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Rashmi Ranjan Panigrahi

SOA Deemed to be University, Bhubaneswar, rashmi.ranjan@gmail.com

S. K. Biswal

SOA Deemed to be University, Bhubaneswar, sk.biswal@gmail.com

Ansuman Sahoo

Utkal University, Vani Vihar, Bhubaneswar, ansuman.sahoo@gmail.com

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Merger and Acquisition Deal Brings Leveraging Synergy – An Analysis of Kotak Mahindra Bank & ING VYSYA Bank

Rashmi Ranjan Panigrahi¹, Dr. S. K. Biswal² & Dr. Ansuman Sahoo³

¹Faculty of Management Studies, Institute Business Computer Studies, SOA Deemed to be University, Bhubaneswar

²Department of Finance & Control, Institute Business Computer Studies, SOA Deemed to be University, Bhubaneswar

³Department of Business Administration, Utkal University, Vani Vihar, Bhubaneswar

Abstract - The quest for growth and changing demand of banking environment provides special importance towards Mergers and acquisitions in the banking world. Merger play significant role towards corporate restructuring. In recent times many company were using Merger & Acquisition as tool towards cost reduction and revenue generation. This paper is based on conceptual clarity on significance of M&A, value synergy and challenges faced by kotak Mahindra bank towards process of merger. It was observed that big companies like HDFC with Centurion bank of Punjab & ICICI Bank with Bank of Rajasthan are entering into the process of merger for capturing the value of synergy in long term. Merger and acquisition becomes the major financial instrument used towards correction of financial image of corporate entity. One of the main objectives of Merger & Acquisition in banking industry is to reap the advantages of economies of scales. The process of acquisition of ING Vysya bank was started by kotak Mahindra bank on November 2014. For analyzing qualitative content of this topic we have used Case study approach, this case study reveal the strategic motives of kotak Mahindra bank.

Keywords - Merger and Acquisition, leverage. Synergy.

INTRODUCTION

According to the expert opinion of banking Industry merger and acquisition used as a major tool by banking company to handle the steep market competition. In the present globalised economy corporate restructuring can be possible because of merger & acquisition. In India M&A strategies are adopted by most of banks adopted towards increase in

market share. This paper is based on post- facto analysis, importance and challenges faced in the process of merger & acquisition. Horizontal merger in industry brings development in in-take capacity, correction of sales figure and increase in efficiency after joining of the firms.(westons,pp123). Past record shows that merger and acquisition provide benefits to the society by increasing value of shareholders of both target firm & acquiring firm without disturbing much concentration. It also helps to bring improvement in effectiveness and efficiency of merged entity (H.R. Machiraju, pp, 170). In the month of November 2014 was a historic time for kotak Mahindra bank because on the same time period it was announced its acquisition over ING Vysya Bank. The M&A deal was of Rs. 2 trillion and market capitalization is around 1 trillion. This deals was provide millage towards sufficient capital, large infra, and growth in our Indian.

The news in itself had already created a wave in the stock market as shares of Kotak Mahindra Bank and ING Vysya rose to all-time highs. The stock of Kotak Mahindra surged by 7.28% to settle at ₹ 1,157.1 on the Bombay Stock Exchange and stock position of ING Vysya Bank shares rallied 7.15% to end at ₹ 814.20 on Thursday against the previous day amid merger reports. In intra-day session, shares of Kotak jumped 7.89 % to touch its one-year high of ₹ 1,163.7 and as comparison to shares kotak , ING Vysya Bank zoomed 13.81 % to ₹ 864.80; its 52-week high. Investment expert Ashwani Gujral suggested to the investors should go for “BUY” for Kotak Mahindra Bank with a target of ₹ 1175 and a stop loss of ₹ 1130 to ₹1140. This acquisition is the 1st steps of restructuring in the country like India which fetch profit after financial crises in the year 2008. In this periods two of prominent merger Bank of Rajasthan

with ICICI bank and another merger SBI merged with all subsidiaries bank not successful as like kotak Mahindra bank and ING Vysya bank. Prior to 2008, the other significant mergers that took place include HDFC Bank acquiring Centurion Bank of Punjab in 2008 and IDBI Bank acquiring United Western Bank in 2006. Especially when the economy is on the verge of take-off, this will give the combined bank enough bandwidth to take advantage of the future opportunities of the economy, he added. The mega deal looks to gain a bigger footprint before new private banks enter the Indian banking space.

The Journey of Kotak & Kotak Mahindra Group

Kotak founded Kotak Mahindra as a bill discounting NBFC in 1985. It became a big player in auto finance in the '90s and formed JVs with Ford. The group received a banking license in 2002. ING inherited its stake of 10% in Vysya Bank after it purchased Belgium's Bank Brussels Lambert in the year 1998. It resulted in increase its stake to 20% in Nov 1999, and then to 49.33% by acquiring GMR Group's holding in June 2002. It gets an exit route from managing a retail bank in India, which ties up with the Dutch group's global strategy. Kotak Mahindra Group was established in 1985, as a one of India's leading financial services institution in conglomerates. In year 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group's flagship company, received a banking licence from the Reserve Bank of India (RBI). KMFL became the first non-banking finance company (NBFC). In India to become a bank from NBFC Kotak Mahindra Bank Limited.

The consolidated balance sheet of KMB is over Rs. 1.34 lakh crore and the consolidated net worth of the Group stands at Rs. 20,554 crore (approx US\$ 3.3 billion) as on September 30, 2014. The Group offers a wide range of financial services that encompass every sphere of life. From commercial banking, to stock broking, mutual funds, life insurance and investment banking, the Group caters to the diverse financial needs of individuals and the corporate sector. The Group has a wide distribution network in London, New York, Dubai, Abu Dhabi, Mauritius and Singapore through different branches and franchisees across India, and international platform.

Kotak Mahindra Bank:

Kotak Mahindra Bank is a financial institution which provides retail financial solution for different types clients. Apart from traditional banking services it also have different innovative products like online shopping, ASBA, Bills payments, Active Money etc. First fully integrated Social bank account was setup by KMB for its customer's as "Kotak's Jifi". This account has been linked with digital banking through different

network platform like facebook, twitter etc. It has a separate payment gateway as "KayPay" which also connect with client through Facebook. This gateway provide speed, accuracy in money transfer transaction with in over a day or night.

Mutual fund investment also maintained by KMB in consolidates form. It has also products and services like Home loan, vehicle loan, commercial loan etc as per the need and requirement of customer. It also provide specialized banking service for corporate or business houses like: Trade services , Current account services, credit facilities and cash management services

The Journey of ING Vysya & ING Vysya Bank

Vysya bank was established in the year 1930s in the city of Bangalore, Karnataka. It was known as "credit of Indian banking" ING Vysya Bank is a premier private owned Indian multinational financial institution from 2002 onwards with an equity stake of Dutch ING Group. It was started as a private banking platform for catering needs and requirement of business houses. It was served almost 2 million customers & 80 years of its association with India. It act as global financial services provider with innovative and developed products and services across 573 branches. As per the statistics as on March 2013 it has total assets is of Rs. 54,836 crore. It had around of 1000 employees. the company is listed in BSE & NSE. As per the survey of Nielsen 2011, ING Vysya was ranked as 5 most trusted brand among Private sector banks .

Exhibit – 1

Pecking Order to Change Largest listed private banks by total business (after merger)

Serial ranking order	Name of the bank	Amount of business undertaken
1	HDFC Bank	7,17,955
2	ICICI Bank	7,13,813
3	Axis Bank	5,25,926
4	Kotak+ ING Vysya bank	2,13,261
5	Yes Bank	1,42,161
6	Indusind Bank	1,25,977
7	Federal Bank	1,13,030
8	J&K bank	1,08,045
9	South Indian Bank	82,065
10	Karur Vysya bank	79,980

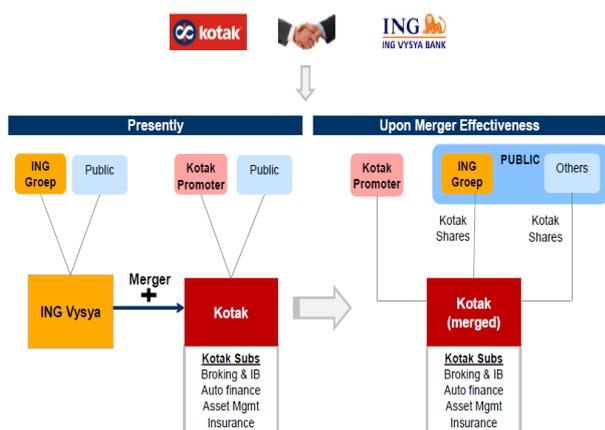
*As of September 2014- Source: Capitaline/ Banks Compiled by Business Standard Research Bureau

Exhibit – 2 Stocks Gain

Kotak Mahindra Bank	
Previous Close: ₹ 1,078.5	Thursday Close: ₹ 1,157.1
Rise: 7.28%	
ING Vysya Bank	
Previous Close: ₹ 759.9	Thursday Close: ₹ 814.2
Rise: 7.15%	

Source: BSE

**Exhibit – 3
The Transaction**



Robin Roy (Ass. Director for financial services, PwC India), opined that unlike the regulator-driven mergers and acquisitions in the past, this is a market-driven one. For ING, the pressure from the government back home at the Netherlands and its change in global strategy marked its exit from the joint venture. But for Kotak, that has been looking for growth with the backdrop of growing GDP and forthcoming opportunities, getting a non-complementary branch network and a supplementing product portfolio makes sense. He also said that there should be enough space for everyone to think for long-term relationship in banking, and there are so many evidences that , in the process of merger and acquisition , it create value for shareholder in long run.

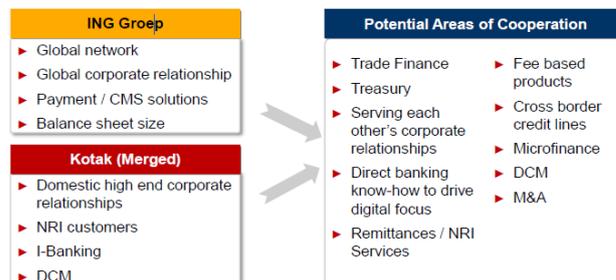
Terms of the Merger

The merger referred as a strategic merger by many experts opine that the transaction will significantly add muscle to KMB and reduce shareholding as per rules of Reserve Bank of India.. The all-share deal is over ₹ 15,000 crore deal, where the swap ratio is fixed at 725:1.000. This means every 1000 share of ING Vysya

was exchanged with 725 shares of Kotak Mahindra Bank.

Exhibit – 4

Business Cooperation – ING Group and Kotak



The holding of 42.73% of ING Vysya by Dutch financial giant company ends with the holding of 25.3% in the process of merger.

As the merger in the form of full share swap deal. Promoter’s proportional stake wa reduced from 40.07% to 33% of Kotak bank. After there is a pressure of RBI to reduce the stake of promoter’s from 33% to 30% by December 2016 and reduced to another 20% by the end of 2018. It will give rise to issuance of new 15% equity share of merged entity. All this steps should accordance with RBI guideline.

Uday Kotak had described this merger gives a favorable occasion by joining two banking institutions with their predominant complementary strength.. He believes this merger will recognized as good financial services institution having strong understanding of Indian as well as global financial standard.

Exhibit – 5

Banking on Union: How they stack up

*Figures in ₹ Crore	Kotak Bank	ING Vysya	Kotak + ING Vysya
Net Profit (FY 14)*	2,465	658	--
Deposits*	68,103	44,652	1,12,755
Advances*	60,948	39,558	1,00,506
Market Capitalization (Nov 20, 2014)	89,253	15,483	1,04,735
Number of Employees	29,220	10,591	39,811
Branches	641	573	1,214
ATMs	1159	635	1,794
Employees (nos)	29,220	10,591	39,811
Customers (million)	~ 2	~ 8	~ 10

Source: Business Standard, 21.11.14 & Times of India, 22.11.14

Exhibit – 6
Summary Financials – Kotak (Merged Proforma)

Rs. Crore	Kotak (Merged) FY14	ING Vysya H1FY15	Kotak (Consol) H1FY15	Kotak (Merged) H1FY15
NII	7,427	960	3,094	4,054
Other Income	6,150	456	3,547	4,004
Total Income	13,576	1,416	6,641	8,057
PAT	3,123	324	1,416	1,740
Networth	26,147	7,449	20,554	28,003
Advances	1,07,521	39,558	81,418	1,20,976
Investments	55,512	20,264	42,694	62,958
Total Assets	1,82,650	64,582	1,34,401	1,98,983
<i>Note: Merged numbers are based on consolidated financials</i>				
Rs. crore	Kotak Standalone (Merged) FY14	ING Vysya H1FY15	Kotak Standalone H1FY15	Kotak Standalone (Merged) H1FY15
CA	15,749	7,475	9,472	16,947
SA	16,838	7,288	11,693	18,981
Total Deposits	1,00,289	44,652	68,103	1,12,754

The sum total of current account and saving account will be 31% after the merger.

Exhibit – 7
Summary Ratios – Kotak (Merged Proforma)

Key Ratios (%)	Kotak (Merged) FY14	ING Vysya H1FY15	Kotak (Consol) H1FY15	Kotak (Merged) H1FY15
CASA*	32.49%	33.06%	31.08%	31.86%
NIM	4.53%	3.46%	5.05%	4.55%
Cost / Total Net Income*	51.35%	55.26%	51.87%	52.98%
GNPA	1.68%	1.59%	1.59%	1.59%
NNPA	0.68%	0.42%	0.84%	0.70%
CAR - Tier I*	16.47%	13.22%	16.63%	15.22%
CAR – Total*	17.97%	14.99%	17.59%	16.51%
ROA	1.82%	1.07%	2.21%	1.84%
ROE	13.04%	8.90%	14.26%	12.83%
Book Value / Share (Rs)	288	391	266	308

* Based on Standalone financials; Half year statement's figure are converted to annual as required.

Exhibit – 8
Key P&L Items – Kotak (Merged Proforma)

Rs. Crore	Kotak (Merged) FY14	ING Vysya H1FY15	Kotak (Consol) H1FY15	Kotak (Merged) H1FY15
Net Interest Income	7,427	960	3,094	4,054
Other Income	6,150	456	3,547	4,004
Net Total Income	13,576	1,416	6,641	8,057
Employee Cost	2,757	459	1,140	1,599
Other Operating Expenses	5,626	323	3,308	3,631
Operating Expenditure	8,383	783	4,447	5,230
Operating Profit	5,193	634	2,194	2,828
Provision & contingencies	459	151	86	236
Exceptional Items	61	-	-	-
PBT	4,673	483	2,109	2,592
Provision for Tax	1,504	160	693	852
PAT	3,169	324	1,416	1,740
Other Adjustments	46	-	-	-
Consolidated Profit for the year	3,123	324	1,416	1,740

Note: it is based on normal calculation of simple addition of merging financial statement

Employee Perspective

In the process of Post merger, all the employees & branches of ING Vysya bank become the part of Kotak Mahindra bank branches and employees. Uday Sareen (ING Vysya's CEO) will be positioned as top management of Kotak, directly answerable to KMB. Besides, ING Vysya will have one board member in the merged entity and this will be decided by its board. Regarding any cultural challenges, as ING Vysya Bank is an old South-based bank, Uday Kotak is in the view that culture is about the mindset of people and they are very happy to have a strong combined mindset of people. However, some of the people, especially in the middle and senior-level management, are very useful to every organization and Kotak will definitely reach out to them. He said Kotak will respect the current organizational structures at ING Vysya Bank and will work within a framework that is beneficial to both the entities and all stakeholders. KMB bring values the diversity for ING Vysya employees towards a smooth functioning of merged entity. Currently, there are 10,591 employees in ING Vysya Bank and 29,220 employees in Kotak Mahindra Bank.

From the above analysis it was reflected that both the organization very good culture organizations, good

employees practices. Combined entity of both the organization will work towards achieving it objective to become world class organization.

Benefits of Kotak Bank

Analysts at top brokerage firms like Nomura are of the view that the amalgamation between KMB and ING Vysya will bring situation of happy combination and gap filler in many respect. According to experts, the deal would bring value-accretive situation for KMB. It also helps to expanding the branch network . The acquisition would give Kotak access to ING Vysya's 573 branches (90% of Kotak's current branch network) and will increase Kotak's number of branches from 641 branches now to 1,214 branches. An significant point comes to the notice i.e Kotak doesn't have branches presence in 65% of ING Vysya's current branch locations except few metro locations, which accounts for only one-third of total branches of the merged entity, branch overlap will be very low with ING Vysya having 66% of its branches in South India especially Andhra Pradesh, Telengana & Karnataka where Kotak has limited foot print and 68% of bank branches of Kotak Bank was on the part of the West and North India. Benefits of this merger to KMB will be 2 million customers.

Exhibit – 9

Complementary Network – Breadth and Depth Together

Wider Coverage and Balanced Footprint			
Branches	ING Vysya ¹	Kotak	Kotak (Merged)
West	12%	46%	30%
North	20%	34%	27%
South	64%	15%	38%
East	4%	5%	5%
Total	573	641	1,214
ATMs	635	1,159	1,794

Branch Density Complementary in Key Cities			
Branches	ING Vysya ¹	Kotak	Kotak (Merged)
Mumbai ²	36	88	124
Delhi NCR	34	90	124
Bangalore	40	20	60
Hyderabad	20	8	28
Ahmedabad	5	26	31
Chennai	13	14	27
Pune	4	21	25
Kolkata	10	12	22
Total	162	279	441

First diagram is of extension counters; 2 diagram is of Mumbai and Thane

Exhibit – 10

Banks in Different Regions

Region	ING Vysya	Kotak	Combined
East	60	55	115
North	151	374	525
South	296	170	466
West	133	524	657

Kotak Bank has already has a good base in cities like Delhi and Mumbai, and in general it covers West and North of India. They need to focus on acquisition in South zone, i.e. Bangalore, Hyderabad and Chennai. This merger gives them access to the south. However, the concentration in Chennai is low, in comparison, and Kolkata isn't much either. A report from Espirito Santo Securities had said that merger provides strategic fit to kotak Mahindra Bank on the basis of accessibility of new products/ new talent, customer base, expansion opportunity. Post merger situation brings correction on liability because more than 65% ING Vysya's are fall under urban and metro

Exhibit – 11

Complementarily to Drive Higher Customer Wallet Share

Significant Product Complementarities			
	ING Vysya	Kotak	Kotak (Merged)
Corporate & Business Banking	✓✓	✓✓	✓✓✓
Commercial Banking (CV,CE etc)	✓	✓✓✓	✓✓✓
Consumer Finance	✓	✓✓✓	✓✓✓
Agriculture/Tractor	✓✓	✓✓✓	✓✓✓
Deposits - CA	✓✓	✓	✓✓
Deposits - SA	✓	✓✓	✓✓
Fees (Fx, Trade)	✓✓	✓	✓✓
Private Banking / Broking* / IB	✓	✓✓✓	✓✓✓
Asset Management* / Insurance*	-	✓✓	✓✓

Fuller Customer Segment Coverage			
	ING Vysya	Kotak	Kotak (Merged)
Large Corporates	✓	✓✓	✓✓✓#
Mid Corporates	✓	✓✓	✓✓
SMEs (including Traders)	✓✓✓	✓✓	✓✓✓
High Net Worth Individuals	✓	✓✓✓	✓✓✓
Mass Affluent	✓	✓✓✓	✓✓✓
Mass Market	✓	✓	✓
NRIs	✓	✓✓	✓✓
MNCs	✓✓	✓	✓✓#

✓ Level of Presence - No Significant Presence
 * Manufacturer's margins are accretive # With ING Groep / Kotak cooperation

Larger Share of Customer Wallet
Expand Customer / Product horizons
Serve customers nationally and internationally

It will also bring a complementary customer base to the table, as ING Vysya has a strong customer base of high-networth individuals and salaried customers on the liabilities front. On the advances front, ING Vysya is a national player in SME segment, which is a core area of Kotak.

KMB would strongly focus on building an international relationship with ING Bank. He also added that Kotak Bank look forward to know high-quality practices of ING Vysya bank in the Smal medium enterprises business, digital banking platform and international dealings.

Exhibit – 12

Kotak ING Vysya Bank Amalgamation: Sensitivity Analysis

Assuming Kotak Purchases 100% at a premium of:	Purchase Amount (₹ Bn)	No. of Shares issued by Kotak (Mn)	% of Current Share Count	Promoter Stake (Post Share Swap)	Kotak EPS (Pre-Deal, F15, MSe)	Kotak EPS (Post-Deal, F15, MSe)	Change In MSe F15 EPS (%)
0%	144	134	17.4%	34.1%	45.7	48.0	4.9%
10%	159	147	19.1%	33.6%	45.7	47.3	3.3%
14% (Media quoted Valuation)	165	153	19.8%	33.4%	45.7	47.0	2.7%
25%	180	167	21.7%	32.9%	45.7	46.2	1.1%
50%	217	201	26.0%	31.8%	45.7	44.7	-2.3%

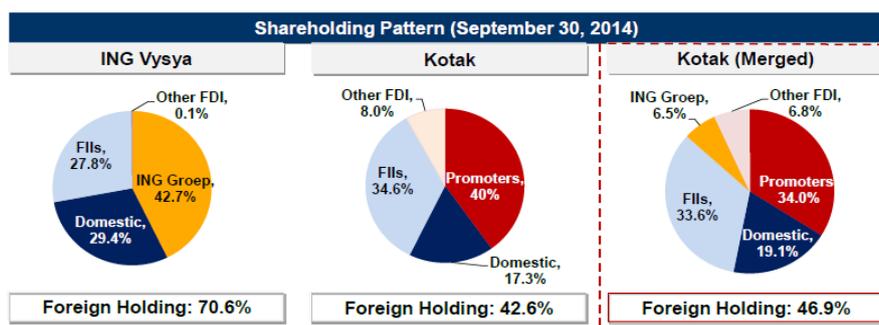
Source: Company Data, Morgan Stanley Research estimates

Analysts at top brokerage firms remain positive on the merger announcement and see it as a big positive for Kotak Mahindra Bank as the merger will also give access to ING's SME platform. Kotak's strength lies in retail business, as in terms of portfolio complementary, half of Kotak's loans are retail ones, while ING Vysya's key contribution in small medium enterprises sectors

loan segment was 38%. It will pressurize KMB for diversification of loan segment. The CASA ratios for KMB and ING Vysya was approx. nearer to each other i.e. 32-33%, but SME has strong dependence on CASA. It gives better opportunity towards providing long term liability to KMB..

Exhibit – 13

Shareholders – Significant Value Drivers in Place



“CAR is based on standalone financials as of September 30, 2014 and includes H1FY15 profit; 2 considering the swap ratio of 0.725 shares of Kotak for every share of ING Vysya”

ING Vysya bank has the Foreign holding around 74%, the merger will fetch more liquidity and foreign money. This process brings 74% of foreign shareholding post- merger situation. Customers and employees will get more benefits in relation to expertise across customer segments, geographical space i.e Corporates, HNI, SME.

Benefits in terms of products covers i.e. investment banking, Assets Management, private banking, asset management, insurance, investment banking etc. kotak bank 's capital position helps to avoid capital raise . it dilutes with ING vysya shareholder.

Kotak's strong capital position potentially avoids capital raising and attendant dilution in the near to medium term for ING Vysya shareholders.

Management Perspective

After KMB acquire the ING Vysya bank, it was observed that by the management, this process brings new challenges and opportunity. According to Uday Sareen (CEO, ING Vysya) the company after acquisition focuses on cost reduction on long run. The impact of acquisition may not have direct impact on price reduction.

As per optimistic view point of kotak bank's the higher will be the cost to income ratio helps in market growth. Combined entity will provide increase trend of ₹ 5 crore (from ₹ 140 crore to ₹ 145 crore) at a saving rate of 6%..

On impact on employees post merger, Uday Kotak clarified that the objective of the merger is growth and is not about blatant cost-cutting and there are clearly no plans for employee rationalization. There are 3000 unionized employees of ING Vysya who are getting remuneration on the basis of Sector-wise settlements.

Regarding branch strength of merged entity, Kotak see virtually no area on the network which is excessive. Uday Kotak feels the merger with ING Vysya is a perfect match and believes that over the next five and ten years, the marginal utility of the branch will come down. Kotak is also preparing for that world as well. But there are no plans to go on a branch cutting spree.

On raising capital, Uday Kotak said that there is no immediate plan to raise new capital as the capital of the combined entity is very strong.

Investors' Perspective

The wealth managers have spotted an arbitrage opportunity for Kotak Bank shareholders post merger. On 24th November, i.e. Monday, the Kotak Bank share opened at ₹ 1,210, touched a high of ₹ 1,218, before closing at ₹ 1,199.60. The share price of ING Vysya bank opened with the amount of ₹ 819.80, before touching a high of ₹ 823.5 and ended the day at ₹ 813.45. Jignesh Shah, Founder, Capital Advisors, explains if one sells 1,000 shares of Kotak Mahindra Bank, it will fetch ₹ 12,00,000 and with that he can purchase 1,070 shares of Kotak Mahindra Bank that would generate a profit of 7%. This could attract high net worth investors and institutions holding Kotak sharers as well as some of the long-tem investors.

Exhibit – 14- Swap Play

Buy	Sell	Amount (₹)	
--	1000	12 lakh	Kotak Mahindra Bank
1476	--	12 lakh	ING Vysya Bank
On merger, you get 1,070 shares of Kotak Mahindra Bank			
Gain	--	70 shares	Kotak Mahindra Bank
Profit	--	7%	

Source: Economic Times of India, 25.11.14

Analysts said a spread of 6-8% can be expected in the five to six months it will take for the transaction to be completed and the risks associated with the deal going through. The spread of 6-8% reflects the funding cost during this period, said Vaibhav Sanghavi, MD, Ambit Investment Advisors.

Benefits of ING Vysya Bank

Many employees feel excited to being part of 4th largest private banking institution of our country. Prateek Tiwari, one of the Branch Managers of ING Vysya bank feels that many opportunities come for them. As per the thought process of Tiwari, new challenges come for ING Vysya Bank. KMB gets benefits of Internatinal client base of ING Vysya Bank. There is a plan to achieve minimum 15% ROI latest by 2014and it must in realistic in nature.

Job security should be prime concerned area of loans branches of women employees of KMB. This merger is an interesting stuff for the banking industry in India.

Post Merger Scenario – its Valuations approach

Nomura has a 'neutral' rating on Kotak, which is more valuation-driven (currently 3.25x Sept-16 book). An acquisition of ING Vysya strategically would make sense, and if it happens at valuations which are 10 % EPS/book accretive.

Kotak Bank has the highest leverage to an improving macro environment which is driven by a) its strong balance sheet - Tier 1 at 16.6% and negligible asset quality issues; b) cyclical uplift to capital market revenues and high potential for recoveries from investments in stressed assets, which could help to more than double earnings in the next three years, said the Morgan Stanley report. Valuations are not cheap at 18.8x F16e P/E, but sustained earnings compounding is likely to keep the multiples intact. On ING Vysya Bank, Morgan Stanley expects asset quality pain to decrease and revenue growth to improve in line with the recovering macro climate.

ING Vysya has 19 cr. shares in issue, which will result in an issue of 13.77 cr. shares of Kotak Bank. Kotak already has 76 cr. shares in issue, which means it will see a shareholding of 90 cr. shares. At the current price of ₹ 1,200, that's a combined valuation of over about 108,000 cr. for the merged bank, which will have profits of around ₹ 3,500 cr., or about a P/E of 30. Even if it were to grow profits to, say 4,000 cr. this year, the current price values the bank at 27 P/E which is a tad high.

This merger won't majorly change the company's financials in the near term. Today's move might have a smart one, on the back of solid global liquidity, but we at Capital Mind believe this move may not last too long, and that much of it hinges on a definite cut in RBI's rupee rate, which as we've talked about in Capital Mind Premium, isn't quite looking that definite.

Another point to note is that RBI will definitely have to introduce new banks. We don't have that many private banks (just 19, will now fall to 18) and the government isn't exactly trying to sell their stake fast in public sector banks. In order to grow, we need a banking system that is better, not just plump and fat. (31% CASA Ratios Come on, now, this is a hugely inefficient banking system, that benefits from lack of competition, that's all) If the RBI fast tracks the creation of new banks, it won't look great to give current banks a P/E of 27.

From last decades there are few example available on bank merger but there are no two large bank merge. It is either between mid size bank or large bank with very small bank. The recent merger which we have discussed in this paper was between the new generation banks with old private sector bank (Kotak Mahindra Bank vs ING Vysya Bank). "The objective of this merger is growth," said by Uday Kotak.

The main objectives of Kotak bank is to meet a target of 1000 branches latest by 2016 along with this it wants to expand its business in insurances, advance financial services and mutual funds to expand its banking network.

CONCLUSION

Why are bank mergers in India so few and far between? "It is partly because of restrictions imposed by the Reserve Bank of India (RBI), especially on foreign banks, on M&As and also the public sector nature of the banking system," says the CEO of a private-sector bank who does not wish to be named. Today, state-run banks dominate the banking system with three-fourth market share in deposits and loans. The number of commercial banks operating in the

country has risen to 90 from 84 in 2005/06 thanks to the entry of some foreign lenders. In the past, foreign banks have shown interest in M&As but the RBI is not comfortable as these banks operate as a branch of their parent companies. The RBI has issued guidelines that allow foreign banks to operate or convert into wholly-owned subsidiaries of their parent companies in India, thereby opening the door for selective M&As.

Proponents of consolidation argue that there are too many banks in India. The counter-argument is that Brazil, another emerging-market economy, has more than 160 banks while the UK has more than 300 banks and the US has thousands of lenders. There can be no two opinions, however, that no Indian bank is of a global size. SBI is the largest bank of India recognized as a largest lender. It has a assets base of \$300 billion. It is less than tenth of the \$3.2 trillion of Industrial and Commercial Bank of China's Assets. The largest UK bank, HSBC, has assets of close to \$2.8 trillion while the biggest US bank, JP Morgan, has assets of \$2.5 trillion. Clearly, the only way Indian banks can expand rapidly and reach global size is by M&As. Another problem of the Indian banking system is that after SBI there is a huge drop in size; ICICI Bank, the second-largest lender, is one-third the size of SBI in terms of total assets.

The Kotak-ING Vysya deal has sparked speculation that some other old private-sector banks could be the target of large lenders. Old private-sector lenders, including Dhanlaxmi Bank, Lakshmi Vilas Bank, Karur Vysya Bank, and South India Bank have a share of around five per cent in deposits and advances. So even if one large private bank acquires half a dozen such lenders, it won't create a meaningful size for the acquirer. C. Jayaram, Joint MD at Kotak Mahindra Bank, says consolidation has been talked about for a long time. "Hopefully, this [Kotak-ING merger] will set off some thinking both in the private as well as the public sector," he says

In fact, for more than a decade, there has been talk of encouraging consolidation to create a few banks of the size of SBI. But there has been little action on the ground. The only exception being IDBI, which was allowed to acquire United Western Bank in 2006. SBI, too, had made some progress in merging with itself two subsidiaries - State Bank of Saurashtra and State Bank of Indore - but there are still five units left to be merged.

Govt. has lots of exception that consolidation process of banking institution will give greater millage towards economic growth. Arun Jaitley(Finance Minister, GOI) in his budget(Union Budget) in July, talked about the government being open to suggestions for consolidation of state-run banks. But merging large

state-run banks is easier said than done. There are legacy issues; staff too old to adapt, overlapping of branches and products, and resistance from employee unions, among others.

There are some who question the merits of consolidation. The size and scale shouldn't be the sole criterion for M&As, and customers should be the focus of banking services. They say the RBI's differentiated licensing is the way forward. The RBI's decision to grant bank licenses to infrastructure lender IDFC and Bandhan Financial, a microfinance institution, and the intention to set up payment banks and small banks will take banking services to a whole new customer set. RBI Governor Raghuram Rajan also recently cautioned on merging weak banks. "If two unhealthy banks were merged, then the created entity will also be unhealthy and could create a bigger problem in the economy," he said.

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