CHAPTER-2

SELECTION OF SAMPLE BANKS AND REASONS BEHIND MERGER

As stated earlier, the selected period of research is 15 years, which was started in 2000-01 and ending on 2014-15. As mentioned (in Table 2.1), 15 M&As (mergers and acquisitions) had taken place in our selected period either in the form of voluntary/natural market driven merger or compulsory/forced merger. Out of 15 M&As, 9 M&As were on voluntary/natural market driven basis and 6 M&As were on compulsory/forced merger basis. The role of RBI (Reserve Bank of India) is very important for compulsory/forced merger because under Section 45 of the Banking Regulations Acts allow RBI to approve compulsory/forced merger to protect the interest of public, depositors, employees & management and the banking industry as a whole. In this regard, the commencement date of M&As will be the date indicated in the notifications issued by RBI in consultation with the Government. In case of voluntary/natural market driven M&A, RBI does have mandatory power to approve merger of banks. The following table-2.1 presents a snapshot of the 15 M&As, which were taken place during our study period.

Table 2.1 Merger and Acquisition (M&A) during the period: FY 2000-01 to 2014-2015			
S.NO.	TARGET BANK	ACQUIRER BANK	DATE OF MERGER
1	Bank of Madura Ltd.	ICICI Bank Ltd.	10-Mar-01
2	ICICI Ltd	ICICI Bank Ltd	3-May-02
3	Benares State Bank Ltd	Bank of Baroda	20-Jun-02
4	Nedungadi Bank Ltd.	Punjab National Bank	1-Feb-03
5	South Gujarat Local Area Bank	Bank of Baroda	25-Jun-04
6	Global Trust Bank Ltd.	Oriental Bank of Commerce	14-Aug-04
7	IDBI Bank Ltd.	IDBI Ltd	2-Apr-05
8	Bank of Punjab Ltd.	Centurion Bank Ltd	1-Oct-05
9	Ganesh Bank of Kurundwad Ltd	Federal Bank Ltd	2-Sep-06
10	United Western Bank Ltd.	IDBI Ltd	3-Oct-06
11	Bharat Overseas Bank Ltd	Indian Overseas Bank	31-Mar-07
12	Sangli Bank Ltd..	ICICI Bank Ltd	19-Apr-07
13	Lord Krishna Bank Ltd.	Centurion Bank of Punjab Ltd.	29-Aug-07
14	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd	23-May-08
15	The Bank of Rajasthan	ICICI Bank Ltd	13-Aug-10
Source: Reserve bank of India (RBI).			

2.1. Selection of Some Sample Bank:

We have selected five sample banks out of 15 banks' M&As, which were taken place between FY 2000 -01 to 2014-15. The selected banks is representing the force/compulsory M&A and voluntary/natural market driven M&A. We have selected such combination of public –private merger and private –private mergers of banks under our study to make a meaningful comparison of the effect of merger of several types of banks. The following table no.2.2 shows the details of merger of our sample banks undertaken for our study.

Table no. 2.2: Sample banks Merger and Acquisition (M&A) during FY 2000-01 to 2014-2015				
S.No.	Target Bank	Acquirer Bank	Date of Merger	Type of Merger
1	Nedungadi Bank Ltd.	Punjab National Bank	1-Feb-03	Force/ Compulsory
2	Global Trust Bank Ltd.	Oriental Bank of Commerce	14-Aug-04	Force/ Compulsory
3	United Western Bank Ltd.	IDBI Ltd	3-Oct-06	Force/ Compulsory
4	Centurion Bank of Punjab Ltd.	HDFC Bank Ltd	23-May-08	Voluntary/Market driven
5	The Bank of Rajasthan	ICICI Bank Ltd	13-Aug-10	Voluntary/Market driven
Source: Author's own estimate				

Forced M&As had taken place with the direction of RBI one with Private bank, a sick bank suffering negative net worth, high level of non-performing assets (NPA), Capital inadequacy and management inefficient, with a public sector strong bank. On the contrary, voluntary M&As happened due to various reasons (such as Inorganic growth, Corporate Governance, Shareholders' value, NPA reduction, Size advantage, Financial inclusion, Corporate Social Responsibility, enhancement of customer base, entering into a new geographical area, cost advantage, new brand quality, risk and market insight and technological advantage etc. wherein the two banks management decides to come together. The selection of such sample banks was done in such a way, which represents the most bank mergers during FY 2000-01 to 2014-15. For example: Bank of Madura Ltd was merged with ICICI Bank Ltd on March 2001, subsequently ICICI Ltd. was merged with ICICI bank on May 2002, next Sangli bank Ltd was merged with ICICI Ltd. on April 2007, and finally the Bank of Rajasthan was merged with ICICI Bank Ltd on August 2010. For smooth analysis, we have selected the latest merger of acquiring bank whose data is available for analysis of the results. We follow the same pattern for other sample banks.

2.2. Reasons for Forced and Voluntary Merger and Acquisition (M&A):

(1) **Nedungadi bank vs. PNB:** Capital inadequacy and a high level of non-performing Assets (NPA) had been the driving force that steered the century-old private sector, Nedungadi Bank Limited, into a harsh financial crisis compelling the Centre to put the bank under moratorium. Moreover, output per employee of Nedungadi Bank Limited (NBL) was meager. Above all, RBI merged ailing bank with healthy bank to shield depositor's interests.

(2) **Global Trust Bank (GTB) vs. Oriental Bank of Commerce (OBC):** The crumple of GTB resulted from lot of blunders committed by the bank's management. GTB's problems were in progress in 2000 and the imposition of the moratorium, at last, ended its autonomous existence. RBI's investigation into GTB's accounts exposed a noteworthy erosion of the bank's net worth and vast number of NPAs echoed its fragile financial position. In addition, GTB's endeavor to reinforce its capital through investments from overseas failed because of regulatory problems, which result in the utmost crumple of the bank. In mid-2000, GTB gave out loans of Rs1.4 billion to Ketan Parekh (KP), a prime stockbroker at BSE (Bombay Stock Exchange) and the former applied the fund to acquire GTB shares from the BSE and the National Stock Exchange (NSE). GTB was engaged in the share market fraud of 2001, that the stockbroker, Ketan Parekh operated. GTB lent a lot to individuals for speculation in the stock market, when the market collided the bank suffered widespread losses. The bank had been knocked by periodic bouts of irresponsible lending. The preliminary problems arose in 1997-98 when it was disclosed that its loans made to SMC (small

and medium-sized corporates) were exceptionally risky. The beleaguered bank, in place of approving a more conventional method to banking, keenly stimulated the Ketan Parekh-led bull run in the share market during the period from December 2000 to March 2001. It advanced profoundly to players in the stock market and when the market crashed, the bank's balance sheet experienced a dramatic change because share prices had dropped considerably. In 2001, when it was attempting a marriage with UTI Bank (which was considered to be a matter of controversy also), GTB lent more than Rs.800cr. deal of the lending proved imprudent. RBI scrutinized GTB's financial statement for 2001-02 and witnessed that GTB's capital employed had twisted depressing, but did not shut down the bank. GTB did not concentrate on its problems. Rather, in spite of its crisis, GTB decided to continue to grow up. All these issues had led to force the imposition of moratorium by RBI on GTB. The Government, on July 24, 2004 enforced a moratorium on GTB (Global Trust Bank), which was a prime private sector bank on the argument that it had made 'incorrect financial & business disclosures. The period of moratorium was granted for three months, which was started from July 24, 2004 and ending on October 23, 2004. Previously, RBI (Reserve Bank of India) had declared that GTB's capital employed had twisted in a depressing level as it had deserved enormous losses and built up a considerable number of non-performing assets (NPAs). RBI affirmed that the numbers described in GTB's balance sheet did not tallied with its audited figures. Moreover, GTB failed to present suitable clarification to most of RBI's queries in respect of its capital market exposures and reasons for not observing prudent lending norms in disbursing huge amounts for investments in the stock market. RBI provided the moratorium for public interest and to protect the interests of customers, depositors and other stakeholders. RBI on July 26, 2004, announced that GTB would be taken over by OBC (Oriental Bank of Commerce).

(3) **Centurion Bank of Punjab (CBoP) vs. HDFC Bank:** RBI, on May 23, 2008, had officially decided on the marriage of Centurion Bank of Punjab (CBoP) with HDFC to complete the legal and regulatory approval process. As per the merger scheme, the swap ratio was 1:29, meaning thereby the shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP. The shareholders of former CBoP are assigned 6,98,83,956 equity shares of Rs.10/- each in pursuance of the share swap ratio of 1:29. In other word, the exchange of shares was the one equity share of HDFC Bank for every twenty-nine (29) equity shares of Centurion Bank of Punjab Ltd. The pooling interest method under Accounting Standard (AS) was used within the scheme of amalgamation. Necessary changes was made to match accounting guidelines of CBoP with HDFC Bank mainly linking to provisioning standards on impaired loans and depreciation on FA (fixed assets). Relevant merger outlays had been adjusted against the consolidation reserve. The merger was very noteworthy and creating substantial value to HDFC Bank in terms of synergy effect such as increased branch network in rural and urban, expansion of business in new geographic area, significant expansion of customer base, and a larger talent pool of skilled work force.

(4) **United Western Bank Ltd. (UWB) vs. IDBI Bank:** The Government on September 2, 2006 enforced a moratorium on the Satara based United Western Bank Limited (UWBL), the biggest private sector bank in India. The moratorium order was passed

in reply to an application by RBI (Reserve Bank of India), which cited the underprivileged financials of UWBL owing to its ineffective management. The moratorium period was declared for three months starting from September 02, 2006 and ending on l December 01, 2006 or a prior date, in case of any substitute arrangement made with the intervention of RBI. During the moratorium period, the bank was allowed to make a number of specific payments, which was mentioned in the order of RBI. Besides, the customer and depositors were allowed to draw their money from the bank only up to Rs.10,000 in aggregate from their current & savings account (CASA) or any other deposit account maintenance with any of the outlets of the bank. It had 130 branches in the rural and semi-urban areas of Western India. The race to buy the struggling UWB (United Western Bank) has lastly finalized with IDBI (Industrial Development Bank of India) all set to acquire it. RBI on September 13, 2006, announced the marriage of IDBI and UWBL. The merger came into effect from October 03, 2006. IDBI benefited from UWBL's vast branch network as the merged entity had 411 branches as against 181 of IDBI alone.

(5) **Bank of Rajasthan (BOR) vs. ICICI bank:** The BOR (Bank of Rajasthan) with its assets size of Rs.17300.06 cr. had suffered net loss after provisions & taxes at Rs.102.13 Cr. for the year ended 31st march, 2010. ICICI bank is found to have agreed and enthusiastic to pay more than BOR’s current market evaluation because of expansion of its operations urban to rural India. The Taylor’s family, who picked up BOR years ago, have been under pressure to sell the old private bank, which is grappling with directives from SEBI and RBI. In March, SEBI barred 100 entries allegedly holding stock of BOR on behalf of the promoters from shares market

operations. RBI had imposed penalty of Rs.25 lakh for infringement of various norms like manipulation of records on bank's IT software system, dealing with irregular property and time interval in the accounts of a corporate groups and other irregular records and transactions. All these have directed to the boards (Board of Director) of both the banks to approve the merger of Rajasthan Ltd with ICICI bank Ltd. with effect from August 13, 2010.