

Case study research paper of mergers icici and icici bank critical essay

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study----- MERGER DEAL:

----- ici with ici bank merger For Mergers and Acquisitions in the BANKING SECTOR AAKANKSHA KUMAR * EXECUTIVE SUMMARY ICICI- Industrial Credit and Investment Corporation of India Limited (ICICI) was founded by the World Bank, the Government of India and representatives of private industry on 5 January, 1995. The objective was to encourage and assist industrial development and investment in India. Over the years, ICICI has evolved into a diversified financial institution.

ICICI's principal business activities include project finance, infrastructure finance, corporate finance, securitization, leasing, deferred credit, consultancy services and custodial services. It has set up specialised subsidiaries in the areas of commercial banking, investment banking, non banking finance, investor servicing broking, venture capital finance and state level infrastructure financing from where the group draws its strength. ICICI BANK- ICICI Bank was set up by the ICICI group as a commercial banking outfit on 5 January, 1994 and received its banking license from the RBI on 17 May, 1994.

The first branch of ICICI Bank was started in Chennai in June 1994 and by 31 March, 1999 and before the merger it had 64 branches across the country. From the beginning the branches were fully computerised with state-of-the-art technology and systems and networked through VSAT technology. It offered a wide spectrum of domestic and international banking services to facilitate trade, investment, cross-border business and treasury and foreign

exchange services. This is in addition to a whole range of deposit services offered to individuals and corporate bodies.

ICICI Bank's 'Infinity' was the first Internet banking service in the country. Currently the Bank has around 350000 customers. * ABOUT THE MERGER After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking Industry, and the move towards universal banking, the managements of ICICI and ICICI Bank decided to go for the merger of ICICI with ICICI Bank which would be beneficial for both entities and would create the optimal legal structure for the ICICI group's universal banking strategy.

In October 2001, the Board of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmadabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002.

ICICI Limited merged with ICICI Bank Limited on 30 March 2002, with the swap ratio of 2 ICICI Shares for 1 share of ICICI Bank Limited. With this merger, the second largest Bank in India was born. RBI had given approval for the reverse merger of ICICI Ltd. with its banking arm ICICI Bank. ICICI Bank with Rs. 1 lakh crore asset base bank is second only to State Bank of India, which is well over Rs. 3 lakh crore in size. RBI also cleared the merger

of two ICICI subsidiaries. FOR ICICI THE MERGER MEANT- 1. Increasing the speed in financing long-term projects 2.

Obtaining access to cheaper funds for lending 3. Increasing its appeal to investors for raising capital base needed to write off bad loans 4. Competing more effectively in the retail finance market dominated by banks FOR ICICI BANK THE MERGER MEANT- 1. Expanding geographically 2. Utilising large capital base of ICICI 3. Gaining brand equity from the strong brand of ICICI 4.

Deriving benefits from ICICI's well established corporate relationship *

CONDITIONS LAID DOWN BY THE RBI BEFORE GIVING THE APPROVAL FOR

THE MERGER (i) Compliance with Reserve Requirements The ICICI Bank Ltd.

ould comply with the Cash Reserve Requirements (under Section 42 of the

Reserve Bank of India Act, 1934) and Statutory Liquidity Reserve

Requirements (under Section 24 of the Banking Regulation Act, 1949) as

applicable to banks on the net demand and time liabilities of the bank,

inclusive of the liabilities pertaining to ICICI Ltd. from the date of merger (ii)

Appointment of Directors The bank should ensure compliance with Section

20 of the Banking Regulation Act, 1949, concerning granting of loans to the

companies in which directors of such companies are also directors. (iii)

Conditions relating to Swap Ratio As the proposed merger is between a

banking company and a financial institution, all matters connected with

shareholding including the swap ratio, will be governed by the provisions of

Companies Act, 1956, as provided (iv) Subsidiaries While taking over the

subsidiaries of ICICI Ltd. after merger, the bank should ensure that the

activities of the subsidiaries comply with the requirements of permissible

activities to be undertaken by a bank under Section 6 of the Banking

Regulation Act, 1949 and Section 19 (1) of the Act *ibid.* v) Preference Share Capital Section 12 of the Banking Regulation Act, 1949 requires that capital of a banking company shall consist of ordinary shares only (except preference share issued before 1944). * BENEFITS OF MERGER Through the merger, ICICI Bank became India's 1st universal bank that is, one-stop shop financial services in India and acquired large market share of retail banking and offered a complete range of banking products. 1. Optimum utilisation of human capital 2.

Improved ability to further diversify asset portfolio and business revenues 3. Reduced costs of funds 4. Availability of more float money due to active participation in the payment system 5. Diversified fund raising due to access to retail funds 6. Leveraged the ICICI's capital and client base in terms of increase in fee income 7. Improved profitability by leveraging technology and low cost structure 8. Access to ICICI group's talent pool and thereby development of human resource at lower costs. * PROBLEMS FACED .

The risk of failure to obtain government and other approvals of the merger as per planned. 2. The risk of failure of the High Courts of Mumbai and Gujarat to approve the scheme of Amalgamation. 3. The risk of business which may not be integrated as smooth as planned. 4. Merger of ICICI Ltd and ICICI bank making it more difficult to maintain relationships with clients, employees and suppliers. 5. The risk of new and changing regulation and unfavourable political support or other developments in Indian and international markets.

CONCLUSION The swap ratio was based on the valuations and recommendations of investment bankers. The merger ratio was set as two ICICI shares for every ICICI Bank share that is one equity share of ICICI Bank

was swapped for two equity shares of ICICI. The merger brought operational strategies both in terms of economies of scale and scope. Economies of scale achieved through increase in business volumes at lower operating costs and deployment of latest technology. Economies of scope were achieved through enlarged product range.

FINANCIAL PERFORMANCE OF ICICI AND ICICI BANK AFTER MERGER ICICI Ltd Profit to equity holders increased by 16% 21% increase in Indian GAAP consolidated profits ICICI BANK There was always an increase seen in the profits after the merger The merger took place in 2002 and its 2013 now the merger has successfully completed 11 years which shows that the merger created a strong entity, which will redefine banking in the highly competitive era of globalisation and liberalisation. BIBLIOGRAPHY * [www. google. com](http://www.google.com) * [www. economicstimes. com](http://www.economicstimes.com)