Introduction

When one company takes over another company and clearly establishes itself as the new owner, the purchase is called as acquisition. From legal point of view, the target company ceases to exist, the buyer swallows the business and the buyer stock continues to be traded. (Rao P.M., 2002)

In the pure sense of the term, a merger happens when two firms often of about the same size, agree to go forward as a single new company rather than remain separated/owned & operated. This kind of action is more precisely reflected as ‘Merger of Equals’. Both companies’ stocks are same and new company’s stock is issues in its place.

A purchase deal will also be called a merger when both CEOs agree to joining together is in the best interest of both the companies. But when the deal is unfriendly – That is when the target company does want to be purchased – it is always regarded as acquisition. Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile & how it is announced.

Definitions:
Acquisition is ‘the takeover or a buyout, is the buying of one company by another’.
Merger is defined as ‘Combination of two or more companies into a single company where on survives and the other loses its corporate existence’. (Beckmann)

Importance of Mergers and Acquisitions:
Mergers & Acquisitions generally succeed in generalizing cost efficiency through the implementation of economies of scale. It may also lead to tax gains and can even lead to revenue enhancement through market share gain.
Mergers & Acquisitions often lead to an increase value generation for the company. It is expected that the shareholders’ value of the firm after the Mergers & Acquisitions would be greater than the sum of the shareholders’ values of the parent companies. An increase in the cost efficiency is affected through the procedure of Mergers & Acquisitions. This is because Mergers & Acquisitions had to increase economies of scale. This in turn promotes cost efficiency.

As the parent offers amalgamations to form a bigger new firm, the scale of operation of the new firm increases. As output of production rises, there are changes that the cost per unit of production will come down. An increase in market share is on the plausible benefits of Mergers & Acquisitions. In case a financially strong company acquires a relatively distressed one, the resultant organization can experience a substantial increase in market share. The new firm is usually more cost efficient & competitive as compared to the financially weak parent organization.

Several studies have been done on the relationship between M&As and performance of the company, Using a variety of financial measures (e.g. Profit, Stock price) and non-financial measures (e.g. firm’s reputation) and time frame (e.g. pre-measurement and post measurement, initial market reaction, etc.). These studies show that on average M&As consistently benefits the target’s shareholders, but not the acquirer’s shareholders. In fact, there are varying results with respect to the buying firm’s performance.

Banking general terminology is referred to as a financial institute or a corporation which is authorized by the state or central government to deal with money by accepting deposits, giving out loans and investing in securities. The main roles of Banks are Economics growth, Expansion of the economy and provide funds for investment. In the recent times, the banking sector has been undergoing a lot of changes in terms of regulation and effects of globalization. These changes have affected this sector both structurally and strategically. With the changing Environment many different strategies have been adopted by this sector to remain efficient and to surge ahead in the global arena. One such strategy is through the process of consolidation of banks emerged as one of
the most profitable strategy. There are several ways to consolidate the banking industry; the most commonly adopted by banks is merger.

Merger of two weaker banks or merger of one healthy bank with one weak bank can be treated as the faster and less costly way to improve profitability then spurring internal growth (Franz, H. Khan 2007). The main motive behind the merger and acquisition in the banking industry is to achieve economies of scale and scope. Mergers also help in the diversification of the products, which help to reduce the risk.

**The Indian Banking System**

At the top of the Indian banking system is the central bank of India known as the Reserve Bank of India. The Reserve Bank of India is responsible for the Indian banking system since 1935, the commercial banks in India are segregated into Public sector banks, Private sector banks, and Foreign banks. All these banks fall under Reserve Bank of India classification of scheduled commercial banks (SCBs). Public sector, Private sector, and Foreign banks as they are included in the second scheduled of the Reserve Bank of India Act 1934. The Public sector as wholly owned by the government of India before the reforms. The PSBs are the biggest player in the Indian banking system and they account for 70% of the assets of scheduled commercial banks in India.

**Merger of Banks in India**

Merger can be defined as a mean of unification of two players into single entity. Merger is a process of combining two business entities under common ownership. According to Oxford Dictionary the expression “merger means combing two commercial companies into one”.

Bank merger is an event of when previously distinct banks are consolidated into one institution (Pilloff and Santomerro, 1999).

A merger occurs when an independent bank loses its charter and becomes a part of an existing bank with one headquarters and unified branch network (Dario Farcarelli, 2002).
Merger occurs by adding the active(bidder) bank assets and Liabilities to the target (Passive) banks balance sheet and acquiring the bidder’s bank name through a series of legal and Administrative measures.

Merger and Acquisition in Indian banking sectors have been initiated through the recommendations of Narasimham committee II. The committee recommended that “merger between strong bank / financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have “force multiplier effect”.”