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MOTIVES FOR MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR IN POST LIBERALISATION ERA

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ABSTRACT

Mergers & Acquisitions (M&A) are a significant form of business strategy today for Indian Corporates. A large number of Mergers & Acquisitions deals are making headlines all over the world. One may wonder as to what it is that necessitates Mergers & Acquisitions deals. One may be interested in knowing the main motives behind such deals. M&A may take different shapes. Simply, a merger is a transaction involving two or more corporations, swapping stocks, but only acquiring firm survives. Mergers usually occur between firms of somewhat similar size and are usually friendly. Acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. M&A refers to a combination of two or more firms into one firm; it may involve acquisition or consolidation. In absorption, one firm acquires one or more other firms. In consolidation, two or more firms combine to form a new entity. The Indian banking sector reforms initiated in the year 1992 with deregulation of banking sector in India. The Government of India, the owner of public sector banks, has expressed its concern for strengthening these banks through selective M&A in Indian Banking sector. Consolidation of the banking sector, it is presumed, is required to improve operational efficiency and to facilitate the emergence of globally competitive banks. Indian Banking sector will have to explore inorganic growth options in order to 'Significant' challenges emanating from large sized foreign banks to be known for their deep pockets, advanced technology and skilled personnel. M&A activities in banking sector have started greatly after 2003 when the heat of competition mounted and the Basel II norms were implemented. Basel II norm, which requires banks to *maintain a minimum of 9% Capital Adequacy Ratio (CAR), forced the banking sector to look for consolidation of smaller and weaker banks with larger banks. Indian banks also started hunting for M & A. This equation is specifically applicable to M&A in the Indian banking sector. The key principle behind buying a bank is to create shareholder value over and above that of the sum of the two banks. In other words two banks together are more valuable than two separate banks. In this paper highlighting the motives for M&A in the Indian banking sector.*