Introduction: History of Banking System in India:

A country cannot have a healthy economy without sound banking system. The banking system should be hassle free and should be user friendly to everyone. A good banking system can strengthen the economy of a country and on the other side a weak banking system can ruin the economic system of a country.

The country like India, cannot have a healthy economy without its sound and effective banking system. In the past three decades Indian Banking system has achieved several high levels which benefitted the Indian citizens as well as Indian economy.

Bank of Hindusthan (1770-1829) and The General Bank of India (established in 1786) were first two bank established in India in 17th century. The journey of Indian Banking system can be divided in to three distinct phases.

- Phase 1: The early phase of Indian Banks (1786 to 1969).

Phase 1:

The first bank, Bank of Hindusthan was established in 1770, followed by The General Bank of India in 1786. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840), and Bank of Madras (1843) as independent units and called them Presidency banks. These three banks were amalgamated in 1920 and the Imperial Bank of India, a bank of private shareholders (mostly Europeans) was established. In 1865, Allahabad Bank was established exclusively by Indians and another public sector bank (Punjab National Bank) was welcomed by Indian citizen in 1894. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, and Bank of Mysore were set up. And, at last the Bank of all Banks, the Reserve Bank of India has been established in 1935.

Phase 2:

The Govt. of India has taken major steps to reform Indian Banking sector after Independence. The reforms had started with nationalization of Imperial Bank of India and started extensive banking facility to rural and semi-urban area. The government constituted the State Bank of India to act as the principal agent of the RBI and to handle banking transactions of the Union government and state governments all over the country. In 1969, 14 commercial banks in the country were nationalized. In the second phase of banking sector reforms, seven more banks were nationalized in 1980. With this, 80 percent of the banking sector in India came under the government ownership.
Phase 3:

This phase has introduced many more products and facilities in the banking sector as part of the reform process. In 1991, under the chairmanship of M Narasimham, a committee was set up, which worked for the liberalization of banking practices. Now the country is flooded with foreign banks and private sector banks. Both private and public sector Banks has introduced different types of facilities to their customers. The entire banking system became more convenient and swift.

Banking Structure in India:

The organisational structure of Indian Banking sector consists with Scheduled Commercial Banks, Scheduled Co-operative Banks and other financial institutions. The present structure of Indian Banking sector has been analysed below.

Chart1: Organisational Banking Structure in India:

Reserve Bank of India: The Central Bank:
The Reserve Bank of India is the central bank of India and the controller of all the monetary policy of India. The Reserve Bank of India has established in 1st April of 1935. As The Reserve Bank of India is the main monetary authority of India, it monitors monetary policy and hereby maintaining price stability and ensuring adequate flow of credit to productive sectors. The Reserve Bank of India is the regulator and supervisor of the financial system in the country and also manages the foreign exchange of the country.

**Scheduled Commercial Banks:**

Scheduled Commercial Banks in India are regulated under Banking Regulation Act, 1949. Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. The State Bank of India and its associates, Bank of Baroda, Allahabad Bank, and Vijaya Bank are the example of Schedule Commercial Banks.

**Scheduled Co-operative Banks:**

Primary (urban) credit societies that meet certain specified criteria can apply to RBI for a banking license to operate as urban co-operative banks. Primary (urban) co-operative banks are registered and governed by state governments under the respective co-operative societies acts of the concerned states. These banks are also included in the Second Schedule of the RBI Act 1934. Some of the Scheduled Co-operative Banks are Ahmedabad Mercantile Co-operative Bank Ltd., Surat Peoples Co-operative Bank Ltd., and Indian Mercantile Co-operative Bank Ltd. Etc.

**Other Financial Institutions:**

All India Financial Institutions (AIFI) is a group composed of Development Finance Institutions (DFI) and Investment Institutions that play an important role in the financial markets. All India Financial Institutions also known as "financial instruments". The financial institutions assist in the proper allocation of resources, sourcing from businesses that have a surplus and distributing to others who have deficits - this also assists with ensuring the continued circulation of money in the economy. It helps the industrial sector by granting project loans, underwriting of and direct subscription to the industrial securities (shares and debentures), soft loans, and technical development funds. Export-Import Bank, National Bank for Agriculture and Rural Development, Small Industry Development Bank of India and National Housing Bank are coming under this category.
Mergers and Acquisitions: The Concept:

With rapid advances in information technology and acute resource constraints across the globe, the business world has become more complex and fluid in recent times. To survive and compete, present-day organizations should do away with their existing culture, policies, structures and start with a clean sheet. They have to put more emphasis on the business process as a whole and do everything to keep the smile on the customer’s face.

“every organization must prepare to abandon everything it does.” - Peter Drucker.

Corporate restructuring involves destroying old paradigms, old technology, old ways of doing things and starting all over fresh. There are two ways of restructuring called (a) External Restructuring and (b) Internal Restructuring.

Merger/Amalgamation is one of the popular strategy of external restructuring adopted by most of organizations now a days.

Concept of Mergers:

A merger occurs when two or more organizations (usually of roughly similar sizes) combine to become one through an exchange of stock or cash or both. Mergers can take place in two different ways:

• Acquisitions: Acquisition is the purchase of a firm by a firm that is considerably larger. The firm that acquires is called the acquiring firm and the other, the merging firm.

• Consolidation: If both the firms dissolve their identity to create a new firm, it is called consolidation.

Types of Merger:

• Vertical merger: It is a combination of two or more firms, not necessarily in the same line of business. In vertical merger the merging firm would either be a supplier or a buyer, using its product as intermediary product for final production.
• Horizontal Merger: It is a combination of two or more firms in the same line of business formed primarily to obtain economies of scale in production or broaden the product line, reduce working capital needs or eliminate completion.

• Concentric Merger: It is a combination of two or more firms somewhat related to each other in terms of customer functions, customer groups, production processes, or technologies used.

• Conglomerate Merger: It is a combination of two or more firms unrelated to each other. Conglomerate mergers can serve various purposes, including extending corporate territories and extending a product range.

**Trends of Mergers and Acquisitions in India during post Liberalization era:**

*“Throughout 2007, mainland China and India experienced a raging bull market and while the uncertainty in the financial markets has removed some of the shine, 2007 has left a public listing as an aspiration for many business owners in these countries.”* -Fiona Owen, Grant Thornton, UK

Indian industry has huge appetite for mergers and acquisitions ever since the economy has been opened up due to liberalization, globalization and privatization after 1991. India has emerged as one of the top countries with respect to merger and acquisition deals.

Table 1: Total Deal value of Mergers and Acquisitions in India from 2002 to 2013:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deal Value ($ billion) '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>6.5</td>
</tr>
<tr>
<td>2003</td>
<td>3.7</td>
</tr>
<tr>
<td>2004</td>
<td>12.3</td>
</tr>
<tr>
<td>2005</td>
<td>18.2</td>
</tr>
<tr>
<td>2006</td>
<td>30.95</td>
</tr>
</tbody>
</table>

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1 *Fiona Owen, Grant Thornton:* Fiona Owen is a partner and head of the London South Asia group capital markets team at Grant Thornton. She was the first Asian woman to reach such a role. Grant Thornton is one of the world's leading organizations of independent assurance, tax and advisory firms.
In the year 2002, the total deal value of mergers and acquisitions was $6.5 billion and in 2003, it decreased to $3.7 billion. In 2007, the first two months alone accounted for merger and acquisition deals worth $51.11 billion in India. According to S&P Capital IQ, 2,603 Mergers and Acquisitions transactions with a combined transaction value of $123 billion were completed in India over a three-year period spanning 2010-2012. In 2012 alone, India witnessed a closure of 773 Mergers and Acquisitions deal at a combined transaction value of $17.6 billion. According to World Investment Report, 2012, the value of cross border mergers and acquisitions by Indian companies was $1877 million in 2005, whereas in 2010 it was $26,698 million. Again, in 2011 the total value of cross border mergers and acquisitions was decreased to $6,072 million and in 2012 the value decreased to $2,690 million. As per Grant Thornton, the total deal value of mergers and acquisitions in 2012 was $42.76 billion. During 2013 the total deal value of mergers and acquisitions decreased to USD27.4 billion. The underneath table is showing the trends of mergers and acquisitions happened in India:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>51.11</td>
</tr>
<tr>
<td>2008</td>
<td>30.3</td>
</tr>
<tr>
<td>2009</td>
<td>18.5</td>
</tr>
<tr>
<td>2010</td>
<td>31.4</td>
</tr>
<tr>
<td>2011</td>
<td>24.1</td>
</tr>
<tr>
<td>2012</td>
<td>42.76</td>
</tr>
<tr>
<td>2013 (till December)</td>
<td>27.4</td>
</tr>
</tbody>
</table>

Sources: “M&A deals dip 42% in ‘03 even as India Inc. powers ahead”: A study made by KPMG, published in The Economic Times on 16th December, 2003, by MK Venu.


Process of Merger and Acquisition:

The Process of takeover should adopt a planned approach. Such a plan should include extensive explanation of various phases and activities. The process of merger and acquisition can be divided into the following steps:

I. Finalization of Targeted Company for Acquisition/Merger:

The primary step is to collect all the information about the targeted company from all the possible sources and if the situation needed business intelligence could also be hired to collect internal information which may not be easily available in the market. The final evaluation of the targeted company will mainly depend on the following:

The main purpose of Merger and Acquisition.
The strength and weakness of the targeted company.
Managerial and Organizational information about the targeted company.
And, the work environment of the country where the targeted company is located.

The final selection of the targeted company is mainly based on the following specific criteria:

- The size of the targeted company in terms of earning, sales, assets and return on investment or asset.
- The potential growth rate of the targeted company.
- The market value and financial condition of the targeted company.
- The manufacturing facilities and technological advantages available with the targeted company.
- The working capacity of management of the targeted company.

II. Formulating the Approach for Acquisition:

After finalizing the targeted company, the final recommendation must be put up to the Board of Directors for their approval. Such approval constitutes authorization of Management to proceed with succeeding steps of the process. The first and the most effective strategy is to convince the management/business leader of targeted company to explore the idea of affiliating with the acquirer and that it is going to gain from the proposal. If the management of the targeted company is willing to be acquired, then both the management should fix up the approx. price and other broad terms of conditions before moving ahead with the deal.

III. Working out the Agreement:

The agreement for merger or acquisition should be done in two stages. In first stage, a preliminary agreement between two companies could be worked out and in the final stage, the final agreement can be worked out. This is essential to give enough time to both the company to check all the details for final agreement and also check some additional detail, which might have been overlooked previously. The preliminary agreement will include the following points:

- The basis of agreement (Terms and Conditions of Merger/Acquisition).
- The authorization by the shareholders of each company.
- The provision that during the interim period none of them will make any substantial change in its operation or enter into unusual agreement without each other’s approval.

Once the agreement is approved by the Board of Directors, announcement of acquisition or merger should be made in all leading media. This announcement must highlight the main purpose of the
merger or acquisition, advantages or gains of the both organizations, their employees, shareholders and customers and mainly the value of the deal and the swap ratio.

IV. Integration of Two Companies:

To get full benefit from any acquisition or merger plan, it is essential that the two companies must get integrated rapidly and effectively. To achieve this, it is essential to formulate an integration plan. This plan must cover management functions, accounting controls, budgeting control and functional control. In case of merger, it is essential to give due importance and share to both companies in running the new organization. There may be a requirement to even develop a new organizational structure to achieve an effective and smooth integration.

V. Post-Merger Integration:

The post-merger integration is the last and the most important step where both the companies become casual once deal has been finalized. The success or failure of merger or acquisition very much depends on post-merger issues. So, both the company should be careful about those issues to save their companies.