



TRENDS AND PROGRESS OF M&A IN INDIAN BANKING SECTORS



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ABSTRACT

The study attempts to analyze the trends and progress of mergers and acquisitions in Indian banking sectors and the study also examines impact of economic reforms in merger deals of Indian banks. To meet these objectives the researcher used CMIE data base and other secondary resources. In order to examine the impact of economic reforms in merger deals of Indian bank two way ANOVA has been employed and tested. The result demonstrate that, during the study period 2008-2014 mergers between the banks is very less i.e. 1.87% (total 8 deals) as compared mergers between NBFCs. Further the study conclude that, the number of mergers deals in banks between the bank group and between the pre and post economic reforms period are more or less same.

KEYWORDS: Bank Mergers, Economic reforms, NBFCs, ANOVA

BACKGROUND

Mergers and Acquisitions continue to be a significant force in the restructuring of the financial service industry. The Indian banking sector has played an important role in economic development of the country and these sectors are currently passing through an exciting and challenging phase. With the onset of economic reforms in India, Banks also prefer mergers and acquisitions to reap the benefits of economies of scale through reduction of costs and maximization of both economic and non-economic benefits. This is a vertical type of merger because all banks are in the same line of business of collecting and mobilizing funds. In some

instances, other financial institutions prefer merging with a bank in case they provide a similar type of banking service. Another important factor is the elimination of competition between the banks. This way considerable amount of funds earlier used for sustaining competition can be channelized to grow the banking business. Sometimes, a bank with a large bad debt portfolio and poor revenue will merge itself with another bank to seek support for survival. However, such types of mergers are accompanied with retrenchment and a drastic change in the organizational structure. Consolidating the business also makes the bank robust enough to sustain in the every-



changing business environment. They find it easier to adapt themselves quickly and grow in the domestic and international financial markets.

THE BRIEF OVERVIEW OF INDIAN BANKING SECTORS

In India, the Reserve Bank of India acts as a central bank of the country. Banking system has a wide mix, comprising of scheduled and non-scheduled banks, co-operative sector banks, post office savings banks, foreign and exchange banks. Table 1.1 provides a brief detail of Indian commercial banks on the end of March

2013. As on March 2013, the number of commercial is 89 comprises 26 PSBs, 20 Private sector banks and 43 foreign banks. It has been observed that the market share of PSBs in terms of Investment, Advances and Deposits is more than 70%. Therefore the public sector banks are the biggest player in the Indian Banking System and they accounts for more than 82% of Branches of commercial banks in India. As on March 2013, Private sectors banks accounts for nearly 17.37% while foreign banks constitutes less than 1 percent (i.e. 0.36%) and their Investment is near to 9 percent.

Table-1 Structure of Indian Banking Sector (As on 31 March 2013)

S No	Bank Group	Numbers			Amount Rs in Million		
		No of Banks	Branches	No of Employees	Investment	Advances	Deposits
I	Public Sector Banks	26	75,779	801659	17591058	44727740	57456972
	Market Share (%)		82.27	73.08	67.31	76.07	77.34
	a. State Banks & its Associates	6	21,301	293965	47,29,979	1,37,92,240	1,61,84,449
	b. Nationalized Banks	20	54,478	507694	1,28,61,079	3,09,35,500	4,12,72,523
II	Private Sector Banks	20	16,001	26991	6261063	11432486	13,958,355
	Market Share (%)		17.37	2.46	23.96	19.44	18.79
III	Foreign Banks in India	43	334	25384	2280631	2636799	2879997
	Market Share (%)		0.36	2.31	8.73	4.48	3.88
IV	Total	89	92,114	1096984	26132752	58797025	74295324

Source: Calculated from the statistical tables relating to banks in India, RBI, 2012-13

*Note: Excluded Regional Rural Banks

LITERATURE REVIEW

In today's liberalized economy the corporate has experienced a major restructuring through M&A route. Mergers and Acquisitions have been considered as a popular strategy for Growth and Expansion. Empirical

studies in this field are few and far in number. Some attempts have been made in by scholars in the area of mergers which are reviewed and the summary of review is presented in Table-2

Table-2A summary of studies on Concepts and Trends of M & A

Contributors	Key Findings
Priya Bhalla	That there has been a rising number of M&As in this sector, especially so after the Narasimham Committee II recommendation on consolidation in the banking sector were reported.
R. Srivassan et.all (2009)	Merger is for making large size of the firm but no guarantee to maximize profitability on sustained business and there is always risk of improving performance after merger
Mehta Jay and Kakani Ramkumar (2006)	M&A strategy is an Imperative for the state to create few large bank
Morris Knapp et.all (2006)	Post merger results significantly exceeds those of the industry in first five years after the merger
Panwar (2011)	The trend of consolidation in Indian banking industry has for been limited mainly to restructuring of weak bank
Joyadeep Biswan (2004)	The FDI and Cross border merger are not alternative in developing countries like India
Vijay and Saxena (2004)	The economic advantage of M&A have been outlined
Kar (2006)	Indian Companies have been adopted Merger and Acquisition as a strategy for growth and expansion
Agarwal (2003)	The merger activity had demonstrated a significant trend after 1995
Kumar & Rajib (2007)	India has been a late comer in the M&A process due to unfriendly regulation and restrictive laws

The common finding that can be drawn on the basis of existing studies that the M&A activity in India increased after liberalization and most of the Indian firm have adopted M&A strategy for growth and expansion. Only few studies are available for trend and progress of mergers and acquisition in Indian banking sector. Hence the aim of this study is know the present trend of Mergers and Acquisition in Indian banking sector.

OBJECTIVES AND METHODOLOGY OF THE STUDY

The main objectives of the study are as follows

1. To analyze the Trends and progress of Mergers and Acquisition in Indian Banking sector.
2. To examine the impact of Economic reforms 1991 in mergers of Indian banking sectors.

To meet the above objectives, the researcher used secondary data. The required data have been collected from CMIE data base, article, journals and websites etc. in order to examine date two-way ANOVA has been employed and tested.

HYPOTHESIS OF THE STUDY

To cover the objectives of the study the following hypothesis is formulated;

H₀: There is no significance difference in number of bank mergers between bank groups and between pre and post economic reforms period.

H₁: There is significance difference in number of bank mergers between bank groups and between pre and post economic reforms period.

TRENDS AND PROGRESS OF M&A IN INDIAN BANKING SECTOR

In the context of consolidation in the Indian banking sector, it may be recalled that the Report of the *Committee on Banking Sector Reforms* (the Second Narasimham Committee - 1998) had suggested, *inter alia*, mergers among strong banks, both in the public and private sectors and even with financial institutions and NBFCs. Indian banking sector is no stranger to the phenomenon of mergers and acquisition across the banks. Since 1961 till date, under the provisions of the Banking Regulation Act, 1949, there have been as many as 84 bank amalgamations in the Indian banking system, of which 46 amalgamations took place before nationalization of banks in 1969 while remaining 38 occurred in the post-nationalization era. Of the 31 mergers, in 25 cases, the private sector banks were merged with a public sector bank while in the remaining six cases both the banks were private sector banks. Since the onset of reforms in 1990, there have been 25 bank amalgamations; brief particulars of these are furnished in the Table-3.11 and Table-3.12 shows the list of Mergers and Acquisitions in Indian banking industry since 1969. It would be observed that prior to 1999, the amalgamations of banks were primarily triggered by the weak financials of the bank being merged, whereas in the post-1999 period, there have also been mergers between healthy banks driven by the business and commercial considerations.

Table-2 Bank Mergers in India

Period	Number of Mergers
Pre-Nationalization of Banks (1961-1968)	46
Nationalization period (1969-1992)	13
Post-reform period(1993-till date)	
➤ Forced Merger 13	
➤ Voluntary Merger 10	
➤ Compulsory Merger 2	25
Total	84

Source: Compiled from Various report of RBI

Table-3 The list of Mergers and Acquisitions in Indian banking industry since 1969

S. No	Transferor Bank	Transferee Bank	Date of Merger
01	Prabhat Bank Ltd.	National Bank of Lahore	09-03-1961
02	Indo-Commercial Bank Ltd	Punjab national Bank	25-03-1961
03	Bank of Nagpur Ltd.	Bank Of Maharashtra	27-03-1961
04	New Citizen Bank Ltd	Bank of Baroda	29-04-1961
05	Travancore Forward Bank Ltd	State bank of Travancore	15-05-1961
06	Bank of Kerala Ltd.	Canara Bank	20-05-1961
07	Bank of Poona Ltd	Sangli Bank Ltd	03-06-1961
08	Bank of New India Ltd	State bank of Travancore	17-06-1961
09	Venadu Bank Ltd	South Indian Bank ltd	17-06-1961
10	Wankaner Bank Ltd	Dena Bank	17-06-1961
11	Seasia Midland Bank Ltd	Canara Bank	17-06-1961
12	Kottayam Orient Bnk ltd	State bank of Travancore	17-06-1961
13	Bank of Konkan ltd	Bank Of Maharashtra	19-06-1961
14	Poona industrial Bank Ltd	Sangli Bank	28-06-1961
15	Bharath Industrial Bank Ltd	Bank of Maharasgtra	01-07-1961
16	Rayalaseema Bank Ltd	Indian Bank	01-09-1961
17	Cuttack Bank Ltd	United Bank of India	04-09-1961
18	Pie Money Bank Ltd	Syndicate Bank	04-09-1961
19	Moolky Bank Ltd	Syndicate Bank	04-09-1961
20	Merchants Bank Ltd	Tanjore Permant Bank	04-09-1961
21	Tezpur Industrial Bank Ltd	United Bank of India	04-09-1961
22	G Raghunathmulla Bank Ltd	Canara Bank	04-09-1961
23	Satara swadeshi Commercial Bank ltd	United Western Bank Ltd	06-09-1961
24	Catholic Bank ltd	Syndicate Bank	11-09-1961
25	Phaltan Bank	Sangli Bank Ltd	07-10-1961
26	Jodhpur Commercial Bank Ltd	Central Bank Of India	16-10-1961
27	Bank of Citizen ltd	Canara Banking Corporation Ltd	17-10-1961
28	Karur Mercantile Bank ltd	Laxmi Vilas Bank Ltd	19-10-1961
29	Peoples Bank ltd	Syndicate Bank	14-11-1961
30	Pratap Bank Ltd	Lakshmi Commercial Bank Ltd	11-12-1961
31	Unity Bank ltd	State Bank Of India	20-08-1962
32	Bank of Algapuri Ltd	Indian Bank	14-08-1963
33	Metropolitan Bank ltd	United Industrial Bank	06-02-1964
34	Cochin Nayar Bank Ltd	State Bank Of Travancore	08-02-1964
35	Salem Shri Kannikaparameshwari Bank Ltd	Karur Vysya Bank Ltd	01-06-1964
36	Unnao Commercial Bank Ltd	Bareilly Corporation Bank Ltd	12-08-1964
37	Latin Christian Bank Ltd	State Bank Of Travancore	17-08-1964
38	Southern Bank Ltd	United Industrial Bank Ltd.	24-08-1964
39	Shri Jadeya Shakarling Bank Ltd	Belgaum Bank Ltd.	26-10-1964
40	Bareilly Bank Ltd	Benarus State Bank Ltd.	16-11-1964
41	Thiya Bank Ltd	Lord Krishna Bank Ltd.	16-11-1964
42	Allahabad Trading & Bkg. Corp. Ltd.	State Bank of India	25-08-1964

43	Vettaikarna Padur Mahajan Bank Ltd	Bank Of Madhura Ltd	01-09-1965
44	Malnad Bank Ltd	State Bank of Mysore	06-10-1965
45	Josna Bank Ltd	Lord Krishna Bank ltd	13-10-1965
46	Amrit Bank Ltd	State Bank of Patiala	03-02-1968
47	Chawla Bank Ltd	New Bank of India	23-04-1969
48	Bank of Behar Ltd	State Bank of India	08-11-1969
49	National Bank Of Lohore Ltd	State Bank of India	20-02-1970
50	Miraj State Bank Ltd	Union Bank Of India	20-07-1985
51	Lakshmi commercial Bank Ltd	Canara Bank	24-08-1985
52	Bank of Cochin Ltd.	State Bank of India	26-08-1985
53	Hindustan Commercial Bank Ltd	Punjab National Bank	19-12-1986
54	Traders Bank Ltd	Bank Of Baroda	13-05-1988
55	United Industrial Bank Ltd	Allahabad Bank	31-10-1989
56	Bank of Tamilnad Ltd	Indian Overseas Bank	20-02-1990
57	Bank Of Thanjavur Ltd.	Indian Bank	20-02-1990
58	Parur Central Bank Ltd	Bank Of India	20-02-1990
59	Purbanchal Bank Ltd	Central Bank Of India	29-08-1990
60	New Bank of India	Punjab National Bank	04-09-1993
61	Bank Of Karada ltd.	Bank of India	1993-1994
62	Kashinath Seth Bank	State Bank Of India	1995-1996
63	Punjab Co-op. Bank Ltd	Oriental Bank of Commerce	1996-1997
64	Bari Doab Bank Ltd	Oriental Bank of Commerce	1996-1997
65	Bareilly Corp. Bank Ltd	Bank of Baroda	03-06-1999
66	Sikkim Bank Ltd	Union Bank of India	22-12-1999
67	Times Bank	HDFC Bank Ltd	26-02-2000
68	Bank Of Madura	ICICI Bank	Mar-2001
69	Benares State Bank Ltd	Bank of Baroda	20-07-2002
70	Nedungadi Bank Ltd	Punjab National Bank	01-02-2003
71	Bank Muscat	Centurion Bank	2003
72	South Gujarat Local Area Bank	Bank of Baroda	2004
73	Global Trust Bank	Oriental Bank of Commerce	24-07-2004
74	Bank Of Punjab	Centurion Bank of Punjab	Oct-2005
75	Ganesha Bank of Kurundward	Federal Bank Ltd	Jan - 2006
76	United Western Bank	IDBI	2006
77	Lord Krishna Bank	Centurion Bank of Punjab	2006
78	Sangli Bank	ICICI Bank	2006
79	Centurion Bank of Punjab	HDFC Bank	25-02-2008
80	State Bank of Showratra	State Bank of India	Aug-2008
81	Dena Bank	Punjab National Bank	Oct.- 2009
82	Bank Of Rajasthana	ICICI Bank Ltd	13-08-2010
83	State Bank Of Indore	State Bank Of India	20-08-2010
84	State Bank of Travancore	State Bank of India	20-5-2014

Source: Report on Trends & Progress, RBI, Various issues & Kamatam Srinivas(2011)

Table-4 Total number of mergers deals between subgroups (2008-2014)

Year	Bank and Bank	Bank and NBFCs	NBFCs and NBFCs	Total
2008	2	4	71	77
2009	1	0	67	68
2010	2	1	62	65
2011	0	10	52	62
2012	0	3	62	65
2013	0	3	47	50
2014	1	0	41	41
Total	08	20	400	428
%	1.87	4.67	93.46	100

Source: Author's calculations from CMIE Report

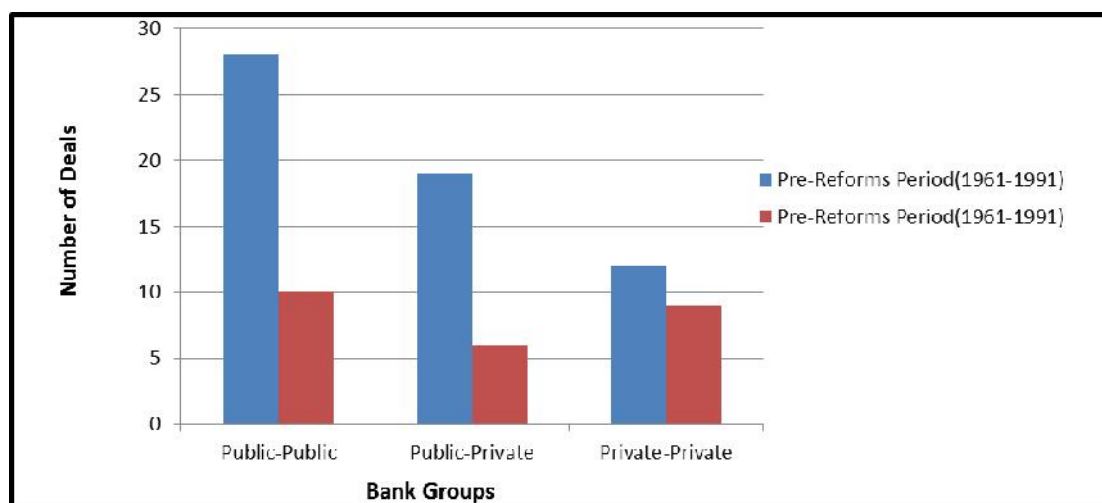
From the above table-4, it can be observed that, during the study period 2008-2014 mergers between the banks is very less i.e. 1.87% (total 8 deals) as compared mergers between NBFCs. The total involvement of banks in mergers and acquisitions during the study period is 6.54% and it is observed from the table -5, the maximum number of merges were recorded during pre-economic reforms period totaling 59 deals with a share of 70.23% and remaining 25 deals are recorded during post reforms period recording 29.77% of market share. On analyzing

group wise bank mergers, it can be seen that, maximum transaction recorded between the mergers of public sectors banks in both pre and post economic reforms period totaling 38 deals. The merger of public sectors banks with private sectors comes under second place accounts for 25 deals and this is followed by mergers of private sectors banks. Fig-1 depicts Total Number of M&A deals between the groups and between the Pre and Post economic reforms.

Table-5 Total Number of M&A deals between the groups and between the Pre and Post economic reforms

Bank Group	Pre-Reforms Period (1961-1991)	Post-Reforms Period(1991-2014)	Total
Public-Public	28	10	38
Public-Private	19	6	25
Private-Private	12	9	21
Total	59	25	84
%	70.23	29.77	100

Source: Compiled from Table-3

Fig:- 1: Total Number of M&A deals between the groups and between the Pre and Post economic reforms and between the bank groups

ANALYSIS OF VARIANCE OF BANK M&A

In order to examine the variation between rows and columns, two way ANOVA has been employed. In this study the researcher has calculated the variation between bank groups and between pre and post economic reforms period of number of Mergers deals in Indian banking sectors and the same is presented in table-6.

In this study the researcher has accepted null hypothesis that there is no significance difference in

number of bank mergers between bank groups and between pre and post economic reforms period. In both the cases i.e, Variation between the Bank groups and between Pre and post economic reforms F value is less than 5 percent level of significance (see table 6). So it can be concluded that. the number of mergers deals in banks between the bank group and between the pre and post economic reforms period are more or less same.

Table-6 Two- way ANOVA

M&A between the Bank groups and Pre & Post Economic reforms

Source of Variation	SS	Df	MS	F	P-value	F crit (0.05)
Between Bank Groups	79	2	39.5	1.35	0.424757	19
Between Pre and Post Economic reforms	192.67	1	192.67	6.61	0.123874	18.51
Error	58.33	2	29.17			
Total	330	5				

Source: Compiled from Table-5

FINDINGS

The above analysis and interpretation of the study warrants the following findings:

1. Since 1961 to 2014, total 84 mergers deals were recorded in Indian banking sectors, of which 46 were recorded during pre nationalization period and remaining 36 were recorded during post nationalization period.
2. Maximum number of Bank mergers were recorded during pre liberalization period (Before 1991) i.e., 59 deals while in post liberalization period only 25 deals occurred.
3. During the entire study period the Maximum transaction recorded between the merger of public sectors banks with public sector bank.
4. During study period 2008-2014 only 8 mergers deals recorded in case of mergers of banks with bank and 20 accounts for mergers of banks and NBFCs.

CONCLUSION

Banking sector is one of the fastest growing areas in the Indian economy. Mergers and acquisitions considered as one of most useful strategy for and expansion. M&A in Indian banking sectors has provided evidence that it is useful tool for survival of weak banks by merging in to larger bank. It can be observed in the study is, the maximum small ad weak banks merged with large and public sectors banks in both pre and post liberalization period. By examining the impact of Economic reforms 1991

in Indian banking sectors, it can be conclude that there is no difference in the trends and progress of M&A in banking sectors between the pre and post liberalization period and between mergers bank groups.

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