

## Amalgamation in Regional Rural Banks- A Literature Review in Indian Context

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### Abstract

Mergers and Acquisitions – when it comes to the context of the Banking Industry, it is specifically named Amalgamation. Amalgamation has taken a significant position in the late 2000s. From the era of Globalization, the Banking industry has seen many amalgamations both at International and National Level. In India, many amalgamations can be seen in the Banking Industry from 2005 to 2020.

During these fifteen years in South India concerning Karnataka, amalgamations in Regional Rural Banks (RRBs) have been seen at large. (T.P. Shashi Kumar, Rangaswamy, Kiran, 2013) Causing the decline in the number of RRBs and also giving the synergy benefit for the Governments and the sponsored banks.

The present study deals with this amalgamation which is seen in Karnataka having only two RRBs in the state. The study focuses on the point of stakeholders specially Customers and Employees.

**Key Words:** Amalgamation, Customers, Employees

### Introduction

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### Objectives Of The Study

1. To know the focus of the research works carried on the amalgamation of Regional Rural Banks in India.

### Review Of Literature In Indian Context

(Devarajappa S, 2012) claims that mergers have had a positive effect on banks by contrasting pre-

merger and post-merger performance. The comparison of the financial results reveals that the banks' financial results have improved as a result of the banking sector's consolidation.

(Rabi Narayan Kar and Amit Soni, 2001) in the study identified that the wave of M&A in India started from 1990 and continued till 2000-01. During this period 68 M&As whereas II waves 1318 M&As. The companies have concentrated on mergers with financial aspects.

(A N Tamragundi, Devarajappa S, 2016) opines that while acquisitions are a valuable approach for allowing banks to develop their operations and serve vast client bases while also increasing liquidity, profitability and efficiency, they cannot address the overall growth and financial ills of the bank.

(Pawan Sharma and D P Warne, 2012) express that the merger has credited the value addition for the acquired bank using its share prices. The acquired bank has more advantages in terms of share prices than the acquirer bank with the announcement news.

(M Jayadev, Rudrasensarma ) opines in their article that according to their event study analysis, forced mergers do not help either the bidder or the shareholders of the target banks. The shareholders of the bidder banks, however, have benefited more from voluntary mergers than the owners of the target institutions. Yet, there are several important difficulties that need to be

resolved in terms of HRM and integrating IT platforms.

(Pradeep Kumar Gupta, 2012) states in his paper about the theoretical framework of M&As and strategic concepts of the corporate sector.

(Bharat Khurana, 2017) studied the merger of SBI with its 5 associates and BharatiyaMahila Bank which took place in 2017. This became the biggest merger in Indian Banking Industry. The listed banks' share prices have increased by creating more value for the shareholders. The acquirer SBI has also given more value to its shareholders. On the contrary, the balance sheet of the SBI after an amalgamation has depicted the accumulated loss of the acquired banks. This led to a reduction in the investing enthusiasm of investors.

According to (AbhinavBhatnagar and Nitu Sinha, 2012), ICICI Bank's expansion through the strategic move of amalgamation is a financially wise decision. Synergy is the driving force behind this technique.

(GirijaBhushanPrusty, 2013) opines that the Indian Banking sector research has focused on the effects of post-M&A on the banks' performance, revealing that the downtrend is happening in this case. But the author with the analysis of the share prices of different banks concludes that the bank's performance has increased after the M&A activity. (M Shankar and Dr. Srinivas Rao, 2017) state that their paper is a review of the literature. In this, the authors found that the literature on the RRBs performance is specially done at the All India level. The scope for the researchers is to work at different state levels.

(Mani Arora, Anil Kumar, 2012) opines that their research is to study the idea of M&A in depth with a few examples. They want to learn about the main problems that arise before and after mergers, with a focus on the human factor. It is simple to think about M&A, but challenging to put into practice.

(Mishra, 2015) stated that as memories of the 2008 global financial crisis start to fade, banking is changing all across the world. A new chapter of banking growth is about to begin in India, and the RBI has already announced the licencing of new banks, with many more likely to follow soon. But as it puts pressure on the regulators for more control and supervision, the expansion of the banking network also carries risks.

According to (Dilshad), it is abundantly obvious from examining the stock market that the target banks experienced anomalous returns on the day of the merger announcement.

According to (Ganesh Bhat, 2013), the Indian banking industry developed in breadth and extent following nationalisation at a rate that may have been unparalleled by any other nation.

Pre and post-merger analyses by (Gupta and Banerjee, 2017) revealed no improvement once the new entity was established. To enhance the success of the new company, they advise developing growth strategies.

According to (Kumar, Gera, and Saha, 2016), the banking industry's M&A process does little to increase the acquired bank's wealth.

According to (Ghosh and Dutta, 2015), the HR components of M&As in the Indian banking sector are disregarded while more emphasis is placed on the financial performance of the transactions.

According to (Kaur and Kaur, 2010), the merger effort in the Indian banking industry has achieved some degree of success. The government and policymakers shouldn't encourage mergers between strong and troubled banks because doing so will hurt the stronger banks' asset quality and the interests of the troubled banks' depositors.

(Kumari, 2014) expressed that the Indian banking industry has seen significant merger and acquisition activity. With M&A transactions, chances are opening up for small and medium-sized banks. After mergers and acquisitions, all amalgamated entities grow more quickly than they did before the combination. Together with an increase in deposits, net profit, and worth, there are more ATMs and branches.

(Mamta Bharadwaj, 2014) identified that the major M&A in the Indian Banking sector happened between 2008 to 2014 which have created a large impact on the financial growth of India. In 2014 especially, major M&As have happened and they are proving that the overall efficiency and productivity of the new entity is increasing over years.

According to (Veena KP and SN Patli, 2016), the merger of ICICI Bank Ltd. demonstrates that the financial performance after the merger is superior to the financial performance before the merger

when ROE, ROA, debt-equity ratio, etc. are used as benchmarks.

In their work, (Goyal, Joshi) analyse how ICICI Bank has expanded through mergers, acquisitions, and amalgamations. According to the study, the merger process must be divided into two phases: the pre- and the post-merger phase. Both the formulation and implementation of the strategy must be precise.

(Suresh Kumar) in his article opines that post-merger activities are showing better performance in the case of Indian Overseas Bank and Bharat Overseas Bank. The study is done using EPS, Business per Employee, Profit per employee, ROA, NPAs, etc.

(Sharma, Warne) opine in their paper that during and after the merger process, the performance of the banks is increasing and showing better share prices.

(Jayeeta Paul) in their paper opine that the horizontal merger of banks is not fetching anything to the acquirer but they are becoming a burden on the acquirer.

According to (Revathy, 2011), market-led mergers have acquired traction in the contemporary setting and can no longer be considered as a way to support troubled banks. Instead, mergers between powerful banks have a multiplier effect and are more sensible from an economic and commercial standpoint. Regulators used to start mergers to safeguard the interests of weak banks.

(Nadig, 2016) said that the merger activity between Kotak Mahindra Bank and ING Vysya Bank has paved the way for the new consolidation of two strong entities. The goal of the merger was to maximize the synergies that were anticipated to result from the amalgamation. This is done in the case of a merger between ING Vysya bank and Kotak Mahindra bank.

The combination of Kotak Mahindra and ING Vysya banks, according to Ramesh Bhai (2016), has resulted in a number of beneficial changes, including a rise in the number of branches, the range of products and services provided, the ATM network, the number of employees, etc. The issues that come with mergers and acquisitions include differences in deposit rates, interest rates, trouble managing Non-Performing Assets (NPAs), personnel with different pay scales, etc.

(Bansal, Gupta, 2016) reveal that for stakeholders empowerment services, the SBI and its associate banks' merger is beneficial to the shareholders of SBBJ, SBM, and SBT. But it's a loss to SBI shareholders. As per the various analyses of long-term gains, one has to give up here and there. But in long-term gains, all the shareholders of SBI and its merged associates will have a gain.

(Singal, 2012) opines that there are a lot of opportunities for universal banking in India. as there are lot many areas to be introduced with the banking activities with a global perspective the author mentions that there are quite-a-good opportunities for universal banking in India.

By choosing certain financial variables, the financial performance before and after the merger has been assessed. The mergers had a negative effect on the majority of the variables and a positive impact on a new variable for Bank of Baroda, IDBI Bank, Indian Overseas Bank, and Oriental Bank of Commerce.

### **Findings**

It is found from the present review that the focus of the earlier research works is on the financial and operational performance of the banks.

### **Research Gap**

From this study it is identified that the research is required in the area of Customers and Employees focus specially in Indian Context.

### **Conclusion**

Research needs to be carried on the amalgamation of regional rural banks in India with a focus on the customers and the employees as these are the important stakeholders who will build the banking industry in India.

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