

Study on the mergers and acquisitions of icici finance essay



Mergers and acquisitions have become the most frequently used methods of growth for companies in the twenty first century. They present a company with a potentially larger market share and open it up to a more diversified market. A merger is considered to be successful, if it increases the acquiring firm's value; most mergers have actually been known to benefit both competition and consumers by allowing firms to operate more efficiently. However, it has to be noted that some mergers and acquisitions have the capacity to decrease competition in various ways. The merger between ICICI bank and Bank of Madura presented ICICI Bank with the opportunity to expand its perspective through having access to retail banking markets and clientele in the regions where its previous exposure had been virtually inexistent. The merger gave the firm that extra growth and competitive edge that it was looking for to compete with HDFC Bank, SBI and other rivals.

Research has shown that due to increasing advances in technology and banking processes, which make transactions, among other aspects of business, more effective and efficient, mergers and acquisitions have become more frequent today than ever before.

INTRODUCTION:

ICICI is one of the leading private sector banks in India, which combines financial strength with a reputation for innovation and a universal culture that embraces change. ICICI, a huge presence on the Indian financial scene, has an element of enormity in all that it does from ambition to projections and achievements. Ranked as the number one Bank India several times, this institution appears virtually unstoppable, but can it, in fact, fall prey to weakness? ICICI's impressive rise over the last couple decades cannot be

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denied, but now as the brand starts to over extend with a dizzying array of products and services Bank of Madura was established in 1943 by Karumuttu Thiagarajan Chettiar. It acquired Chettinad Mercantile Bank (est. 1933) and Illanji Bank (est. 1904) in the 1960s. Bank of Madura was a Chettiar bank with a large customer base of 2 million plus customers and a network of more than 280 branches and 40+ ATMs centres spread across about 100 cities in India. The bank merged with ICICI Bank Limited Announcing the decisions of the two boards, ICICI Bank's managing director and CEO H N Sinor and the Bank of Madura's chairman Dr K M Thiagarajan told a joint press conference in Chennai that once the merger was complete the combined entity would be the largest private sector bank in the country in terms of assets which they said was estimated to be Rs 16, 000 crore.

(Verma, 2010)

LITERATURE REVIEW:

CHANGE MANAGEMENT:

It is an organized approach to trade with change, both from view of an organization and on in the individual level.

As in an organization changes transform by the leader Jamie Dimon for the reputation and profitability of an organization.

CHANGE MODELS:

Lewin's change model is dividing three parts:

http://www.lmcuk.com/outputImage.php?imageName=%2FuserFiles%2F2_Management%20Tools%2Fbusiness-culture-Lerwins-3-step-model.jpg&width=563&height=&mode=1-_-fixed=

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Source: <http://www.lmcuk.com/management-tool/lewins-3-stage-model>

Unfreezing: The first stage in Lewin's change model in which group members become dissatisfied with the status quo.

Change : The second stage in Lewin's change model in which group members alter their patterns of behaviour.

Refreezing: The final stage in Lewin's change model in which group members institutionalize the new patterns of behaviour into a new status quo.

LEADERSHIP:

“ Directing & coordinating the works of group members ” (Fiedler, 1997)

“ The process of influencing an organized group toward accomplishing its goals ” (Behling, 1984)

The Chairman of Bank of Madura, Dr. K. M. Thiagarajan understood cultural and financial advantage breaks concerning ICICI ABNK AND MADURA. He considered that in future it will become very difficult for smaller banks to compete,” he told presspersons here that the decision to merge Bank of Madura with ICICI Bank“ was taken after a lot of thought.” “ You have to take a long-term view,” he said. In a competitive environment where margins were under pressure this could prove difficult, he felt. Alternatively, these banks could raise fresh capital. The kind of premium that could be demanded depended largely on the share value. “ Unfortunately, markets and investors, rightly or wrongly – in my opinion wrongly – put all banks into one basket,” he rued.

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ISSUES:

ICICI Bank, the trigger for this deal may have had its origin in the unfavourable market reaction to its proposed merger plan with its parent ICICI. It needed to grow — after all size helps gain entry into “big ticket” lending. Small may be beautiful, but big is powerful,” as a banking expert put it.

(2) Get it, get it big, get niche or get out is the simple survival formula for Indian banks here on. The impending merger of ICICI Bank and Bank of Madura holds out that lesson. Ever since the ground-breaking merger of HDFC Bank and Times Bank in November 19 99, all new private banks had begun the mating dance.

(3) The ICICI Bank-Bank of Madura merger is that it is a mix of the old and new. They may not have the “matching fit” — in terms of non-unionised, automated environment, with skilled and lean staff, that characterised the HDFC Bank-Times Bank merger. (Narayanan, 2010)

CONSEQUENCES OF MERGER:

1 The bank was looking at a branch network of 350-400, which would have taken at least five years to achieve. The merger would provide this network immediately and would enable them spread their network to 16 States.

2-Moreover, to get an additional 1. 2 million customers, which is BoM’s client base now, it would have required a minimum of two years. Thus, the merger enables ICICI to have an aggregate of 2. 7 million customer base and a

combined asset base of Rs. 16, 000 crore, cross selling opportunities for assets and other products, and good cash management services.

3-BoM is strong in south India states and ICICI is very strong in Central and North Indian states, which would give a complacent advantage to both the banks.

4-The book value of ICICI Bank share is Rs. 60 and that of BoM is Rs. 233. The EPS of ICICI Bank is Rs. 7 while that of BoM is Rs. 44, and the last dividend paid by the former was 15 per cent while that by the latter was 55 per cent. Thus the merger is considered to be EPS accretive for ICICI Bank shareholders by 23 per cent, from Rs. 7. 10 per share annualised to Rs. 8. 70 per share annualised, based on September 2000 figures.

THE MERGER:

The indication is varied as to whether mergers increase company's performance. As times, companies make forecasts for development, increased competence, and greater profits. Though, more habitually before not, those estimates prove to be over overstated, and this also leads to dissatisfactions on the side of investors, shareholders and the management complex in the merger.

MERGER WITH BANK OF MADURA:

ICICI BANK AND BANK OF MADURA.

This merger (ICICI Bank-BoM) brings together two entities that have grown in different environments. ICICI follows Banks 2000 software, which is totally

different from that of BoM's ISBS software package. Though the size of ICICI Bank is almost thrice that of BoM's in terms of deposits, the number of employees in ICICI is around 1400 compared to 2500 employees in BoM. With the manual interpretations and procedures and the lack of awareness of the technology utilisation in BoM, there would be many hindrances' in the merged entity. Hence to eradicate all such problems, a core group from both the banks has been constituted to help in the integration. Besides, ICICI also plans to set up sub-groups to look into areas such as IT, audit and HR.

ICICI Bank, after having been scouting for long time to acquire a private sector bank, had held talks with Global Trust Bank and Centurion Bank and has finally merged with Bank of Madura at a swap ratio of 2: 1 i. e., two shares of ICICI Bank for each share of BoM. The deal has created one of the biggest entities in the private sector with the merged entity having total assets of Rs. 16, 000 crore as on September 2000. The share exchange ratio was worked out by Deloitte, Haskins and Sells, which acted as independent valuers to the transaction. DSP Merrill Lynch Ltd had acted as advisors to BoM while Kotak Mahindra Capital Company advised ICICI Bank on the merger process. (Babu, march 2001)

The proposed merger of ICICI Bank and Bank of Madura lead to sustained market interest in the two stocks in the short-term. BoM closed at Rs. 131. 60 on the BSE, up from Rs 121. 90 and ICICI Bank closed at Rs. 169. 85, up from Rs. 151. 40 on Dec 11, 2000. On Dec 15, 2000, BoM closed at Rs. 166 on BSE and ICICI Bank ended at 157 despite the steep fall of the markets.

CHANGE AFTER MERGER:

The merger concerning ICICI bank and Bank of Madura accessible ICICI bank with the chance to increase its perspective over providing the firm with admission to retail banking markets and custom in the areas where its previous contact had been almost inexistent. The merger gave the firm that additional growing and inexpensive advantage that it was looking for to contest with Citigroup and other competitors. Investigation has shown that due to cumulative advances in technology and banking procedures, which type transactions, among other features of business, extra effective and well-organized, mergers and successes have become more recurring. (Nilesh, 2009)

CHANGE AGENT:

Change agent human ability or company body of things to gating a higher degree of outcome. Start with the finish in mind, the aim of a change agent is really to make changes. Result of change agent work is to allow people to do more, or search a new and good perspective on life. K V Kamath as change agent When K V kamath came back from ADB (Asian Development bank) in 1996, working there for 8 enriching years. Kamath, have seen the changes occurring in the financial sector abroad, wanted ICICI to become a

one-stop shop for financial services. But there were basic problems in the organization like ignorance in the organization about the lending practices in the new sectors like infrastructure, problem of atrophy (which was deep rooted in the organization), lack of motivation to grow and improve customer services and adapt to new technology(use of internet, atm for fast services). (Alias-i, 2010)

RESISTANCE TO CHANGE:

ICICI had to face change resistance once again in December 2000, when ICICI Bank was merged with Bank of Madura . Though ICICI Bank was nearly three times the size of BoM, its staff strength was only 1, 400 as against BoM's 2, 500. Half of BoM's personnel were clerks and around 350 were subordinate staff.

There were large differences in profiles, grades, designations and salaries of personnel in the two entities. It was also reported that there was uneasiness among the staff of BoM as they felt that ICICI would push up the productivity per employee, to match the levels of ICICI . BoM employees feared that their positions would come in for a closer scrutiny. They were not sure whether the rural branches would continue or not as ICICI's business was largely urban-oriented.

The apprehensions of the BoM employees seemed to be justified as the working culture at ICICI and BoM were quite different and the emphasis of the respective management was also different. While BoM management concentrated on the overall profitability of the Bank, ICICI management turned all its departments into individual profit centers and bonus for <https://assignbuster.com/study-on-the-mergers-and-acquisitions-of-icici-finance-essay/>

employees was given on the performance of individual profit center rather than profits of whole organization. (Anon., 2002)

CONCLUSION:

In the twenties century mergers and acquisitions are the most recurrently used methods of growth for companies. They present a company with a hypothetically larger market part and exposed it up to a more differentiated market. A merger is considered to be fruitful, uncertainty it growths the acquiring firm's value. The evidence is diverse as to whether mergers improve company's performance. As times, companies make predictions for growth, increased efficiency, and greater profits. (Kottler, 2009). Most mergers have really been known to advantage both struggle and customers by letting companies to operate more professionally. As was also presented, the United Nations' " World Investment Report 2000" proposes that the unique increase in cross-border mergers and acquisitions is mainly due to an increase in the globalization of markets he process of mergers and acquisitions fair for both the consumers and firms in the market several controls. As a case in point icici and bank of Madura is a perfect example of how a smart strategic move can make significant improvements to a company's performance. (still active CEO's, 2007). After the acquisition, as we have already established the " merger" within icici bank and bank of madura is, the latter company's market share, revenues, and net income all rose to impressive highs, marking the initial success of the acquisition.