took place between heavy manufacturing industries.

End of 1st Wave Merger

Majority of the mergers that were conceived during the 1st phase ended in failure since they could not achieve the desired efficiency. The failure was fuelled by the slowdown of the economy in 1903 followed by the stock market crash of 1904. The legal framework was not supportive either. The Supreme Court passed the mandate that the anticompetitive mergers could be halted using the Sherman Act.

Second Wave Mergers

The second wave mergers that took place from 1916 to 1929 focused on the mergers between oligopolies, rather than monopolies as in the previous phase. The economic boom that followed the post World

War I gave rise to these mergers. Technological developments like the development of railroads and transportation by motor vehicles provided the necessary infrastructure for such mergers or acquisitions to take place.

The government policy encouraged firms to work in unison. This policy was implemented in the 1920s. The 2nd wave mergers that took place were mainly horizontal or conglomerate in nature. The industries that went for merger during this phase were producers of primary metals, food products, petroleum products, transportation equipments and chemicals. The investments banks played a pivotal role in facilitating the mergers and acquisitions.

End of 2nd Wave Mergers

The 2nd wave mergers ended with the stock market crash in 1929 and the great depression. The tax relief that was provided inspired mergers in the 1940s.

Third Wave Mergers

The mergers that took place during this period (1965-69) were mainly conglomerate mergers. Mergers were inspired by high stock prices, interest rates and strict enforcement of antitrust laws.

The bidder firms in the 3rd wave merger were smaller than the Target Firm. Mergers were financed from equities; the investment banks no longer played an important role.

End of the 3rd Wave Merger

The 3rd wave merger ended with the plan of the Attorney General to split conglomerates in 1968. It was also due to the poor performance of the conglomerates. Some mergers in the 1970s have set precedence. The most prominent ones were the INCO-ESB merger; United Technologies and OTIS Elevator Merger are the merger between Colt Industries and Garlock Industries.

Fourth Wave Merger

The 4th wave merger that started from 1981 and ended by 1989 was characterized by acquisition targets that wren much larger in size as compared to the 3rd wave merger. Mergers took place between the oil and gas industries, pharmaceutical industries, banking and airline industries. Foreign takeovers became common with most of them being hostile takeovers. The 4th Wave mergers ended with anti-takeover laws, Financial Institutions Reform and the Gulf War.

Fifth Wave Merger

The 5th Wave Merger (1992-2000) was inspired by globalization, stock market boom and deregulation. The 5th Wave Merger took place mainly in the banking and telecommunications industries. They were mostly equity financed rather than debt financed. The mergers were driven long term rather than short term profit motives. The 5th Wave Merger ended with the burst in the stock market bubble. Hence we may conclude that the evolution of mergers and acquisitions has been long drawn. Many economic factors have contributed its development.

1.8 PURPOSE OF MERGER AND ACQUISITION

The purpose for an offeror company for acquiring another company shall be reflected in the corporate objectives. It has to decide the specific objectives to be achieved through acquisition. 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 offeree;

3. To obtain new product for diversification or substitution of existing products and to enhance the product.

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) <u>Financial strength:</u>

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;

4 To avail tax benefits;

5 To improve EPS (Earning Per Share).

(5) <u>General gains:</u>

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) <u>Own developmental plans:</u>

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 constraints with limitations of funds and lack of skill managerial personnel's. 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 aim at circular combinations by pursuing this objective.

(9) Desired level of integration:

Mergers and acquisition are pursued to obtain the desired level of integration between the two combining business houses. Such integration could be operational or financial. This gives birth to conglomerate combinations. The purpose and the requirements of the offeror company go a long way in selecting a suitable partner for merger or acquisition in business combinations.

1.9 BENEFITS OF MERGERS AND ACQUISITIONS THAT THE COMPANIES CAN ENJOY

1. **Growth Or Diversification**: **-** Companies that desire rapid growth in size or market share or diversification in the range of their products may find that a merger can be used to fulfill the objective instead of going through the tome consuming process of internal growth or diversification. The firm may achieve the same objective in a short period of time by merging with an existing firm. In addition such a strategy is often less costly than the alternative of developing the necessary production capability and capacity. If a firm that wants to expand operations in existing or new product area can find a suitable going concern. It may avoid many of risks associated with a design; manufacture the sale of addition or new products. Moreover when a firm expands or extends its product line by acquiring another firm, it also removes a potential competitor.

2. **Synergism**: - The nature of synergism is very simple. Synergism exists whenever the value of the combination is greater than the sum of the values of its parts. In other words, synergism is "2+2=5". But identifying synergy on evaluating it may be difficult, in fact sometimes its implementations may be very subtle. As broadly defined to include any incremental value resulting from business combination, synergism in the basic economic justification of merger. The incremental value may derive from increase in either operational or financial efficiency.

- **Operating Synergism** - Operating synergism may result from economies of scale, some degree of monopoly power or increased managerial efficiency. The value may be achieved by increasing the sales volume in relation to assets employed increasing profit margins or decreasing operating risks. Although operating synergy usually is the result of either vertical/horizontal integration some synergistic also may result from conglomerate growth. In addition, sometimes a firm may acquire another to obtain patents, copyrights, technical proficiency, marketing skills, specific fixes assets, customer relationship or managerial personnel. Operating synergism occurs when these assets, which are intangible, may be combined with the existing assets and organization of the acquiring firm to produce an incremental value. Although that value may be difficult to appraise it may be the primary motive behind the acquisition.

- **Financial synergism** - Among these are incremental values resulting from complementary internal funds flows more efficient use of financial leverage, increase external financial capability and income tax advantages.

a) Complementary internal funds flows

Seasonal or cyclical fluctuations in funds flows sometimes may be reduced or eliminated by merger. If so, financial synergism results in reduction of working capital requirements of the combination compared to those of the firms standing alone.

b) More efficient use of Financial Leverage

Financial synergy may result from more efficient use of financial leverage. The acquisition firm may have little debt and wish to use the high debt of the acquired firm to lever earning of the combination or the acquiring firm may borrow to finance and acquisition for cash of a low debt firm thus providing additional leverage to the combination. The financial leverage advantage must be weighed against the increased financial risk.

c) Increased External Financial Capabilities

Many mergers, particular those of relatively small firms into large ones, occur when the acquired firm simply cannot finance its operation. Typical of this is the situations are the small growing firm with expending financial requirements. The firm has exhausted its bank credit and has virtually no access to long term debt or equity markets. Sometimes the small firm has encountered operating difficulty, and the bank has served notice that its loan will not be renewed? In this type of situation a large firms with sufficient cash and credit to finance the requirements of smaller one probably can obtain a good buy bee. Making a merger proposal to the small firm. The only alternative the small firm may have is to try to interest 2 or more large firms in proposing merger to introduce, competition into those bidding for acquisition. The smaller firm's situations might not be so bleak. It may not be threatened by non-renewable of maturing loan. But its management may recognize that continued growth to capitalize on its market will require financing be on its means. Although its bargaining position will be better, the financial synergy of acquiring firm's strong financial capability may provide the impetus for the merger. Sometimes the acquired firm possesses the financing capability. The acquisition of a cash rich firm whose operations have matured may provide additional financing to facilitate growth of the acquiring firm. In some cases, the acquiring may be able to recover all or parts of the cost of acquiring the cash rich firm when the merger is consummated and the cash then belongs to it.

d) The Income Tax Advantages

In some cases, income tax consideration may provide the financial synergy motivating a merger, e.g. assume that a firm A has earnings before taxes of about rupees ten crores per year and firm B now break even, has a loss carry forward of rupees twenty crores accumulated from profitable operations of previous years. The merger of A and B will allow the surviving corporation to utility the loss carries forward, thereby eliminating income taxes in future periods.

- **Counter Synergism-**Certain factors may oppose the synergistic effect contemplating from a merger. Often another layer of overhead cost and bureaucracy is added. Do the advantages outweigh disadvantages? Sometimes the acquiring firm agrees to long term employments contracts with managers of the acquiring firm. Such often are beneficial but they may be the opposite. Personality or policy conflicts may develop that either hamstring operations or acquire buying out such contracts to remove personal position of authority. Particularly in conglomerate merger, management of acquiring firm simply may not have sufficient knowledge of the business to control the acquired firm adequately. Attempts to maintain control may induce resentment by personnel of acquired firm. The resulting reduction of the efficiency may eliminate expected operating synergy or even reduce the post-merger profitability of the acquired firm. The list of possible counter synergism factors could go on endlessly; the point is that the mergers do not always produce that expected results. Negative factors and the risks related to them also must be considered in appraising a prospective merger

Other motives For Merger

Merger may be motivated by two other factors that should not be classified under synergism. These are the opportunities for acquiring firm to obtain assets at bargain price and the desire of shareholders of the acquired firm to increase the liquidity of their holdings.

1. Purchase of Assets at Bargain Prices

Mergers may be explained by opportunity to acquire assets, particularly land mineral rights, plant and equipment, at lower cost than would be incurred if they were purchased or constructed at the current market prices. If the market price of many socks have been considerably below the replacement cost of the assets they represent, expanding firm considering construction plants, developing mines or buying equipment often have found that the desired assets could be obtained where by heaper by acquiring a firm that already owned and operated that asset. Risk could be reduced because the assets were already in place and an organization of people knew how to operate them and market their products. Many of the mergers can be financed by cash tender offers to the acquired firm's shareholders at price substantially above the current market. Even so, the assets can be acquired for less than their current casts of construction. The basic factor underlying this apparently is that inflation in construction costs not fully rejected in stock prices because of high interest rates and limited optimism by stock investors regarding future economic conditions.

2. Increased Managerial Skills or Technology

Occasionally a firm will have good potential that is finds it unable to develop fully because of deficiencies in certain areas of management or an absence of needed product or production technology. If the firm cannot hire the management or the technology it needs, it might combine with a compatible firm that has needed managerial, personnel or technical expertise. Of course, any merger, regardless of specific motive for it, should contribute to the maximization of owner's wealth.

3. Acquiring new technology

To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can maintain or develop a competitive edge.

1.10 BANK MERGER/AMALGAMATION UNDER VARIOUS ACTS

The relevant provisions regarding merger, amalgamation and acquisition of banks under various acts are discussed in brief as under:

Mergers- banking Regulation act 1949

Amalgamations of banking companies under B R Act fall under categories are voluntary amalgamation and compulsory amalgamation.

Section 44A Voluntary Amalgamation of Banking Companies.

Section 44A of the Banking Regulation act 1949 provides for the procedure to be followed in case of voluntary mergers of banking companies. Under these provisions a banking company may be amalgamated with another banking company by approval of shareholders of each banking company by resolution passed by majority of two third in value of shareholders of each of the said companies. The bank to obtain Reserve Bank's sanction for the approval of the scheme of amalgamation. However, as per the observations of JPC the role of RBI is limited. The reserve bank generally encourages amalgamation when it is satisfied that the scheme is in the interest of depositors of the amalgamating banks.

A careful reading of the provisions of section 44A on banking regulation act 1949 shows that the high court is not given the powers to grant its approval to the schemes of merger of banking of merger of banking companies and Reserve bank is given such powers. Further, reserve bank is empowered to determine the Markey value of shares of minority shareholders who have voted against the scheme of amalgamation. Since nationalized banks are not Baking Companies and SBI is governed by a separate statue, the provisions of section 44A on voluntary amalgamation are not applicable in the case of amalgamation of two public sector banks or for the merger of a nationalized bank/SBI with a banking company or vice versa. These mergers have to be attempted in terms of the provisions in the respective statute under which they are constituted. Moreover, the section does not envisage approval of RBI for the merger of any other financial entity such as NBFC with a banking company voluntarily. Therefore a baking company can be amalgamated with another banking company only under section 44A of the BR act.

Section 45- Compulsory Amalgamation of banks

Under section 45(4) of the banking regulation act, reserve bank may prepare a scheme of amalgamation of a banking company with other institution (the transferee bank) under sub- section (15) of section 45.

Banking institution means any banking company and includes SBI and subsidiary banks or a corresponding new bank. A compulsory amalgamation is a pressed into action where the financial position of the bank has become week and urgent measures are required to be taken to safeguard the depositor's interest. Section 45 of the Banking regulation Act, 1949 provides for a bank to be reconstructed or amalgamated compulsorily" i.e. without the consent of its members or creditors, with any other banking institutions as defined in sub section (15) thereof. Action under there provision of this section is taken by reserve bank in consultation with the central government in the case of banks, which are weak, unsound or improperly managed. Under the provisions, RBI can apply to the central government for suspension of business by a banking company and prepare a scheme of reconstitution or amalgamation in order to safeguard the interests of the depositors.

Under compulsory amalgamation, reserve bank has the power to amalgamate a banking company with any other banking company, nationalized bank, SBI and subsidiary of SBI. Whereas under voluntary amalgamation, a banking company can be amalgamated with banking company can be amalgamated with another banking company only. Meaning thereby, a banking company cannot be merged with a nationalized bank or any other financial entity.

Companies Act

Section 394 of the companies act, 1956 is the main section that deals with the reconstruction and amalgamation of the companies. Under section 44A of the banking Regulation Act, 1949 two banking companies can be amalgamated voluntarily. In case of an amalgamated of any company such as a non banking finance company with a banking company, the merger would be covered under the provisions of section 394 of the companies act and such schemes can be approved by the high courts and such cases do not require specific approval of the RBI. Under section 396 of the act, central government may amalgamate two or more companies in public interest.

State Bank of India Act, 1955

Section 35 of the State Bank of India Act, 1955 confers power on SBI to enter into negotiation for acquiring business including assets and liabilities of any banking institution with the sanction of the central government and if so directed by the government in consultation with the RBI. The terms and conditions of acquisition by central board of the SBI and the concerned banking institution and the reserve bank of India is required to be submitted to the central government for its sanction. The central government is empowered to sanction any scheme of acquisition and such schemes of acquisition become effective from the date specified in order of sanction.

As per sub-section (13) of section 38 of the SBI act, banking institution is defined as under "banking institution" includes any individual or any association of individuals (whether incorporated or not or whether a department of government or a separate institution), carrying on the business of banking.

It is not clear whether under the provisions of section 35, SBI can acquire a corresponding new bank or a RRB or its own subsidiary for that matter. Such a power mat have to be presumed by interpreting the definition of banking institution in widest possible terms to include any person doing business of banking. It can also be argued that if State Bank of India is given a power to acquire the business of any individual doing banking business it should be permissible to acquire any corporate doing banking business subject to compliance with law which is applicable to such corporate. But in our view, it is not advisable to rely on such interpretations in the matter of acquisition of business of banking being conducted by any company or other corporate. Any such acquisition affects right to property and rights of many other stakeholders in the organization to be acquired. The powers for acquisition are therefore required to be very clearly and specifically provided by statue so that any possibility of challenge to the action of acquisition by any stakeholder are minimized and such stakeholders are aware of their rights by virtue of clear statutory provisions.

Nationalised banks may be amalgamated with any other nationalized bank or with another banking institution. i.e. banking company or SBI or a subsidiary. A nationalized bank cannot be amalgamated with NBFC.

Under the provisions of section 9 it is permissible for the central government to merge a corresponding new bank with a banking company or vice versa. If a corresponding new bank becomes a transferor bank and is merged with a banking company being the transferee bank, a question arises as to the applicability of the provisions of the companies act in respect to the merger. The provisions of sec. 9 do not specifically exclude the applicability of the companies act to any scheme of amalgamation of a company. Further section 394(4)(b) of the companies act provides that a transferee company does not include any company other than company within the meaning of companies act. But a transferor company includes any of the corporate whether the company is within the meaning of companies act or not. The effect of this provision is that provision contained in the companies act. relating to amalgamation and mergers apply in cases where any corporation is to be merged with a company. Therefore if under section 9(2)(c) of nationalization act a corresponding new bank is to merged with a banking company(transferee company), it will be necessary to comply with the provisions of the companies act. It will be necessary that shareholder of the transferee banking company ¾ the in value present and voting should approve the scheme of amalgamation. Section 44A of the Banking Regulation Act which empowers RBI to approve amalgamation of any two banking companies requires approval of shareholders of each company 2/3rd in value. But since section44A does not apply if a Banking company is to be merged with a corresponding new bank, approval of 3/4th in value of co-operative banks with other Entities

Co-operative banks are under the regulation and supervision of reserve bank of India under the provision of banking regulation act 1949(as applicable to cooperative banks). However constitution, composition and administration of the cooperative societies are under supervision of registrar of co-operative societies of respective states (in case of Maharashtra State, cooperative societies are governed by the positions of Maharashtra co-operative societies act, 1961)

Amalgamation of cooperative banks

Under section 18A of the Maharashtra State cooperative societies act 1961(MCS Act) registrar of cooperatives societies is empowered to amalgamate two or more cooperative banks in public interest or in order to secure the proper management of one or more cooperative banks. On amalgamation, a new entity comes into being.

Under sector 110A of the MCS act without the sanction of requisition of reserve bank of India no scheme of amalgamation or reconstruction of banks is permitted. Therefore a cooperative bank can be amalgamated with any other entity.

AMALGAMATION OF MULTISTATE COOPERATIVE BANKS WITH OTHER ENTITIES

Voluntary Amalgamation

Section 17 of multi state cooperative society's act 2002 provides for voluntary amalgamation by the members of two or more multistage cooperative societies and forming a new multi-state cooperative society. It also provides for transfer of its assets and liabilities in whole or in part to any other multi state cooperative society or any cooperative society being a society under the state legislature. Voluntary amalgamation of multi state cooperative societies will come in force when all the members and the creditors give their assent. The resolution has been approved by the central registrar.

Compulsory Amalgamation

Under section 18 of multi state cooperative societies act 2002 central registrar with the previous approval of the reserve bank, in writing during the period of moratorium made under section 45(2) of BR act (AACS) may prepare a scheme for amalgamation of multi state cooperative bank with other multi state cooperative bank and with a cooperative bank is permissible.

Amalgamation of Regional Rural Banks with other Entities

Under section 23A of regional rural banks act 1976 central government after consultation with The National Banks (NABARD) the concerned state government and sponsored banks in public interest an amalgamate two or ore regional rural banks by notification in official gazette. Therefore, regional rural banks can be amalgamated with regional rural banks only.

Amalgamation of Financial Institution with other entities

Public financial institution is defined under section 4A of the companies‟ act 1956. Section 4A of the said act specific the public financial institution. Is governed by the provisions of respective acts of the institution?

Amalgamation of non-Banking financial Companies (NBFC's) with other entities

NBFCs are basically companies registered under companies‟ act 1956. Therefore, provisions of companies act in respect of amalgamation of companies are applicable to NBFCs.

1.11 RISKS IN BANK MERGERS AND ACQUISITIONS

1) When two banks merge into one then there is an inevitable increase in the size of the organization. Big size may not always be better. The size may get too widely and go beyond the control of the management. The increased size may become a drug rather than an asset.

2) Consolidation does not lead to instant results and there is an incubation period before the results arrive. Mergers and acquisitions are sometimes followed by losses and tough intervening periods before the eventual profits pour in. Patience, forbearance and resilience are required in ample measure to make any merger a success story. All may not be up to the plan, which explains why there are high rate of failures in mergers.

3) Consolidation mainly comes due to the decision taken at the top. It is a top-heavy decision and willingness of the rank and file of both entities may not be forthcoming. This leads to problems of industrial relations, deprivation, depression and demotivation among the employees. Such a work force can never churn out good results. Therefore, personal management at the highest order with humane touch alone can pave the way.

4) The structure, systems and the procedures followed in two banks may be vastly different, for example, a PSU bank or an old generation bank and that of a technologically superior foreign bank. The erstwhile structures, systems and procedures may not be conducive in the new milieu. A thorough overhauling and

systems analysis has to be done to assimilate both the organizations. This is a time consuming process and requires lot of cautions approaches to reduce the frictions.

5) There is a problem of valuation associated with all mergers. The shareholder of existing entities has to be given new shares. Till now a fool proof valuation system for transfer and compensation is yet to emerge.

6) Further, there is also a problem of brand projection. This becomes more complicated when existing brands themselves have a good appeal. Question arises whether the earlier brands should continue to be projected or should they be submerged in favour of a new comprehensive identity. Goodwill is often towards a brand and its sub-merger is usually not taken kindly.

CHAPTER 2

REVIEW OF LITERATURE

2. REVIEW OF LITERATURE

A. Kaleichelvan has looked at the Mergers and acquisitions activity in the banking industry during the period 1993-94 – 2004-05. **Subramanya Prasad**, has evaluated the post-merger efficiencies of Indian commercial banks (acquiring banks) which have undergone mergers during the post-reform period and analysed the factors influencing the commercial bank efficiency in the Indian context and concluded with a positive note stating that the selected banks' efficiency improved post-merger. The study also revealed that the announcement of merger of Banks had positive and significant impact on shareholder'su wealth. **Azeem Ahmed Khan** (2011) explored various motivations of Merger and Acquisitions in the Indian banking sector. The result of the study indicated that the banks have been positively affected by the event of Merger and acquisitions. These results also suggested that merged banks could obtain efficiency and gains through Merger and Acquisitions and could pass the benefits to the equity share holders in the form of dividend. **Devarajappa** S, (2012) explored various motives of merger in Indian banking industry. It also compared pre and post-merger financial performance of merged banks with the help of financial parameters like, Gross Profit margin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Finally the study indicates that the banks have been positively affected by the event of merger.

Goyal K.A. & Joshi Vijay (2011) in their paper, gave an overview on Indian banking industry and highlighted the changes occurred in the banking sector after post liberalization and defined the Merger and Acquisitions as per AS-14. The need of Merger and Acquisition in India has been examined under this study. It also gave the idea of changes that occurred after M&As in the banking sector in terms of financial, human resource & legal aspects. It also described the benefits come out through M&As and examined that M&As is a strategic tools for expanding their horizon and companies like the ICICI Bank has used merger as their expansion strategy in rural market to improve customers base and market share. The sample of 17 Merger of post liberalization and discussed about communication in M&As, the study lightened the role of media in M&As. **Kuriakose Sony & Gireesh Kumar G.S** (2010) in their paper, they assessed the strategic and financial similarities of merged Banks, and relevant financial variables of respective Banks were considered to assess their relatedness. The result of the study found that only private sector banks are in favour of the voluntary merger wave in the Indian Banking Sector and public sector Bank are reluctant toward their type of restructuring. Target Banks are more leverage (dissimilarity) than bidder Banks, so the merger lead to attain optimum capital Structure for the bidders and asset quality of target firms is very poor except the cases of the HDFC Vs the CBOP merger in 2007. **Aharon David** (2010) analysed the stock market bubble effect on Merger and Acquisitions and followed by the reduction of pre bubble and subsequent, 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. Merger of banks through consolidation is the significant force of change took place in the Indian Banking sector.

Schiereck Dirk (2009) explained the relationship between bank reputation after Merger and Acquisitions and its effects on shareholder's wealth. This study considered 285 European merger and Acquisition transaction announced between 1997 and 2002 and finds that on average wealth not significantly effect by Merger and Acquisitions. It is found in the study of **Bhaskar A Uday** (2009) that Banking sector witness of Merger activities in India when banks facing the problem of loosing old customer and failed to attract the new customers. It described that the acquiring firms mainly focuses on the economies of scale, efficiency gain and address the need of communication and employee concern, and described the integration process was handled by professional and joint integration committee. Road map is prepared and HR integration is done as per schedule and they took a case of the Bank of Punjab acquired the Lord Krishna Bank and later on the Centurion Bank of Punjab acquired by the HDFC Bank and gave the frame of integration. This study regulate the link between communication, HR integration, management action and consequent contribution of post-merger success by conducted interview in a recent bank merger, in depth interviews work conducted in a recent mergers of a Indian Bank. It was inferred that proactive communication, changes in organizational structure, and appropriate human resource integration would smoothen the journey towards successful integration.

CHAPTER 3

RESEARCH METHODOLOGY

3. RESEARCH METHODOLOGY

3.1 OBJECTIVES OF THE STUDY

The objectives of the project are as stated below:

- To understand the concept of mergers and acquisitions.
- To understand reasons behind mergers and acquisitions for the bank mergers selected for case study.
- To find out whether the mergers and acquisitions in bank mergers creates any shareholders value.

3.2 SCOPE OF THE STUDY

The following are the scopes of my project:

- Currently my research project is only limited to the Indian Banking Sector. Had there been no time constraint of three months I could have conducted my study for more two months, then I would have extended my research to more companies that have undergone Mergers and Acquisitions.
- A sample of two mergers has been taken and the financial statements of five year has been taken into account. The five year period comprises of Pre merger period and Post-merger period.
- I have used the research tools as financial ratios, economic value added and market value added.
- This project can be extended to more no of samples, more no of financial statements can be taken into account (more than 5).
- This project also can be extended to the foreign banking sectors in near future.

3.3 RESEARCH DESIGN

3.3.1 Type of Research Design: Descriptive Research

I have used *Descriptive research* as my research design for this particular project. Descriptive research is defined as a research method that describes the characteristics of the population or phenomenon that is being studied. This methodology focuses more on the "what" of the research subject rather than the "why" of the research subject.

3.3.2 Data collection method : Secondary Data

For the purpose of my project *Secondary data* is used. It consists of information that already exists somewhere and has been collected for some specific purpose in the study.

Secondary Data used for my project were as follows:

- Business Magazines
- Books on mergers and acquisitions
- Research papers
- Articles
- Internet Sources

3.4 LIMITATIONS TO THE STUDY :

In the course of the study, some challenges were encountered that limited the research in one way or another and some of them are as follows so that the findings of the study are understood in proper perspective.

The limitations to the study are as follows:

- The first and foremost important limitation was time constraint.
- The subject of this project is quite vast and deep so it is very difficult to cover every aspect of the topic.
- It is difficult to analyse overall Banking sector so I have considered three mergers.

CHAPTER 4

DATA ANALYSIS AND INTERPRETETION

4. DATA ANALYSIS AND INTERPRETETION

4.1 MERGERS AND ACQUISITIONS IN INDIA

Mergers and acquisitions aim towards Business Restructuring and increasing competitiveness and shareholder value Via increased efficiency. In the market place it is the survival of the fittest.

India has witnessed a storm of mergers in recent years. The Finance Act, 1999 clarified many issues relating to Business Reorganizations there by facilitating and making business-restructuring tax neutral. As per Finance Minister this has been done to accelerate internal liberalization and to release productive energies and creativity of Indian businesses.

The year 1999-2000 has notched-up deals over Rs.21000 Cr. which is over 1% of India's GDP. This level of activity was never seen in Indian corporate sector. InfoTech, Banking, media, pharma, cement, power are the sectors, which are more active in mergers and acquisitions.

Consolidation of banking industry-an overview

HDFC Bank and Times Bank tied the merger knot in year 1999. The coming together of two likeminded private banks for mutual benefit was a land mark event in the history of Indian banking.

Many analysis viewed this action as opening of the floodgate of a spate of mergers and consolidations among the banks, but this was not to be, it took nearly a year for another merger. The process of consolidation is a slow and painful process. But the wait and watch game played by the banks seems to have come to an end. With competition setting in and tightening of the prudential norms by the apex bank the players in the industry seems to be taking turns to merge.

It was the turn Bank of Madura to integrate with ICICI Bank. This merger is remarkable different from the earlier ones. It is a merger between banks of two different generations. It marks the beginning of the acceptance of merger with old generation banks, which seemed to be out of place with numerous embedded problems.

The markets seem to be in favor of bank consolidation. As in the case of HDFC Bank and Times Bank, this time also market welcomed the merger of ICICI Bank and Bank of Madura. Each time a merger is announced it seems to set out a signal in the industry of further consolidation. The shares of the bank reached new heights. This time it was not only the turn of the new private sector banks, but also the shares of old

generation private banks and even public sector banks experienced an buying interest. Are these merger moves a culmination of the consolidation in the industry? Will any bank be untouched and which will be left out?
To answer this question let us first glance through the industry and see where the different players are placed. The Indian banking industry is consists of four categories-public sector banks, new private sector banks and foreign banks. The public sector banks control a major share of the banking operations. These include some of the biggest names in the industry like Stare Bank of India and its associate banks, Bank of Baroda, Corporation bank etc. their strength lies in their reach and distribution network. Their problems rage from high NPA's to over employment. The government controls these banks. Most of these banks are trying to change the perception. The government controls these banks. Most of these banks are trying to change the perception. The recent thrust on reduction of government stake, VRS and NPA settlement are steps in this direction. However, real consolidation can happen if government reduces its stake and changes its perception on the need of merger. The government's stand has always been that consolidation should happen to save a bank from collapsing. The old private sector banks are the banks, which were established prior the Banking Nationalization Act, but could not be nationalized because of their small size. This segment includes the Bank Of Madura, United Western Bank, Jammu and Kashmir bank; etc. who banks are facing competition from private banks and foreign banks. They are trying to improve their margins. Though some of the banks in this category are doing extremely well, the investors and the markets seem not to reward them adequately. These banks are unable to detach themselves effectively from the older tag. The new private banks came into existence with the amendment of Banking Regulation Act in 1993, Which permitted the entry of new private sector banks..

Of the above the spotlight is on the old generation private banks .the OGPBs can become easy takeover targets .the sizable portfolios of advances and deposits act as an incentive. Added to this these banks have a diversified shareholder base, which inhibits them from launching an effective battle against the potential acquirers. The effective shield against takeovers for these banks could be to get into strategic alliances like the Vysya bank model, which has bank Brussels Lambert of the Dutch ING Group as a strategic investor. United Western Bank and Lord Krishna Bank are already on a lookout for strategic partners. But the problems go beyond the shareholding pattern and are far rooted .the prudential norms like the increasing CAR and the minimum net worth requirements are making the very existence of these banks difficult. They are finding it difficult. They are finding difficult to raise capital and keep up with the ever-tightening norms .one of the survival routes fore these banks is to merge with another bank.

Mergers: Making sense of it all

In the process of merger banks will have to give due importance to synergies and complimentary adhesions. The merger must make sound business sense and reflect in increasing the shareholder value. It should help increase the bank's net worth and its capital adequacy. A merger should expand business opportunity for both banks. The other critical and competitive edge for survival is the cost of funds, which means stable deposits and risk diversification. Network size is very important in this perspective because one cannot grow staying in one place because the asset market in every place is limited. Unless one prepares the building blocks for growth by looking outside one's area he either sells out or gets acquired. The features, which a bank looks in its target seems to be the distribution network (number of branches and geographical distribution), number of clients and financial parameters like cost of funds, capital adequacy ratio, NPA and provision cover.

The merger of strong entities should be encouraged. The reason for the merger should not be to save a bank from extinction rather the motive must be to go join for the distant advantages of both combining banks towards a mutual benefit. MS Gaikwad, the then chairman and managing director, Bank of Baroda said," today public sector bank can merge with another bank only through moratorium route." That means you can takeover only a dead and you die yourself and allow to be merged with a strong bank. Unfortunately this is not the spirit behind the merger and acquisition.

Time for strategic alliance

It is not only important for banks to merge with banks but also entities in the other business activities. Strategic partnership could become the in thing. Strategic mergers between banks for using each other's infrastructure enabling remittance of funds to various centers among the strategic partner banks can give the account holder the flexibility of purchasing a draft payable at centers where the strategic tie-up exists. The strategic tie-up could also include a bank with another specialized investment bank to provide value-added services. Tie-ups could also be between a bank and technology firm to provide advanced services. It is these Strategic tie-ups that are set to increase in future. These along with providing value-added benefits, also help in building positive perceptions in the market.

In a macro perspective mergers and acquisition can prove effective on strengthening the Indian financial sector. Today, while Indian banks have made tremendous strides in extending the reach domestically, internationally the Indian system is conspicuous by its absence. There are very few catering mostly to India related business. As a result India does not have a presence in international financial markets. If India has to emerge as an international banking centre the presence of large banks with foreign presence is essential. With globalization and strategic alliances Indian banks would grow originally. This would be large banks with international presence. Globally the banking industry is consolidating through cross-border mergers. India seems to be far behind. The law does not allow the foreign banks with branch network to acquire Indian banks. But who knows with pressures of globalization the law of the land could be amended paving way for a cross border deal.

While the private sector banks are on the threshold of improvement, the public sector banks (PSB"s) are slowly contemplating automation to accelerate and cover the lost ground. To contend with new challenges posed by the private sector banks, PSB"s are pumping huge amounts to update it but still, looks like, public sector banks need to shift the gears, accelerate their movements, in the right direction by automation their branches and providing, Internet banking services.

Private sector banks, in order to compete with large and well-established public sector banks, are not only foraying into IT, but also shaking hands with peer banks to establish themselves in the market. While one of the first initiatives was taken in November 1999, when Deepak Prakash of HDFC and S.M.Datta of Times bank shook hands, created history. It is the first merger in the Indian banking, signalling that Indian banking sector joined the mergers and acquisitions bandwagon. Prior to this private bank merger, there have been quite a few attempts made by the government to rescue weak banks and synergize the operations to achieve scale economies but unfortunately they were all futile. Presently 'size' of the bank is recognized as one of the major strengths in the industry. And, mergers amongst strong banks can both a means to strengthen the base, and of course, to face the cutthroat competition.

The appetite for mergers is making a comeback among the public sector banking industry. The instincts are aired openly at various forums and conferences. The bank economist conference perhaps set the ball rolling after the special secretary for banking Devi Dayal stressed the importance of the size as a factor. He pointed out the consolidation through merger and acquisition was becoming a trend in the global banking scenario wanted the Indian counterparts to think on the same lines. There is also a feeling of threat when there are far too many banks. MS Gaikwad, the then chairman and managing director of Bank of Baroda, said, "There are too many banks to handle the size of business." The pace of mergers will hasten. As the time runs out and the choice of target banks with complementary businesses gets reduced there would be a last minute rush to acquire the remaining banks, which will hasten the process of consolidation.

Recommendations of Narasimham Committee on Banking Sector Reforms

The Narasimham Committee on banking sector reforms suggested that 'merger should not be viewed as a means of bailing out weak banks. They could be a solution to the problem of weak banks but only after cleaning up their balance sheet.' The government has tried to find a solution on similar lines, and passed an ordinance on September 4, 1993, and took the initiative to merger New Bank of India (NBI) with Punjab National Bank (PNB). Ultimately, this turned out to be an unhappy event. Following this, there was a long silence in the market till HDFC Bank successfully took over Times Bank. Market gained confidence, and subsequently, there were two more mega mergers. The merger on Bank Of Madura with ICICI Bank, and of Global Trust Bank with UTI Bank, emerging as a new bank, UTI Bank, emerging as a new bank, UTI-Global Bank.

The following are the recommendations of the committee

- Globally, the banking and financial systems have adopted information and communications technology. This phenomenon has largely bypassed the Indian banking system, and the committee feels that requisite success needs to be achieved in the following areas:

1. Bank automation
2. Planning, standardization of electronic payment systems
3. Telecom infrastructure
4. Data warehousing network

- Mergers between banks and DFIs and NBFCs need to be based on synergies and should make a sound commercial sense. Committee also opines that mergers between strong banks/FIs would make for greater economic and commercial sense and would be a case where the whole is greater than the sum of its parts and have a "force multiplier effect". It is also opined that mergers should not be seen as a means of bailing out weak banks.
- A weak bank could be nurtured into healthy units. Merger could also be a solution to a weak bank, but the committee suggests it only after cleaning up their balance sheets. It also says, if there is no voluntary response to a takeover of their banks a restructuring, merger amalgamation, or if not closure.
- The committee also opines that, licensing new private sector banks, the initial capital requirements need to be reviewed. It also emphasized on a transparent mechanism for deciding the ability of promoters to professionally manage the banks. The committee also feels that a minimum threshold capital for old private banks also deserves attention and mergers could be one of the options available for reaching the required threshold capitals. The committee also opined that a promoter group couldn't hold more than 40% of the equity of the bank.

The Indian banking and financial sector-a wealth creator or a wealth destroyer?

The Indian banking and financial sector (BFS) destroyed 22 paise of market value added (MVA) for every rupee invested in it, which is really poor compared to the BFS sector in the U.S, which has created 92 cents of MVA per unit of invested capital. The good news is that the performance of the wealth creating Indian banks has been better than that of the wealthy creating US banks.

But the sad part is that the banks, which has destroyed 59 paise of wealth for every rupee invested, consume about 88% of total capital invested in out BFS sector. As a benchmark, the US economy invests 83% of its capital in wealth creators.

In the banking and financial sector too. The winners on the MVA-scale are different from those on traditional Size-based measures such as total assets, revenues, and profit after tax and market value of equity. Indeed, the banks with most assets such as State Bank of India and Industrial Development Bank of India are amongst the biggest wealth destroyers. SBI tops on size-based measures like revenues, PAT, total assets, market value of equity, but appears among the bottom ranks for wealth creation. On the other hand, HDFC and HDFC Bank top the MVA rankings even though they do not appear in the top 10 ranking based on total assets or revenues.

4.2 FINANCIAL RATIOS USED

Financial ratios, Economic Value added and Market Value Added.

The above tools which are used to evaluate whether mergers and acquisitions create any shareholder value or not signify the following:

The financial ratios that are used in the study are:

1. Return on capital employed
2. Return on Net worth
3. Return on equity
4. Earnings per share
5. Cash earnings per share

Return on capital employed

ROCE = PBIT/ CAPITAL EMPLOYED

PBIT = PBDT + Non- RECURRING EXPENSES – Non recurring income

CAPITAL EMPLOYED = Net fixed assets + Net Current Assets – fictitious assets

Here, PBIT – Profit before Interest and tax

PBDT – Profit before Depreciation and tax

Return on net worth

RONW = PAT / NETWORTH

PAT = profit after tax

NETWORTH = equity share capital +reserves and surplus – fictitious assets

Earnings per share

EPS = PAT / number of shares

Cash earnings per share

CEPS = (PAT + DEPRICIATION) / number of shares

Economic Value Added

Economic value added (EVA) is the after-tax cash flow generated by business minus the cost of capital it has deployed to generate that cash flow. Representing real profit versus paper profit, EVA underlies shareholder value, increasingly the main target of leading company's strategies. Shareholders are the players who the firm with its capital; they invest to gain a return on that capital.

EVA can be defined as the net operating profit minus the charge of opportunity cost of all the capital employed into the business. As such, EVA is an estimate of true "economic profit" that means to say the amount that the shareholders or lenders would get by investing in the securities of comparable risk.

The capital charge is an important and distinctive aspect of EVA. Many a times under traditional accounting system many companies report profits but it is not so actually. According to Peter.F.Drucker "unless a company is earning more than its cost of capital, it is operating at loss".

Thus EVA is the profit as shareholders define it. To illustrate it, suppose a person invested Rs.100 in a company. The company is earning at the rate of 20% that means to say the earnings of the company is Rs 20 while its cost of capital is 15% that means to say that the company has to pay Rs. 15 to its shareholders . Thus the amount of profit in excess of the cost of capital that is Rs. 5(20-15) id the EVA.

Mathematically,

EVA = NOPAT – (capital employed * weighted average cost of capital)

But for Banking and Financial sector,

EVA = NOPAT – (net worth * cost of equity)

Where,

NOPAT = Net Operating Profit Adjusted to taxes

Market value added (MVA)

MVA = market value added, is a measure of the value added by the company's management over and above the capital invested in the company bye its investors. It is the value added in excess of economic capital employed.

MVA = market value of the firm - economic capital.

Where,

Market value of the firm = market price*number of shares.

Economic capital = capital employed.

4.3 CALCULATIONS

4.3.1.1 CALCULATION OF RONW

RONW = PAT / NET WORTH

PAT = PROFIT AFTER TAX

FOR ICICI BANK

2002:-	PAT	=	258.30 – 4.50	=	253.8
	NW	=	962.55 + 5632.41	=	6594.96

		RONW	=	253.8 / 6594.96	=	00.385 //
2003	:-	PAT	=	1206.18 - 58.91	=	1147.27
		NW	=	962.66 + 6320.65+0	=	7283.31
		RONW	=	1147.27 / 7283.31	=	0.1575 //
2004	:-	PAT	=	1637.11 - 69.71	=	1567.4
		NW	=	966.40 + 7394.16-0	=	8360.56
		RONW	=	1567.4 / 8360.56	=	0.1875//
2005	:-	PAT	=	2005.20 – 90.10	=	1915.1
		NW	=	1086.76 - 11813.1 – 0	=	12899.96
		RONW	=	1915.1 / 12899.96	=	0.1484
2006	:-	PAT	=	2540.07 – 106.50	=	2433.57
		NW	=	1239.83 - 21316.16	=	22555.99
		RONW	=	2433.57 / 22555.99	=	0.1079 //

FOR BANK OF MADURA

96	:-	PAT	=	11.13 - 0	=	11.13
		NW	=	11.61 + 90.41	=	102.02
		RONW	=	11.13 / 102.02	=	0.109 //
97	:-	PAT	=	25.77 - 0	=	25.77

		NW	=	11.61 + 112.13	=	123.74
		RONW	=	25.77 / 123.74	=	0.208 //
98	:-	PAT	=	34.19 - 0.59	=	33.6
		NW	=	11.77 + 141.42 +34.88	=	188.07
		RONW	=	33.6 / 188.07	=	0.179 //
99	:-	PAT	=	30.13 - 0.59	=	29.54
		NW	=	11.77 + 199.56	=	211.33
		RONW	=	29.54 / 211.33	=	0.139 //
2000	:-	PAT	=	15.58 - 1.43	=	44.15
		NW	=	11.77 - 203.94 +32.13	=	247.84
		RONW	=	44.15 - 247.84	=	0.178 //

FOR HDFC

2002	:-	PAT	=	297.04 - 0	=	297.04
		NW	=	281.37 + 1660.9	=	1942.28
		RONW	=	297.04 / 194.28	=	0.153
2003	:-	PAT	=	38.76 - 10.88	=	376.72

		NW	=	282.05 + 1962.78	=	2244.83
		RONW	=	376.72 / 2244.83	=	0.168 //
2004	:-	PAT	=	509.50 - 12.82	=	496.68
		NW	=	284.79 + 2407.09	=	2691.88
		RONW	=	496.68 / 2691.88	=	0.184 //
2005	:-	PAT	=	665.56 - 19.64	=	645.92
		NW	=	309.88 + 4209.07	=	4518.95
		RONW	=	645.92 / 4518.95	=	0.143 //
2006	:-	PAT	=	870.78 - 24.16	=	846.62
		NW	=	313.14 + 4986.39	=	5299.53
		RONW	=	846.62 / 52.99.53	=	0.1597 //

TIMES BANK

95	:-	PAT	=	1.87 - 0	=	1.87
		NW	=	100 + 1.87	=	101.87
		RONW	=	1.87 / 101.87	=	0.0183 //

96	:-	PAT	=	7.61 - 0	=	7.61
		NW	=	100 + 9.48	=	109.48
		RONW	=	7.61 / 109.48	=	0.0693 //
98	:-	PAT	=	23.45 - 0	=	23.45
		NW	=	100 + 43.71	=	143.71
		RONW	=	23.45 / 143.71	=	0.1632 //
99	:-	PAT	=	27.06 - 0	=	27.06
		NW	=	100 + 70.79	=	170.79
		RONW	=	27.06 / 170.79	=	0.1584 //

FOR OBC

2002	:-	PAT	=	320.55 - 0	=	320.55
		NW	=	192.54 + 1427.19	=	1619.73
		RONW	=	320.55 / 1619.73	=	0.1979 //
2003	:-	PAT	=	456.95 - 11.10	=	445.85
		NW	=	192.54 + 1916.8	=	2109.34
		RONW	=	445.85 / 2109.34	=	0.2113 //

2004	:-	PAT	=	686.07 - 12.34	=	673.73
		NW	=	192.54 + 2484.26	=	2676.8
		RONW	=	673.73 / 2676.8	=	0.2516 //
2005	:-	PAT	=	726.07 - 8.10	=	717.97
		NW	=	192.54 + 313.47	=	3327.01
		RONW	=	717.97 / 3327.01	=	0.2158 //
2006	:-	PAT	=	557.16 - 15.81	=	541.35
		NW	=	250.54 + 4920.24	=	5170.78
		RONW	=	541.35 / 5170.78	=	0.1046 //

FOR GTB

2000	:-	PAT	=	108.62 - 2.52	=	106.1
		NW	=	121.36 + 406.78	=	528.14
		RONW	=	106.1 / 528.14	=	0.2008 //
2001	:-	PAT	=	80.33 - 1.86	=	78.47
		NW	=	121.36 + 467.05	=	588.41
		RONW	=	78.47 / 588.41	=	0.1333 //

2002	:-	PAT	=	40.26 - 0	=	40.26
		NW	=	121.36 + 272.96	=	394.32
		RONW	=	40.26 / 394.32	=	0.1020 //
2003	:-	PAT	=	272.70 - 0	=	272.70
		NW	=	121.3 + (- 118.92)	=	2.44
		RONW	=	-272.70 / 2.44	=	-111.76 //

4.3.1.2 <u>CALCULATION OF CEPS</u>

CEPS = (PAT + DEPRECIATION) / NO. OF SHARES

<u>FOR ICICI</u>

2002	:-	CEPS	=	253.8 + 64.10 / 22.036
			=	14.43 //
2003	:-	CEPS	=	1147.2 + 505.94 / 61.266
			=	26.98 //
2004	:-	CEPS	=	156.74 + 539.44 / 61.64
			=	34.18 //
2005	:-	CEPS	=	1915.1 + 590.36 / 73.676

= 34.01 //

2006 :- CEPS = 2433.57 + 623.79 / 88.893

= 34.39 /

FOR BANK OF MADURA

96 :- CEPS = 11.13 + 14 / 1.161

= 21.64 //

97 :- CEPS = 25.77 + 20.67 / 1.161

= 40 //

98 :- CEPS = 33.6 + 25.22 / 1.177

= 49.97 //

99 :- CEPS = 29.54 + 30.60 / 1.177

= 51.09 //

00 :- CEPS = 44.15 + 17.80 / 1.177

= 52.63 //

FOR HDFC

2002 :- CEPS = 297.04 + 69.02 / 28.137

= 13.01 //

2003 :- CEPS = 376.72 + 106.14 / 28.205

= 17.12 //

2004 :- CEPS = 496.68 + 125.72 / 28.479

= 21.85 //

2005 :- CEPS = 645.92 + 144.07 / 30.988

= 25.49 //

2006 :- CEPS = 846.62 + 178.59 / 31.314

= 32.74 //

FOR TIMES

95 :- CEPS = 1.87 + 0.07 / 10

= 0.194 //

96 :- CEPS = 7.61 + 0.77 / 10

= 0.838 //

98 :- CEPS = 23.45 + 5.23 / 10

= 2.868 //

99 :- CEPS = 27.06 + 6.61 / 10

= 3.367 //

FOR OBC

2002 :- CEPS = 320.55 + 39.11 / 19.254

			=	18.68 //
2003	:-	CEPS	=	445.85 + 41.6 / 19.254
			=	25.32 //
2004	:-	CEPS	=	673.73 + 50.42 / 19.254
			=	37.61 //
2005	:-	CEPS	=	717.97 + 92.79 / 19.254
			=	42.11 //
2006	:-	CEPS	=	541.35 + 75.52 / 25.054
			=	24.62 //

FOR GTB

2000	:-	CEPS	=	106.1 + 41.89 / 12.136
			=	12.19 //
2001	:-	CEPS	=	78.47 + 46.03 / 12.136
			=	10.26 //
2002	:-	CEPS	=	40.26 + 51.24 / 12.136
			=	7.54 //
2003	:-	CEPS	=	-272.70 + 44.62 / 12.136
			=	-18.79 //

4.3.1.3 CALCULATION OF ROCE

ROCE = PBIT / CAPITAL EMPLOYED

PBIT = PBDT + NON REC EXP - NON REC INCOME

C.E = NET. FA + NET C.A - FICTITIOUS ASSETS.

FOR ICICI

2002	:-	PBIT	=	258.3 + 64.1 + 0 - 0	=	322.4
		C.E	=	4239.34 + 12786.35		
			=	17025.69		
		ROCE	=	322.4 / 17025.69		
			=	0.0789 * 100 = 1.89 //		
2003	:-	PBIT	=	1206.18 + 505.94 + 0 - 0	=	1712.12
		C.E	=	4060.73 + 6489	=	10549.73
		ROCE	=	1712.12 / 10549.73	=	0.1622
				* 100 = 16.22 //		
2004	:-	PBIT	=	1637.11 + 539.44 + 0 - 0	=	2176.55
		C.E	=	4056.41 + 847.064	=	12527.05
		ROCE	=	2176.55 / 12527.05	=	0.1737

= 17.37 //

2005 :- PBIT = 2005.20 + 590.36 = 16967.04

C.E = 4.038.04 + 12929 = 16967.04

`ROCE = 2595.56 / 16967.04 = 0.1529 = 15.29 //

2006 :- PBIT = 2540.07 + 623.79 = 3163.86

C.E = 3980.71 + 17040.22 = 21020.9

ROCE = 3163.86 / 21020.9 = 0.1505

= 15.05 //

<u>FOR BANK OF MADURA</u>

96 :- PBIT = 11.13 + 14 + 0 - 0 = 25.13

CE = 81.11 + 345.05 = 426.16

ROCE = 25.13 / 426.16 = 0.0589 = 5.89 //

97 :- PBIT = 25.77 + 20.67 + 0 – 0 = 46.44

CE = 122.88 + 398.66 = 521.54

ROCE = 46.44 / 521.54 = 8.90 //

98 :- PBIT = 34.19 + 25.22 + 0 – 0 = 59.41

CE = 198.99 + 877.19 = 1076.18

		ROCE	=	59.41 / 1076.18	=	5052 //
99	:-	PBIT	=	30.13 + 30.60	=	60.73
		CE	=	179.20 + 813.93	=	993.13
		ROCE	=	60.73 / 993.13	=	6.11 //
00	:-	PBIT	=	45.58 + 17.80 + 0 – 0	=	63.38
		CE	=	174.68 + 763.32	=	938
		ROCE	=	63.38 / 938	=	6.75

<u>FOR HDFC</u>

2002	:-	PBIT	=	297.04 + 69.02 + 0 – 0	=	366.06
		CE	=	371.1 + 3458.19	=	3829.29
		ROCE	=	366.06 / 3829.29	=	9.55 //
2003	:-	PBIT	=	387.6 + 106.14 + 0 – 0	=	493.74
		CE	=	528.58 + 3169.22	=	3697.8
		ROCE	=	493.74 / 3697.8	=	13.35 //
2004	:-	PBIT	=	509.5 + 125.72+ 0 - 0	=	635.21
		CE	=	616.91 + 3550.9	=	4167.8
		ROCE	=	635.21 / 4167.8	=	15.24 //

2005	:-	PBIT	=	665.56 + 144.07 + 0 - 0	=	809.63
		CE	=	708.32 + 4474	=	5182.32
		ROCE	=	809.63 / 5182.32	=	15.62 //
2006	:	PBIT	=	870.78+ 178.59 +0-0	=	1049.37
		CE	=	855.08 + 6919	=	7774.08
		ROCE	=	1049.37 / 7774.08	=	13.49

FOR TIMES

99	:-	PBIT	=	1.87 + 0.07	=	1.94
		CE	=	11.39 + 5.47	=	16.86
		ROCE	=	1.94 / 16.86	=	11.51 //

TABLE FOR ICICI BANK

PARTICULARS	2002	2003	2004	2005	2006
EPS	11.52	18.73	25.43	25.99	27.35
RONW	0.0385	0.1575	0.1875	0.1484	0.1079
ROCE	1.89	16.22	17.37	15.29	15.05
CEPS	14.43	26.98	34.18	34.01	34.39
MVA	-14293.2	-2343.23	5712.2	11987.5	31412.3
EVA	467.89	1396.98	2971.13	3567.58	----

TABLE FOR BOM

PARTICULARS	1996	1997	1998	1999	2000
EPS	9.59	22.2	28.55	25.1	37.5
RONW	0.109	0.208	0.179	0.139	0.178
ROCE	5.89	8.9	5.52	6.11	6.75
CEPS	21.64	40	49997	51.09	52.63
MVA	----	----	----	----	----
EVA	----	----	----	----	----

TABLE FOR HDFC

Particulars	**2002**	**2003**	**2004**	**2005**	**2006**
EPS	10.56	13.36	17.44	20.84	27.04
RONW	0.153	0.168	0.184	0.143	0.1597
ROCE	9.55	13.35	15.24	15.62	13.49
CEPS	13.01	17.12	21.85	25.49	32.74
MVA	2787.12	2895.11	66007.22	11682.89	16447.3
EVA	354.08	422.03	521.47	768.08	----

TABLE FOR TIMES

Particulars	**1995**	**1996**	**1998**	**1999**
EPS	0.19	0.76	2.35	2.71
RONW	0.0183	0.0695	0.1632	0.1584
ROCE	11.51	6.09	5.81	4.22
CEPS	0.194	0.838	2.868	3.367
MVA	----	----	----	----
EVA	----	----	----	----

TABLE FOR OBC

Particulars	2002	2003	2004	2005	2006
EPS	16.65	23.16	34.99	37.29	21.61
RONW	0.1979	0.2113	0.2516	0.2158	0.1046
ROCE	10.35	18.69	19.58	10.43	10.71
CEPS	18.68	25.32	37.61	42.11	24.62
MVA	-2725	-14348	2035.06	-1867.1	2.4359
EVA	-262.24	453.31	579.53	767.71	----

TABLE FOR GTB

Particulars	1999	2000	2001	2002	2003
EPS	6.61	8.74	6.47	3.32	0.00
RONW	----	0.2008	0.1333	0.1020	-111.76
ROCE	----	13.99	12.73	10.98	-22.46
CEPS	----	12.19	10.26	7.54	-18.79
MVA	----	----	----	----	----
EVA	55.72	27.41	-99.22	-354.06	----

4.4 MERGER OF ICICI BANK AND BANK OF MADHURA(BOM)

Type of merger: Voluntary Merger - Market driven

Year of merger: 2000-2001.

Brief details of the acquirer bank- ICICI Bank (ICICI)

ICICI Bank is an Indian multinational banking and financial services company headquartered in Mumbai, Maharashtra. As of 2014 it is the second largest bank in India in terms of assets and market capitalization. ICICI is India's fastest growing financial conglomerate. It was formed in 1955 as a scheme of the Government of India, the World Bank, and representatives of Indian industry with the basic objective of being a universal bank providing medium-term and long- term project funding to Indian business houses. ICICI Group offers a wide range of banking products and financial services to corporate and retail customers through a range of delivery channels through its specialized group companies, subsidiaries and affiliates. With a strong customer focus, ICICI Group Companies have maintained and enhanced their leadership position in their respective sectors. ICICI Bank was established by the Industrial Credit and Investment Corporation of India (ICICI), an Indian financial institution, as a wholly owned subsidiary in 1994. The bank was registered as a banking company in January 1994 and received its banking license in May 1994. It was initially known as the Industrial Credit and Investment Corporation of India Bank, before it changed its name to the abbreviated ICICI Bank. The parent company was later merged with the bank.

ICICI Bank is the largest private sector bank and second largest bank in India. Its growth as a banking company knew no boundaries and in a very short span of time it came to be recognized as the largest private sector bank in the country. ICICI Bank's equity shares are listed in India.

Merger Reasons:

- This was another friendly merger deal that was not forced by RBI, between two private banks in the banking space done voluntary for business and commercial reasons.
- Bank of Madura opined that the merger with a new private sector bank, particularly a financially and technologically strong bank like ICICI Bank, would add to shareholder value and enhance the career opportunities for their employees besides providing first rate, technology-based modern banking services to customers.
- The merged entity would have around 2.6 million customer accounts and an extensive network of about 350 branches spread across India, providing a critical mass in an intensely competitive banking arena.
- The expanded customer base and distribution network of the merged entity would provide considerable cross-selling opportunities, enhancing the universal banking strategy of ICICI Bank.
- ICICI bank believed that this merger was full of possibilities. The large customer base, geographical reach and infrastructure managed by trained personnel would help the bank to accelerate their growth plans.

EPS

If we look at the EPS of ICICI there is constant growth in EPS from 11.52 Rs to 27.35 Rs from year 2002 to 2006. Which is a good symbol to the shareholders of the company. The EPS of the BOM is also increasing year by year from 1996 to 2000, in 1996 EPS of the BOM was Rs 9.59 and by 2000 it has increased to 37.5. The major difference here is for ICICI EPS is taken after merger and for BOM EPS is taken before merger. If we take EPS for ICICI as 100%. The EPS has increased to 237.4% so it has a growth rate of 137.% in the next 4 years this is very good on part of the company.

CEPS

Cash earning price of share of ICICI is in good position from last five years. There is continuous increase in CEPS of ICICI exception 2005. in 2005 there is slightly decrease in CEPS but it has recovered its loans in 2006 and it has increased its CEPS to 34.39 in 2006. BOM records are also showing good cash position from last five years. In 1996 it was 21.64 where as in 2000 its position is 52.63 so it has increased its position more than 150% in five years. Comparing both the companies for CEPS, both the companies have performed well for their last 5years of finances periods so we can say that CEPS position is good.

MVA

After merger in 2002 the MVA position of the ICICI Bank is 5090.07 and after that again it has recovered its position the MVA was 2345.1 in 2003 which is showing the company's high efficiency. And it has increased in the year 2004 i.e its MVA was 16068.7 its position has increased from 2002 to 2006 construal which is excellent situation from company's point of view. In 2005 it is 25742.6 and in 2006 in has increased to 52036.08 which is approximately more than double as far as MVA is concerned i.e. the position of the company is excellent.

RONW

There is fluctuations in RNOW of ICICIC Bank from 2002-2007-1st three year it was in increasing order and the last two years it has come down. In 2002 it was 0.085 and in 2006 it is 0.1079 though there are fluctuations in RNOW but it is better compared to 1st year. Same is the case with BOM for the 1st 2years it is increasing 3rd year it has decreased in 1st year it is 0.109 and in 2nd year it is 0.208 and in 3rd year it is again came down to 0.179 and the year it has come down to 0.139 but again in 5th year i.e in 2000 it has increased to 0.178. so there are many fluctuations in RNOW of Both the companies. By this we can say that it is in satisfactory position but not that much safe to the companies.

ROCE

This is also facing fluctuation period but compared to 1996 it is better in 2000. In 1996 it is 5.89 where as in 2000 it is 6.75. in 1997 it has grown up to 8.9 which is safe symbol on side of the company i.e BOM but again in 1998 it has come down to 5.52 after fluctuations the growth of ROCE has increased by 115% same is the case with ICICI it is in fluctuation position but from 2002 to 2006. the growth rate of the ROCE has increased hugely i.e by 796%.i.e it has increased from 1.89 to 15.05 which shows the Excellency in performance of the company. Though ROCE of both the companies are changing it will not effect the company position.

4.5 MERGER OF HDFC AND TIMES BANK

Type of merger: Voluntary Merger- Market driven.
Year of merger: 1999-2000
Brief details of the acquirer bank- HDFC Bank Limited (HDFC)

The Housing Development Finance Corporation Limited (HDFC) was initially established and incorporated in 1977 as India's premier housing finance company. It enjoys a flawless track record in India as well as in international markets. In August 1994,it was ‘amongst the first to receive an ‘in principle’ consent from the Reserve Bank of India to set up a bank in the private sector, as part of RBI’s liberalization of the Indian Banking Industry. This move incepted a private sector bank in 1994 in the name of ‘HDFC Bank Limited. It is headquartered in Mumbai. It commenced its operations as a Scheduled Commercial Bank in January 1995.

The Bank at present has a desirable network of over 3000 branches spread over more than 2000 cities across India. All branches are linked on an online real-time basis. The bank was also a pioneer in setting up Telephone Banking and has more than 11000 ATM’s spread across the country. It was the first bank in India to launch an International Debit Card in association with VISA (VISA Electron).HDFC Bank’s business philosophy is based on five core values: Operational Excellence, Customer Focus, Product Leadership, People and Sustainability.

HDFC has developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. The bank has always operated on a highly automated environment, be it in terms of information technology or communication systems. All the branches of the bank boast of online connectivity with the other, ensuring speedy funds transfer for the clients. At the same time, the bank's branch network and Automated Teller Machines (ATMs) allow multi-branch access to retail clients. The bank makes use of its up-to-date technology, along with market position and expertise, to create a competitive advantage and thereby builds market share. It is adorned with astounded experience in the financial markets, a strong market reputation, large shareholder base and unique consumer franchise.

Merger Reasons:

- This was the first merger of two New Generation Private Sector Banks.
- RBI observed that there were certain regulatory issues pertaining to the promoters of Times Bank. Times Bank was not going anywhere because there wasn't enough capital and competent employees.
- Times bank was a bank with sound provision and HDFC was a bank with mission. Both the banks mutually consented that Times bank's provision coupled with HDFC Bank's mission would catapult both the banks to the top league.
- The merger of Times Bank with HDFC Bank was a landmark deal in the Indian banking industry in many ways as it was the first friendly merger in the banking space done voluntary for business and commercial reasons rather than all other deals done so far in the banking

EPS

The EPS trend of HDFC Bank is showing increase from 2002 to 2006. The EPS of the company is 10.56 in 2002 and 27.04 in 2006. The EPS growth rate has increased by 256% in five years which is good analysis for the shareholders of the HDFC Bank. Same trend is maintained by TIMES BANK it is showing continuous increase in EPS for the last 5 years before merger. Its EPS growth has increased by 142.6% which is showing good position of the company. But comparing the EPS of HDFC Bank and TIMES BANK. we see that EPS for TIMES Bank is showing better position than HDFC Bank.

CEPS

If we look at cash earnings of the TIMES BANK it is in increasing order i.e from 0.194 per share to 3.367 per share. It may be because of the high increase rate of PAT. But this is not that much satisfactory to the shareholders. Face value of shares is 10 Rs and CEPS is 3.367 in 1999 so it is not good to the company. Share holder will lose faith on company. HDFC bank is showing good increasing trend in CEPS. In 2002 it is

13.01 which is more than trace value and in 2006 it had increased to 32.74 i.e the growth rate of the CEPS is 251.65% which is good to retain the shareholders trust on the Bank. By this we can say that HDFC BANK has added value to the share after merger.

MVA

This is the analysis by which we can decide the performance of the company in the market position. The MVA of HDFC BANK has increased tremendously. In 2002 it was 2787.12 and it has increased to 16447.3 by the end of 2006. By which we can say the market position of HDFC BANK is extraordinary. The growth rate of MVA is 590% in five years. This growth may be because of the growth rate of MPS of the HDFC BANK and now a days in Indian market it booming like anything. It has recorded all time high record in Sensex it has crossed 10,000 points by this we can conclude that share value of the bank has increased.

RONW

The RONW trend of HDFC Bank is showing the fluctuations. In 2002 it was 0.153 where as in 2003 it has increased to 0.168 and in 2006 it has come down to 0.1597. This fluctuations may be due to increase in the capital employed and slow growth rate of PAT. The best performance of HDFC Bank is in 2004 in this year it’s RONW is 0.184. TIMES BANK is also showing the same changes in RONW. In 1995 it was 0.0183 and in 0.1584. it has decreased. But this analysis is on pre-merger analysis of Target Company and post-merger analysis of acquired company. So we can’t exactly compare these two figures. But the performance of HDFC is better than TIMES BANK as far as RONW concerned.

ROCE

The HDFC BANK is showing growth in ROCE from 2002 to 2005 and a slight decrease in 2006 i.e from 15.62 to 13.49. But comparing to 2002 it has grown up tremendously. i.e it has increase as 14125% in last five years. Which is good sign for the company to invest in many investment alternatives and can do expansion of the business.

The TIMES BANK ROCE position is bad in last 4years during pre-merger period. It is showing the decreasing trend that is from 11.51 to 4.202 which is bad signal for company. This may be one of the reasons for TIMES BANK to take decision to merge with HDFC BANK.

4.6 MERGER OF OBC & GTB BANK

Type of merger: Restructuring of weak banks- Forced merger.

Year of merger: 2004-2005.

Merger Reason:

- Global Trust Bank (GTB) was founded by Ex MD of Vysya Bank Limited, Mr. Ramesh Gilli who, in a skill to develop the Bank within a short span of time, invested a lot of the public money in financial instruments that invited risk and the bank faced a major crisis.
- The bank was involved in stock market scandal in the year 2001 and there was a run on the money by the depositors in the year 2002. The Joint Committee of Parliament in India submitted its report on the securities scam clearly noted that the exposure of GTB to the capital market during the year 2000 by way of advances against shares and guarantees issued on behalf of the brokers was relatively larger and that the bank had a very high exposure to a particular stock brokers which was detrimental to the interest of its stakeholders especially the depositors.
- The Joint Committee found that the exposure of GTB to capital market was in excess of the limit prescribed by the board of the bank. But the board of GTB ratified such excesses every time and the situation continued beyond questioning and controlling by any authorities.
- The banks financial statements were camouflaged, cleverly by the bank with the help of the auditors who audited the balance sheet which did not capture the attention of RBI and other authorities and general depositors and investors took the balance sheets of GTB as the true picture of financial health of the bank
- The bank reported a positive net worth in its balance sheet but the RBI auditors found the net worth to be negative.
- The bank was unable to maintain the RBI requirement of capital adequacy ratio.
- The Reserve Bank of India advised the bank to increase its capital adequacy ratio to the minimum prescribed level either by raising sufficient capital from the market or if this was not possible then to merge with other bank.
- The bank came out with an alternative proposal to restructure the financials of GTB, however RBI found it unacceptable and advised the government of India to declare a moratorium against the bank.
- GTB was put under moratorium for a three-month, partially freezing its operations following "wrong" financial disclosures. The moratorium aimed at freezing the assets and liabilities of the bank in order to protect the bank's health from further deterioration. It also provides an opportunity for a potential acquirer to evaluate the assets and liabilities of the bank.
- Depositors of the bank could not withdraw more than INR 10,000.
- This sudden decision of RBI and Government of India to place GTB under Moratorium caught more than

8.5 lakh customers of the bank unaware and shocked however RBI echoed that the objective of the moratorium was to protect the interests and safeguard the funds of all depositors.

- Reserve Bank of India made arrangements to merge the collapsed bank with a strong Government owned bank - Oriental Bank of Commerce in 2004-2005

EPS

An overview of EPS of the OBC from the past 4 years is showing increasing order. In 2002 it is 16.65 and it has grown up to 37.29 in 2005 an there four years are pre-merger period. In 2005 only this merger has taken place. In 2006 the EPS has decreased to 21.61. The EPS of the GTB from 1999 to 2003 is coming down constantly and in 2003 its EPS has become nil and also in negative's. This is not at all good to the company. The shareholders of the company will definitely loose trust on company performance in this situation. This may be one of the reasons. That GTB has taken decision to merge with OBC.

CEPS

Same like EPS, RONW and ROCE the CEPS position of the GTB is having continuous decreasing order.i.e from 12.19 to -18.79 from 2000 to 2003. By all these calculated analysis we can confirm that GTB is in insolvency position and it has no future.

Same like EPS, the CEPS position of the OBC is showing continuous increasing order that is from 18.68 to 42.11 which is more than double. And after merger it has slightly came down to 24.62 but still it is in good position. Companies GTB and OBC. OBC position is much better than GTB in all the ways. In one year decrease can't be taken as decrease we should take average.

MVA

This is not same as all the above calculated analysis it is showing fluctuating situation that is in 2002 it is showing -2725 and in 2003 It is showing -1434.8 and in 2004 it has recovered and has MVA of 2035.06 for the first three years it is showing increasing order though the results are in negative figures. But after merger it is showing decrease in MVA in 2005 it is -1867.1 and in 2006 it has shown slight increased result i.e. 2.4359. By seeing all these figure. We can conclude that all over MVA is not that much better but also not in risky position it is in creating year by year

EVA

As it is like that the merger of OBC and GTB has taken place in 2005 and we are calculating the analysis up to 2006 only so we can't exactly analyse whether company has added value economically are not but still if we look at the EVA of the OBC from 2002 to 2005 it has increased its EVA from 262.24 to 767.71 which is good to the company and helpful to retain the customers and shareholders. The growth rate of EVA is from 02 to o5 is 192% which shows the bust performance of the bank as far as concluding that bank has added value to their shareholders.

RONW

The RONW of the GTB bank is showing fall down position. i.e from 0.2008 in 2000 to -111.76 in 2003. Which is not good for the company If the same situation continuous we can say that company is in insolvency position. And the shareholders will try to with draw their shareholding from the company.

The RONW of the OBC has shown increase from 2002 to 2005 i.e from 0.1979 to 0.2158. This is per merger period. In 2006 it has decreased to 0.104 but we can say that it is in a good position because after the merger have taken place the company have grown in a considerable amount.

ROCE

The ROCE of the OBC is showing increasing from 2002 to 2003 i.e form 10.35 to 19.58 for these three years the position of the ROCE was satisfactory. But in 2005 it has decreased to 10.43 and again in 2006 it has increased to 10.71. This is because of the combination of both the companies.
The GTB bank is shoeing same like EPS and RNOW that is its position has come down from 13.99 to -22.46 from 2000 to 2003 ears. By this we can say that the position of the OBC bank is much better than the position of the GTB as far as ROCE concerned. This can be one of the reasons for merger.

- The mergers have definitely created value to the shareholders.
- The shareholders of the target company have benefited the most. As far as the acquiring comp any shareholders are concerned they have not benefited as much as the target company shareholders but definitely there has been value addition.
- The value created to the Bank of Madura shareholders is evident from the fact that they have become the shareholders of a company with 2500 Core -market capitalization form the owners of company with just 100 core-market capitalization.
- The same is the case with the shareholders of Times bank shareholders. The market price has increased form Rs 24 to Rs 241.
- They market price has increased enormously during the merger period. For instance the market price has increased form Rs. 69 to Rs.177 during the merger period in case of ICICI Bank and Bank of Madura merge. Well this might be because of the success of the HDFC Bank and Times bank merger in 1999. The investors might have attached positive hopes with this merger also.
- There is constant increase in the market price of HDFC in the post-merger period whereas in case of ICICI Bank the market price has decreased in the post-merger period. In of the reasons might be that the expectations attached with the ICICI Bank and Bank of Madura merger were high owing to the success of the former merger that is merger of HDFC Bank and Times bank merger. But according to the law of averages, after a huge unnecessary increase into the market price the market is bound to correct ad s result of which there is a fill in the market price both shares after that. The same was the case with ICICI Bank and bank of Madura merge. The market over estimated the value of the firm which it was bond the correct, the result of which is the fall in market prices.
- In a nutshell if we take into consideration all the parameter including the market price of the shares, we can see that in the post-merger period all have shown a positive result that means to say all have increased in absolute terms.

CHAPTER 5

FINDINGS AND SUGGESTIONS

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5.1 FINDINGS

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1. A merger occurs when two separate entities combine forces to create a new, joint organization. Meanwhile, an acquisition refers to the takeover of one entity by another.
2. ICICI bank voluntarily merged with BOM for business and commercial reasons.
3. TIMES bank voluntarily merged with HDFC bank because both the banks mutually consented that Times bank's provision coupled with HDFC Bank's mission would catapult both the banks to the top league.
4. OBC bank and GTB bank underwent a forced merger. Reserve Bank of India made arrangements to merge the collapsed bank i.e. OBC bank with a strong Government owned bank - Oriental Bank of Commerce.
5. The bank mergers creates a shareholders value for both acquiring and acquired bank. To be precise the shareholders of the target company has benefited more than the acquiring company.

5.2 SUGGESTIONS

1. The study ignores the impact of possible differences in the accounting methods adopted by different companies.
2. The factors which effect the M & A performance may not be same for all companies.
3. The cost of acquisition for mergers is not considered in the methodology. The thrust should be on improving risk management capabilities, corporate governance and strategic business planning
4. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short, time to market is critical in deciding who wins in future.
5. The Government should not go for M&As as a means of bailing out of weak banks. The strong banks should not be merged with weak banks, as it will have adverse effect upon the asset quality of the stronger banks.
6. The strong banks should be merged with strong banks to compete with foreign banks and to enter in the global financial market.

CHAPTER 6

CONCLUSION

6. CONCLUSION

My final and ultimate conclusion is, yes merger of all these companies have created value to the shareholders of the target company and acquired company. Growth is an important aspect for any organization. Various challenges and problems faced by the Indian banking sector and the economy have made mergers and acquisitions activity not an unknown phenomenon in Indian banking industry. Historically, mergers and acquisitions activity started way back in 1920 when the Imperial Bank of India was born when three presidency banks (Bank of Bengal, Bank of Bombay and Bank of Madras) were reorganized to form a single banking entity, which was subsequently known as State Bank of India. Globally mergers and acquisitions have become a major way of corporate restructuring and the financial services industry has also experienced merger waves leading to the emergence of very large banks and financial institutions. It drives the organization to create synergy and value creation by way of diversification and improved management. The banking system in India has undoubtedly earned numerous outstanding achievements, in a comparatively short time, for the World's largest and the most diverse democracy. There have been several reforms in the Indian banking sector, as well as quite a few successful mergers and acquisitions, which have helped it, grow manifold.

Based on the trends in the banking sector and the insights from the cases highlighted in this study, one can list some steps for the future which banks should consider, both in terms of consolidation and general business. Firstly, banks can work towards a synergy-based merger plan that could take shape latest by 2009 end with minimization of technology-related expenditure as a goal. There is also a need to note that merger or large size is just a facilitator, but no guarantee for improved profitability on a sustained basis. Hence, the thrust should be on improving risk management capabilities, corporate governance and strategic business planning. In the short run, attempt options like outsourcing, strategic alliances, etc. can be considered. Banks need to take advantage of this fast changing environment, where product life cycles are short, time to market is critical and first mover advantage could be a decisive factor in deciding who wins in future. Post-M&A, the resulting larger size should not affect agility. The aim should be to create a nimble giant, rather than a clumsy dinosaur. At the same time, lack of size should not be taken to imply irrelevance as specialized players can still seek to provide niche and boutique services.

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