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Merger and acquisition of banks with special reference to ICICI and bank of Rajasthan

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Abstract

India's banking sector is growing at a fast pace. It has become one of the most preferred banking destinations in the world. Indian markets provide growth opportunities, which are unlikely to be matched by the mature banking markets around the world. Merger and acquisition are the most popular means of corporate restructuring. The current upswing in activity in the domestic market as well as in the global markets proves that strong conceptual and technical skills are required to face any situation. The main objective of the study is to focus on the effects of the mergers in the Urban Co- operative Banking sector, paying special attention to the ones involving savings banks. Further to present a conception of mergers and acquisitions that implicitly attributes an important role to the integration process and extracts relevant implications for empirical designs.

Keywords: merger, acquisition, integration, banking sector

1. Introduction

The banking system contributes to economic growth by mobilizing financial resources and Channelizing them bring about higher expected rates of return for a given level of risk. It provides transaction and payment services, which increase the efficiency of economic activities. Since the initiation of deregulation process of India's financial sector in 1992, significant policy changes have been introduced to strengthen the banking sector. Banking system is the bloodline of any economy and banks are trustees of public money. The depositors therefore, have more stakes in the welfare of banks than the share holders. Failure of a bank has more systemic implications than say, the failure of a manufacturing company.

Mergers and Acquisitions are not an unknown phenomenon in Indian Banking. The predecessor of State Bank of India, the Imperial Bank of India was born out of consolidation of three Presidency Banks way back in 1920. Mergers of banks took place in India in the 1960s under the direction of the Apex Bank of India. From 566 reporting commercial banks at the end of 1951, the number came down to 292 at end of 1961, to 100 at the end of 1966 and to 85 by the end of 1969. The focal point of interest about mergers and acquisitions is that size does matter in the banking industry.

There has been a process of transformation and consolidation in Indian Banking Sector from 1991. The implementation of the financial sector reforms has undergone a radical change. The result of liberalization and globalization made a drastic change in the commercial Banking sector in India. The reforms emphasized the "commercial character" of the banking system and helped them to withstand competition.

Merger and acquisition are the most popular means of corporate restructuring. The current upswing in activity in the domestic market as well as in the global markets proves that strong conceptual and technical skills are required to face any situation. Mergers and acquisitions have happened in history in the last 100 years.

The main objective of the study is to focus on the effects of the mergers in the Urban Co- operative Banking sector, paying special attention to the ones involving savings banks. Further to present a conception of mergers and acquisitions that implicitly attributes an important role to the integration process and extracts relevant implications for empirical designs.

2. Need for the study

India's banking sector is growing at a fast pace. It has become one of the most preferred banking destinations in the world. Indian markets provide growth opportunities, which are unlikely to be matched by the mature banking markets around the world. FICCI conducted a survey to analyze the potential offered by Indian Banking System and achievement of global competitiveness by Indian banks. The need for this study arises due to the fact that, globalization, has made the banks to operate in highly competitive environment. Hence M & A have become universal practice in the corporate world for securing survival, growth, expansion and globalization of the enterprises and achieving multitude of objectives. M & A have started taking place in India in the recent years.

3. Objectives

Merger is not about adding two balance sheets or even the number of respective branches. It is about transforming the disparate human resources into a homogeneous entity.

This paper is mainly concerned with the following objectives-

- To assess the reasons for mergers and acquisitions in Indian Banking Sector and its impact
- To know the significance of mergers and acquisitions in the Indian Banking Sector
- To analyse the need for the Indian Bank Merger by the Case study of Saraswat Co-operative Bank.
- To estimate that mergers and acquisitions have been an effective way to increase productivity.
- The study focuses on the detection of productivity improvements associated with these processes

4. Methodology

The paper focused on the assessment of the consequences of mergers by, limiting the possibility of observing a complete integration between the merged firms. The model can be augmented to incorporate the effect of technological change or mergers on productivity. The analysis is done base done bsed on secondary data collected from annual reports.

5. Sources of Data

The following institutions are the most important sources of providing financial and banking related data required for merger and acquisition information in India.

Data used for this were collected from the compiled reports of the Ministry of Finance.

Reserve Bank of India (RBI) publishes National Accounts and financial and fiscal statistics. For compilation of this, the National accounts of India for 1990 -2006 were to be used.

The Central Statistical Organization (CSO) of the Indian Government publishes a wide relevant data of Banking and Financial Institutions

6. Sample

Two banks, one from Public Sector and the other from Private Sector, are taken as the sample banks to evaluate the impact of mergers and acquisitions on the performance of the Banks.

7. Review of Literature

Milind Sathye (2002) measured the productive efficiency of banks in a developing country, especially India. Efficiency of the banks are evaluated by constructing two models and analyzed how efficiency scores vary with change in inputs and outputs. The efficiency scores, for three groups of banks are based on publicly owned, privately owned and foreign owned, are measured. The study also emphasised that the mean efficiency score of Indian banks compares well with the world mean efficiency score and the efficiency of private sector commercial banks as a group is, paradoxically lower than that of public sector banks and foreign banks in India. The study recommends that the existing policy of the RBI in reducing non-performing assets and rationalization of staff and branches should be continued to obtain efficiency gains and make the Indian banks internationally more competitive and vibrant.

Allen N. Berger *et al*. (1998) [1] examined the effects of bank M&As on small business lending using data on over6000 recent U.S. bank M&As. They analysed the data to decompose the impact of M&As into the static influence from simply melding the antecedent institutions and the dynamic effects associated with post-M&A and focused on the consolidated institution. They also estimated the dynamic reactions of other local banks and found that the static impact of consolidation reduce small business lending, but are mostly affected by the reactions of other banks, and in some cases also by refocusing the consolidating institutions.

Kam Hon Chu (2009) [5] incorporated a monopolistically competitive market for deposits into an overlapping generations growth model based on a la' Diamond (1965). The study analysed the way in which Profit-maximizing banks have incentives to compete for deposits by opening branches or expanding branch networks through mergers and acquisitions. Whereas larger branch networks reduce the transaction cost of financial intermediation and encourage depositors to save more, hence resulting in higher per capita output. Empirically, the development of the Canadian banking industry during 1889–1926, notably the merger wave in the early 1900s, is examined. A VECM shows that savings, real GNP and the number of bank branches, all on a per capita basis, are co integrated – with long-run savings being a positive function of the other two variables. Results of the study proved that the innovation accountings are consistent with predictions of the theory. The findings not only have policy implications for bank branch deregulation as well as mergers and acquisitions but also stressed on the debate about the finance growth nexus in Canada.

8. Case study of merger of ICICI Bank and Bank of Rajasthan

Changing is the regulation of nature. Any business organization undergoes change on a continuous basis, technically termed as Corporate Restructuring. It can be defined as a strategy to achieve faster growth, desired capital structure and change in the ownership and control of company. The reasons behind change may be external or internal factors. In the present scenario, business organization undertakes changes to increase their cutting edge over the competition and enhance their leadership positions. It is a fundamental fact of finance that growth and capital employed are two basic drivers of the value of an organization. On the other hand neither growth nor improvement in ROCE is possible unless the company is under the control of competent, progressive and visionary management. The present paper is an attempt to understand the strategic move of ICICI bank. The case study will reveal the motives behind and synergies from such M&A activities. An attempt has been made to analyze, "Is corporate restructuring a tool to enhance the shareholders value". Why ICICI Bank has taken such a strategic move and many more questions will be solved from the case study.

Mergers and acquisitions in banking sector has become admired trend throughout the country. A large number of public sector, private sector and other banks are engaged in mergers and acquisitions activities in India. One of the prominent motives behind Mergers and Acquisitions in the banking sector is to harvest the benefit of economies of scales. With the help of mergers and acquisitions in the banking sector, the banks can achieve significant growth in their operations and minimize their expenses to a considerable extent say for example installation expenses for setting up new branches will be saved. Secondly, the most significant vantage is that it eliminates competition from the banking industry.

Proven to be an act of corporate action, mergers and acquisitions in the banking sector has ensured efficiency, profitability and synergy from past many years. It also assists in shaping up and maximizing shareholder‟s value. The driving force behind the growing trend of mergers and acquisitions in the banking sector other than efficiency, profitability and synergy can be deregulation in the financial market, market liberalization, economic reforms and many more. After all, RBI has the only authority to regulate all merger and acquisition related activities

In 1955, ICICI Limited was incorporated with the collective efforts of the major 3, named World Bank, Government of India and Indian Industry's representatives. The establishment has been taken place with a view to aid Indian businesses by acting as a source of finance to medium and long term projects. In 1990‟s, the ICICI institution started diversifying its operations, and end up at the wholly owned subsidiary called ICICI Bank. The Bank was established in 1994 and became the first bank listed on NYSE (New York Stock Exchange).

The Bank of Rajasthan with the asset base of Rs. 17,300.06 crores incurred the net loss after provisions and taxes remained at Rs. 102.13 crores for the year ended 31st Mar 2010. The bank operates through all over India as a private sector bank with 463 branches works as network. It includes 67 onsite and 29 offsite ATMs in 230 cities along with specialized Industrial and forex branches.

The bank provided a broad range of products and services includes commercial banking, Personal banking, merchant banking, auxiliary services, consumer banking, deposit and money placement services, trusts and custodial services, international banking, private sector banking and depository, Credit facilities to SMEs, gold facilities internet banking mobile banking, life insurance, mutual fund services, western union money transfer services and many more. The above mentioned products and services can be divided into 3 segments called treasury operations, Banking operations and residuals.

The bank of Rajasthan was established as Joint Stock Bank by Mansingka brothers at Udaipur on 8th May, 1943.The Bank served The Government of Rajasthan as Scheduled bank for more than 14 years starting from 1948. The founder Chairman of Bank of Rajasthan was an industrialist.

In 194 named Late Seth Shri Govind Ram Seksaria who started the bank with initial investment of Rs. 10 lacs. Ties up Details:-

Year	**Particulars**
2000	Bind off with Infosys Technology in order to get fully automated
2002	MoU signed by Bank of Rajasthan with Bajaj Allianz General Insurance Company and Birla Sun Life Insurance
2003	MoU signed with Bank of Baroda to issue co-branded international Visa Electron Debit Card
2005-06	Termination of ties up with Bajaj Allianz General Insurance Company and Birla Sun Life Insurance
2008	The Bank signed an MoU with ICRA Ltd. in September

9. Findings from the Process of Merger and Acquisitions

- The Profit of the year ended March 31, 2009 stood at Rs. 3,758 crore, which was then increased by 7.1% approx. to the year ended March 31, 2010. It has been showing increasing trend from FY2005 to FY2008 but declined by 9.61% in FY2009 as compared to FY 2008.
- An increase net interest margin from 2.4% in FY2009 to 2.5% in FY2010.
- Operating and administrative expenses decreased by 9.37% from Rs. 1952.99 crores in fiscal 2009 to Rs. 1770.03 crores in fiscal 2010 due to overall cost reduction initiatives undertaken by the bank. The reduction initiatives include various expenses owing to advertisement, printing and stationery, publicity and postage and communication expenses in FY 2010 as compared to FY2009.
- There has been decrease in total asset by 4.19% to Rs. 3,634.00 billion at year-end fiscal 2010 from Rs. 3,793.01 billion at year - end fiscal 2009. It has been showing decreasing trend since from FY 2005.
- Net advances decreased continuously since from FY2005, 34% decreased in between FY2006-2007 and by 17.0% from Rs. 2,183.11 billion at year-end FY 2009 to Rs. 1,812.06 billion at year-end FY 2010.
- With the increase in investment majorly in non-SLR by Rs. 128.18 billion, Total investments has increased by 17.3% from Rs. 1,030.58 billion at FY2009 to Rs.1, 208.93 billion at FY2010. The other investments were in government and other securities of Rs. 50.17 billion.
- The ICICI Bank has continuously improvised its reserve capital since from FY 2006, which meliorates equity share capital and reserves from Rs. 495.33 billion at year-end fiscal 2009 to Rs. 516.18billion at year-end fiscal 2010.
- Change in organizational strategy reduced the total deposits by 7.5% from Rs. 2,183.48 billion at FY2009 to Rs. 2,020.17 billion at FY 2010. It has been reducing since from past two years whereas Savings account deposits and Current account deposits increased from in198 Rs.626.68 billion at year-end fiscal 2009 to Rs. 842.16 billion at year-end fiscal 2010. On other side term deposits has decreased to Rs. 1,178.01 billion at year-end fiscal 2010 from Rs. 1,556.80 billion at year-end fiscal 2009.
- On account of new capital eligible borrowings, borrowings have been increased at ICICI bank from Rs. 931.55 billion at FY 2009 to Rs. 942.64 billion at FY 2010.
- There has been decrease in other liabilities and provisions by 64.57 %.
- In case of the bank of Rajasthan, one of the leading banks in private sector was established in 1943 with the initial capital of Rs. 10 lakh. The bank declared as scheduled bank in 1948 which has its specialization in forex and industrial finance. The bank located at jaipur has its branches spread all across 22 states of India as on Mar 31, 2009.
- The assets size of the Bank of Rajasthan has been showed a growing trend from past 5 years, stood at 17320.23 crores as on March 31, 2010. The net profit has gone down from 117.71 crores as year ended March 2009 to 102.13 crores at FY 2010 which reflects a drastic decrease in net profit by 186.76%.
- Total income received from interest and others income registered a growth of 25.8% from FY 2008 at Rs. 1513.40 crores as on 31 st March 2009.the reason behind the growth was increment in the yield on advances, where as total income was declined by 1.11% from FY 2009 to Rs. 1496.67 crores as on year ended 2010.
- The Profit after tax for the year 2008 and 2009 were remained at similar levels due to increase in provision of Non-Performing Assets. The bank of Rajasthan reported net loss at the year ended 2010 (after provisions and taxes) stood at Rs. 102.13 crore against the net profir of Rs. 117.71 crores for the previous year.
- The bank of Rajasthan has been showing increasing trend but at a low pace. It has increased by 0.49% from Rs. 17235.09 crores as on year ended 2009, and grow by 8.99% over the previous year.
- The quality of assets at Bank of Rajasthan have been continuously deteriorating since from 2007 stood at Rs. 293.81 crores as on year ended 2010 as compared to Rs. 160.9 crores at the year ended 2009.

- Although investment at Bank of Rajasthan has been shown positive sign from the year 2006 to 2008 but it got off track to Rs. 6722.51 crores as on year ended 2010 which is 1.27% reduced from previous year.
- The balance sheet showing the freeze of equity capital infusion to the Bank of Rajasthan remained at Rs. 161.35 crores as on year ended 2010. The bank also has not issued fresh shares to the market.
- The growth in deposits at Bank of Rajasthan was moderate during 2008 to 2009 as per industry trend line but got hurdled in FY 2010 stood at Rs. 1506.35 crores, which is 0.82% down the line.
- Borrowings at Bank of Rajasthan have shown good sign for the bank as it has been continuously decreasing since from FY 2006. Currently the bank‟s borrowings stood at Rs. 0.65 crores as on year ended 2010.

10. Conclusion
Mergers and Acquisitions (M&A) have immensely evoked and still continue to capture scholars' interests. More so, M&A in the banking sector creates high interest even after decades of strict regulations and paved the way for M&A in banking industry throughout the world. By understanding the changed environment conditions that M&A in the Indian Banking are an important necessity.
Given that economic power is increasingly used as a tool by nations to defend their position, to signal power, to signal intent, and to establish their supremacy over others hence owning and managing large powerful global banks would be an obvious interest for every country.

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