INDUSTRIAL RESEARCH PROJECT ON

(Mergers in Banking Industry of India- IDFC Bank With Capital First)

FOR THE PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF

BACHELOR OF BUSINESS ADMINISTRATION

UNDER THE GUIDANCE OF
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Galgotias university

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CERTIFICATE

Certificate from Faculty Guide

This is to certify that the project report (Mergers in Banking Industry of India-IDFC Bank With Capital First NBFC) has been prepared by Mr. Durgesh Kumar Mishra under my supervision and guidance.The project report is submitted towards the partial fulfillment of 3 year, full time Bachelor of Business Administration

Name :- Mr. Reji John

Date:

Signature....................................

DECLARATION

I, Durgesh Kumar Mishra, Adm No. 18GSOB1010450, student of BBA of School of Business, Galgotias University, Greater Noida, hereby declare that the project report on "IDFC FIRST BANK" is an original and authenticated work done by me.

I further declare that it has not been submitted elsewhere by any other person in any of the institutes for the award of any degree.

Durgesh Kumar Mishra

Date:-

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EXECUTIVE SUMMARY

The project report **(Mergers in Banking Industry of India- IDFC Bank With Capital First NBFC).** This report is based on the secondary data available on company website, quartely and annually results of company from NSE, BSE website, etc. This research is conducted to know the complications of merger that both company have to face, and their suitable solutions. After this study we are able to determine the impact of mergers on employment condition and consumers, process of mergers in banks, effect of it on banks and benefits of retailization of banks. Analysis shows that the reatail banking is the most stable form of banking and the whole merger took place between IDFC Bank and Capital First is because both needed each other to make a full fledge retail bank. It also shows that how an efficient retail bank whose average lending rate of whole assets is 13-14% because of their technological capability and average borrowing rate is same as most big banks then the bank can easily earn NIM (Net Interest Margin) of 9-10%. On the othr hand as of today highest NIM is of HDFC Bank which is equal to 4-5%

INTRODUCTION

- **BEGINNING OF BANKING IN THE WORLD**
- **BEGINNING OF BANKING IN INDIA**

INTRODUCTION

This project is about merger and integration in the banking industry. A merger occurs when two companies merge to form one company. Consolidation is very similar to acquisition, except that in the case of consolidation existing existing shareholders of both companies retain the shared interest in the new entity. Conversely, in buying one company buying a bulk of the stock of a second company, it creates an unequal balance of ownership in the newly merged company.

Recent years have also brought about a change in the type and quality of employment in the sector. According to commercial banks, most of India's private sector banks are becoming increasingly aggressive. They follow a process of getting more customers and sales. Over the past few years the Indian Banking system has seen a very high merger, such as the merger of ICICI Ltd. and its banking arm ICICI Bank Ltd. merger of Global Trust Bank and Oriental Bank of Commerce and more recently
the merger of IDFC Bank with Capital First Ltd.

Basically, a merger involves a combination of two or more banks. It is generally accepted that meeting encourages collaboration. This project is about the factors that promote mergers and integration, its process, its impact on employment, working and consumer status, using examples of the merger of IDFC Bank and Capital First NBFC.

BEGINNING OF BANKING IN THE WORLD

The word “bank” is derived from the word **“Bancus or Banque”** that is bench. Jews, who were considered to be the early bankers, transacted their business on benches in the market. Some people trace the origin of the word “bank” from the German word **“Back”** meaning a joint stock fund.

EARLY HISTORY OF BANKING

The History of Banking began about 2000BC in the ancient world when merchants made grain loans to farmers and merchants and began transporting goods between the Assyrian and Babylonian cities. The Hammurabi Code, which dates back to about 1772 BC, This code also includes limited procedures for managing loans, interest, and guarantees.
Later, in ancient Greece and during the Roman Empire, temple lenders borrowed money and began receiving deposits. They took money, made loans, exchanged money from one type of money to another, and checked coins for weight and purity. They even traded books. Lenders can also be found who will accept payments in one Greek city and arrange for another loan, avoiding the need for the customer to move or transfer more coins.

BRITISH BANKING

The origins of modern banks in Britain can be traced back to four centuries and the past history of the Royal Bank of Scotland Group is a clear indication of the development of the industry. The English bank can be well named by London goldsmiths. Recipients of their valuables as well as a safe storage bag and issued receipts. These notes, over time, are paid for by the carriers and thus enjoy a large distribution. In time, however, gold miners became corrupted. This led to the growth of private banks and the establishment of the "Banking of England" in 1694.

BEGINNING OF BANKING IN INDIA

History of Indian Banking

India's first bank was the "Bank of Hindustan", founded in 1770 and located in the then Indian capital, Calcutta. However, the bank failed and stopped operating in 1832.

During British rule in India, the East India Company had established three banks: the Bank of Bengal, the Bank of Bombay and the Bank of Madras, which they called Presidential Banks. The three banks were later merged into a single bank in 1921, known as the "Imperial Bank of India."

Imperial Bank of India

The first major event in Indian banking history took place in 1919 when the presidential banks were merged and the "Imperial bank of India" was established. The Imperial Bank of India was re-established in 1955 as The State Bank of India, a major public sector bank.

Reserve Bank of India

The Reserve Bank of India Act was passed in 1934 and the Reserve Bank of India (RBI) was established as a central bank without major government ownership. The Banking Regulations were passed in 1949. The law placed the Reserve Bank of India under state control. Under this action, the RBI gained various powers to monitor and regulate banks. The Act also gives licensing authority and authority to conduct inspections in the RBI.

Nationalization of Banks

Subsequently, the Government of India issued the Ordinance of Banking Companies, in 1969 and made the country the largest commercial banks from July 19, 1969 at midnight. These banks held 85 percent of the country's deposits. Within two weeks of passing the bill, Parliament passed the Billing Companies Bill, and received the president's approval on August 9, 1969.

Automation in Banking Sector

In recent years there has been a dramatic change in the performance of banks. There has been an increase in the number of technologies used by these institutions e.g. some banks use cash makers and offer twenty-four hours of withdrawals, instant account details and electronic transfers. Due to the intense competition in the banking sector, services have to be marketed in unprecedented ways.

• Today, customers do all their banking activities while sitting at home.

• Banks present Automatic Teller Machine (ATM) cards.

• Debit and debit cards are used.

This promises to change the face of banking forever.

The organized banking system in India can be broadly divided into three categories:

(i) Commercial banks,
(ii) Regional Rural Banks and
(iii) Co-operative banks.

The Reserve Bank of India is the supreme monetary and banking authority in the country and has the responsibility to control the banking system in the country It maintains the reserves of all commercial banks which is why it is known as the "Reserve Bank".

OBJECTIVES OF THE STUDY

- Understand the Merger procedure in banks
- To find the effects of Mergers and Acquisitions of banks.
- To know the impact of mergers and acquisitions on working and employment conditions.
- To find benefits of retailization of banks

SIGNIFICANCE & RELEVANCE OF STUDY

With the global integration of the global economy, companies are growing through mergers and acquisitions with the aim of increasing efficiency and continue to compete. The complexity of such a transaction often makes it difficult to assess all exposure to risks and liabilities, and requires the skills of an expert advisor.

Banks face increasingly competitive business environment, driving them to continue to improve services and increase efficiency. Growth through integration and acquisition of boundaries (M&A) is one way to respond to this challenge, but many difficult obstacles still hinder this type of expansion.

a) Integration and acquisition (M & As), corporate enterprises (JVs) and other forms of strategic alliances have recorded significant growth in recent years.

b) Recruitment has become a common strategy in many companies.

c) To drive the global economy and control

d) Facilitate collaboration between affiliated organizations
e) Produce improved performance and increase competition.

f) The basic argument that M&As increases the value of shares through exploitation of synergies is based on the assumption that a merged entity can be used in a way that creates a greater value than the potential value of "independent" companies (figure 2 + 2> 4).

SCOPE & COVERAGE

The scope of this study includes the merger of IDFC Bank with Capital First NBFC which took place in September 2018. The merger took place in accordance with the rules of the Reserve Bank of India and after the merger the operations of both banks became under the same name namely IDFC FIRST BANK.

According to the reporting process we have taken all the coverage that has taken place since 1961. This reference provided more reliability to our project and created comparative research. The main focus of the study continued with the merger of IDFC Bank with Capital First Ltd.

REVIEW OF LITERATURE

1. Merger Review Process - A must for successful consolidation in the Banking Industry

By: Kishor Mundargi (*The Shamrao Vithal Co-operative Bank Ltd.)*
Mumbai

While considering any proposal for merger of banks, it will be necessary to evaluate the impact of the merger on the safety and soundness of the banking system. There is a definite need to develop a merger review process and to identify the authority that will be responsible for conducting the merger review process.

2. The Impact of Mergers and Acquisitions on the Stakeholders of Banking Sectors.

By: Dr. S. Hasan Banu,
Reader
H.K.R.H. College
Uthamapalayam

Consolidation through mergers and acquisition is considered one of the best ways of restructuring for effectively facing the competitive pressures. Mergers are only one of the alternatives for restructuring of the financial sector and there could be better and more advantageous option to leverage optimum utilization of bank stakeholders.

RESEARCH METHODOLOGY

- Research Design
- Research Process
- Data collection
- Samples size
- Errors in the study
- Scope and the Limitation of the study

Research Methodology

The research process consists of stages or steps leading to a project from its consideration of final analysis, recommendations and final actions. The research process provides a structured, structured research project and ensures that all aspects of the research project are consistent.

Research studies change with a series of steps, each representing an answer to an important question.

RESEARCH DESIGN

I suggest that I first conduct a second in-depth study to understand the full impact and vision of the sector, to review and analyze industry policies and reports, in which specific issues will be selected, which I feel should not be addressed or need to be changed.

This section will help me limit and select only the most important question and issue, which remains in growth and division in the industry.

The various tasks I have performed in the research design process are:

- Defining the information need
- Design the exploratory, descriptive and causal research.

RESEARCH PROCESS

The research process has four distinct but consistent steps for research analysis with a logical structure and sequence: Determination of information research problem.

- Development of appropriate research design.
- Execution of research design.
- Communication of results.

Each step is considered a separate process that involves a combination of task, step and process. The steps taken are logical, purposeful, organized, honest, legitimate, inhuman and persistent.

EXPLORATORY RESEARCH

The method, I used for exploratory research was Secondary data

PRIMARY DATA

New data has been collected to help solve a nearby problem. Compared to the second data collected data previously. For example information collected from a questionnaire. Evaluation or measurement data recently collected from the study, Contains original data from people and includes data collected from surveys, focus groups, independent observations and test results. Information collected by the researcher in the research process.

This is compared to secondary data, which includes the use of data collected by another person without the researcher's knowledge being obtained directly from the sources of the hands through research, observation or testing. Key data is collected by receiving questions answered by respondents.

SECONDARY DATA

Information already available elsewhere, has been collected for another purpose. Sources include census reports, commercial publications, and registration services. There are two types of secondary data: secondary internal and external data. Data compiled within or outside the organization for a specific purpose other than current research Research information, which has already been published? Market data is compiled for purposes other than the current research effort; it could be internal data, such as existing sales tracking information, or it could be research conducted by someone else.

The secondary source of data used is books and websites

My suggestion is that I first conduct a second in-depth study to understand the full impact and vision of the industry, to review and analyze industry policies and reports, in which specific issues will be selected, which I feel should not be addressed or should be changed.

DESCRIPTIVE RESEARCH

STEPS in the descriptive research:

Statement of the problem

- Identifying the information needed to solve the problem
- Selection or development of instruments for gathering the information

- Identification of target population and determination of sampling Plan.
- Develop a data collection process
- Collection of information
- Analysis of information
- Generalization and / or forecasting

DATA COLLECTION

Data collection took place with the help of questionnaires. The questionnaire came down to the most widely used and cost-effective method of data collection. A common feature of all types of questionnaires is the reliance on oral responses to questions, written or oral.

Determination of the sample plan and sample size

TARGET POPULATION

It is a description of the characteristics of that group of people where the course is intended. He tries to describe them as they are rather than the interpreter wants them to be. Also called audiences. A certain number of people targeted as beneficiaries of the program. This will be all or a small group of potential users, such as youth, women, residents, or locals. Areas entitled: Governance, Accountability and Evaluation, Performance Management and Leadership.

The number of people to be reached through a particular action or intervention; can refer to groups with specific characteristics of people or places. A group of people you are trying to reach by a specific strategy or activity The number of people referred to is the number I want to make a good case; sample frames to match the number of people identified. A specific set of resources that is the object or victim of an investigation. Audience is defined by age, background, ability, and preferences, among other things, the purpose of a particular subject.

SAMPLE SIZE:

This includes finding out how many samples a person needs.

The sample numbers you need are affected by the following:

- Project goals
- How you plan to analyze your data
- How your data is flexible or may be different
- How precisely you want to measure change or trend
- The number of years over which you want to detect a trend
- How many times a year Will you sample each point
- How much money and manpower you have

ERRORS IN THE STUDY

Interviewer error

There is bias in the negotiators in the form of questions. Open-ended questions may be discriminated against by the interviewer's views or by examination, as the interviewers guide the respondent during the completion of the questionnaire.

The attitude discussed by the respondent to the respondent during the interview can greatly affect their level of interest and willingness to respond openly. As interviewers, assessment and clarification enhance respondents' understanding and produce holistic responses, these benefits are removed by the problems of seeking fame, social curiosity, and favoritism.

Questionnaire error

The design of the questionnaire should be careful so that only the required data is disclosed and no unwanted data is generated. Questions should be carefully worded so that questions do not load up and lead to the mind of the respondent

Response error

Respondents selected for interview were not always available and willing to work together and in many cases respondents were found to lack the knowledge, opinion, attitudes or facts required in addition to uninformed response errors and response styles also led to survey errors.

Research Design

The design of a study is a conceptual framework in which research is conducted. The research design is a detailed program used to guide research designed for its intended purpose. It is a list of advanced decision-making conclusions that have a key strategy or research model to align with research objectives. The design of the research is necessary because it facilitates the navigation of various research activities, thus making the research as efficient as possible and obtaining high-quality information with minimal effort, time and money.

CONCEPTUALIZATION

The term merger and acquisition or M&A refers to the business and management financial system that deals with the integration and acquisition of various companies and other assets. Often the merger takes place in a friendly environment where managers from the companies involved participate in the appropriate effort process to ensure an effective combination of all components. Historically, however, consolidation has often failed to add much to the number of shares.

Although economic considerations are similar in both consolidation and acquisition, the legal process involved in consolidation and acquisition is different.

A) Merger: The term merger and consolidation means the merger of two or more companies (in this case banks) into one business. Merger is governed by the Companies Act, 1856

B) Acquisition: This can be defined as the act of obtaining effective control by one company over assets or the management of another company without the merger of both. Acquisition is a function controlled by **SEBI.**

MERGERS: VALUATION

Investors in a company that intends to take over should also consider whether the purchase will benefit them. In order to do so, they must ask themselves how important the acquiring company is. Naturally, both sides of the merger agreement will have ideas on the value of the target company: its seller will be accustomed to informing the company of the maximum price possible, while the buyer will try to get the lowest price he can get. There are, however, many legitimate ways to grow companies. A common way to look for comparable companies in the industry, but deal makers use other methods and tools when evaluating a targeted company. Here are a few of them:

1. **Comparative Ratios** - The following are two examples of the many comparative metrics on which acquiring companies may base their offers:

Price-Earnings Ratio (P/E Ratio) - With the use of this ratio, an acquiring company makes an offer that is a multiple of the earnings of the target company. Looking at the P/E for all the stocks within the same industry group will give the acquiring company good guidance for what the target's P/E multiple should be.

Enterprise-Value-to-Sales Ratio (EV/Sales) - With this ratio, the acquiring company makes an offer as a multiple of the revenues, again, while being aware of the price-to sales ratio of other companies in the industry.

2. **Replacement Cost -** In a few cases, acquisitions are based on replacement costs for a targeted company. For simplicity, suppose the value of a company is simply the sum of all its equipment and labour costs. The acquiring company can literally order the target to sell at that price, or it will do it for a competitor at the same cost. Naturally, it takes a long time to integrate good management, procurement and proper equipment. This approach to pricing is certainly not logical in the service industry where key assets - people and ideas - are difficult to identify and develop.

3) Discounted Cash Flow (DCF) - A key valuation tool in M&A, discounted cash flow.

WHY DOES ORGANIZATIONS GOES FOR MERGER

SYNERGY

Synergy is a magical force that allows for the efficient operation of new business costs. Synergy is taking the initiative to raise money and save money. It is generally accepted that mergers promotes synergy. The basic idea is that a consolidated bank will build up a surplus there are individual banks operating independently. Economists refer to the state of
The result "2 + 2 = 5" brought about by the synergy.

STAFF REDUCTION

The merger often means job losses from accounting, marketing and other departments.

ECONOMIES OF SCALE

A large company places a large order for a variety of items and can save a lot of money and be in a better negotiating position.

ACQUIRING NEW TECHNOLOGY

In order to stay competitive, companies need to stay on top of technological advances. By buying a small company with unique technology, a large company can develop a competitive edge.

MARK DEVELOPMENT AND INDUSTRIAL QUALITY

The merger could expand the two companies' marketing and distribution opportunities. The capital can easily grow in a larger company than in a smaller company.

INCREASED MANAGERIAL SKILLS

Sometimes a firm has a good capacity to find that it cannot grow fully due to shortages in certain administrative areas or lack of necessary product or production technology.

CLASSIFICATION OF MERGERS

(i) Horizontal integration
This type of merger involves two firms operating and competing for the same type of business. Megrer is based on the assumption that it will provide scale economies from a large integrated unit.

(ii) Vertical Mergers
Vertical Mergers occurs between firms with different stages of production / performance, either as front or rear integration. The primary reason is to eliminate the costs of soliciting prices, contracts, payment collections and advertising and can also reduce the cost of communication and product linking. Both productivity and production can be improved due to the efficient flow of information within the organization.

a) Market-extension occurs when two companies selling the same products in different markets come together.

b) Product-extension occurs when two companies that sell different but related products in the same market meet.

(iii) Conglomerate Mergers
Conglomerate Mergers is affected between firms in separate or unrelated business activities. Firms who plan to expand their product lines make these types of integrations. This type of diversity can be achieved mainly through external acquisition and integration and is usually not possible with internal development. These types of combinations are also called focused combinations. Industries operating in different areas continue with these types of mergers.

a) Purchase mergers occurs when one company buys another company. Purchases are made with money or with the issuance of a certain type of credit instrument, and the sale is taxable.

b) Consolidation mergers occurs when a brand new company is formed and both companies are bought and consolidated under a new business. The terms of the tax are the same as for the merger.

MERGERS IN BANKING SECTOR

According to commercial banks, most of India's private sector banks are becoming increasingly aggressive. They follow the process of getting more customers and sales, NPAs however. Do you think you are fighting an unequal war, because firstly the laws do not allow you to get Indian banks and secondly, there are limits to the number of branches you can open. The only way to grow in India would be to get an overseas bank (operating in India).

Over the past few years the Indian Banking system has seen a very high merger, such as the merger of ICICI Ltd.With its banking arm ICICI Bank Ltd. The merger of Global Trust Bank with Oriental Bank of Commerce and most recently the merger of the IDFC bank with Capital First Ltd. which is NBFC. An established business known as IDFC First Bank Ltd. And maybe in the next few years IDFC ltd. It will also be merged with its banking arm of IDFC First Bank Ltd.

Foreign banks are more likely to succeed in their niche markets and become innovators in the introduction of technology in the domestic environment. While their focused performance, low power but highly productive staff etc will show them the best, the availability of PSU banks will definitely provide them with much needed performance and access to low financial costs. These banks will continue to be the first to adopt technology in the industry, thereby increasing their efficiency. Also, they were among the first to move to the most lucrative insurance segment. Currently banks such as ICICI Bank and HDFC Bank have established partnerships with Prudential Life and Standard Life respectively. This is the only part that can see the big action in the future. In the near future, the low price situation may have affected the spread of majors. This can lead to a greater focus on better credit management processes. As a result, only banks are struggling to raise their share of revenue that is likely to do better in the future.

Some of the past merged banks are –

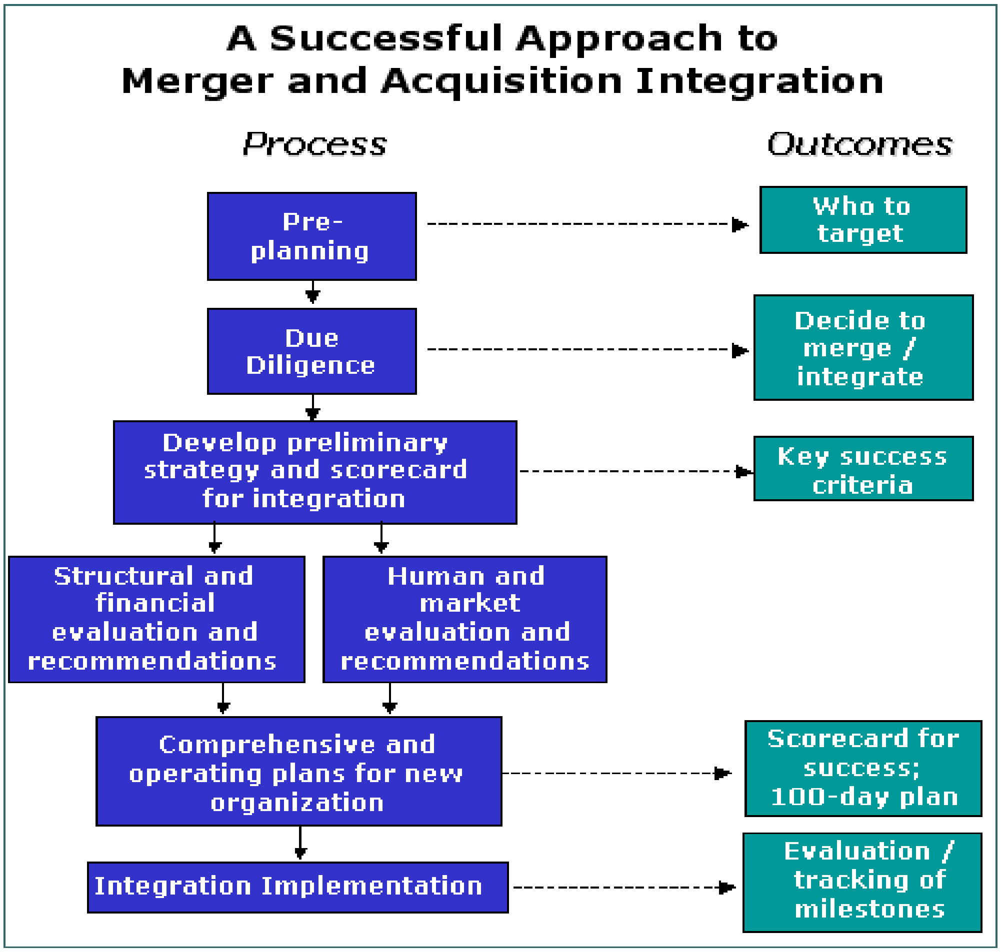
Grind lay Bank merged with standard chartered Bank,
Times Bank with HDFC Bank,
Bank of Madura with ICICI Bank,
Nedungadi Bank Ltd. With Punjab National Bank
Lakshmi Vilas Bank with DCB Bank
IDFC Bank with Capital First NBFC

RISKS ASSOCIATED WITH MERGER

There are several risks associated with merger and a few of them are as follows: -

1) When two banks merge into one then there is an inevitable increase in the size of the organization. Big size may not always be the best. Sizes can be very large and go beyond the control of management. Increased size can be a drug rather than a property.
2) Integration does not lead to immediate results and there is a time to incubate before the results arrive. Merger and acquisition is sometimes followed by losses and difficult interventions before the final profit can be made.
3) Consolidation mainly comes as a result of the decision taken above. It is a very difficult decision and the determination of the position and file of both parties may not come. This leads to problems in industrial relations, poverty, depression and demotion among workers.
4) The structure, systems and procedures followed by the two banks may vary greatly, for example, the PSU bank or the older generation bank and the external technology bank.
5) There is a balance problem associated with all encounters. The shareholder of existing businesses should be given new shares. To date an irrational measurement system of transfer and compensation is yet to emerge.
6) In addition, there is a problem guessing the product. This becomes even more difficult when the existing products themselves have a good complaint. The question arises as to whether the previous versions should continue to be shown or should be immersed in the new identity.

PROCESS OF MERGER & ACQUISITION



Process of merger of IDFC Bank with Capital First NBFC

Pre Plannig – Who to target

The target audience for both entity was retail customers. But IDFC Bank was into wholesale banking. 65000cr. loan of 70000cr. Loan book they have, were distributed to large corporates. And mere 5000cr. Loan were distributed to retail customers. Whereas Capital First had 30000cr. Loan book and all were retail loans.

Due Diligence – Decide to Merge/Integrate

Both entity decided to merge in Jan 2018 and they merged in Sep 2018.

Develop preliminary strategy and scorecard for Integration

(a) Comprehensive and Operating Plans for new Organization

Operating plan of new entity formed is to just repeat Capital first strategy which they did for last 10years. After merger the management of capital first took over the management of new entity IDFC first bank. They have speciality of giving loans to those don't have credit score.

(b) Integration Implementation – Tracking of Milestone

Status of our achievements vis-à-vis Guidance provided at the time of the merger

Pre Merger | At merger | Post Merger

ASSETS

Particulars	Mar-18	Sep-18	Dec-18	Guidance given at the time of merger for FY24-FY25	Dec-20	Status
Retail Funded Assets	Rs. 7,038 Cr	Rs. 9,916 Cr	Rs. 36,236 Cr	Rs. 100,000 Cr	Rs. 66,665 Cr	On Track
Retail as a % of Total Funded Assets	10%	13%	35%	70%	60%	On Track
Wholesale Funded Assets	Rs. 53,871 Cr	Rs. 54,084 Cr	Rs. 56,809 Cr	~Rs. 40,000 Cr	Rs. 34,809 Cr	On Track
- of which Infrastructure loans	Rs. 26,832 Cr	Rs. 23,637 Cr	Rs. 22,710 Cr	Nil in 5 years	Rs. 11,602 Cr	On Track
Top 10 borrowers as % of Total Funded Assets (%)	18.75%	17.97%	12.8%	< 5%	6.3%	On Track
GNPA (%)	3.31%	1.63%	1.97%	2-2.5%	1.33%*	On Track
NNPA (%)	1.69%	0.59%	0.95%	1.1.2%	0.33%*	On Track
Provision Coverage Ratio (%)	50%	64%	52%	~70%	75%	On Track

*These figures include the impact of the Supreme Court notification to stop NPA classification post August 31, 2020 till further orders. Without this impact the GNPA as on 31 December 2020 would have been **4.18%** and the NNPA would have been **2.04%**.

Status of our achievements vis-à-vis Guidance provided at the time of the merger

← Pre Merger → ← At merger → ← Post Merger →

LIABILITIES

Particulars	Mar-18	Sep-18	Dec-18	Guidance given at the time of merger for FY24-FY25	Dec-20	Status
CASA as a % of Deposits (%)	11.54%	12.98%	8.68%	30% (FY24), 50% thereafter	48.31%	Achieved
Retail CASA + Retail Term Deposits as a % of Total Deposits & Borrowings	5.41%	8.91%	8.04%	50% (FY24)	46.83%	On Track
Branches (#)	150	203	206	800-900	576	On Track
Additional Achievements				Revised Guidance		
Customer Deposits <=5 crore as a % of Total Customer Deposits (%)	28%	30%	31%	80%	78%	Achieved
Top 20 Depositors concentration (%)	42%	40%	40%	~5%	10%	On Track

Status of our achievements vis-à-vis Guidance provided at the time of the merger

← Pre Merger → ← At merger → ← Post Merger →

PROFITABILITY

Particulars	Mar-18	Sep-18	Dec-18	Guidance given at the time of merger for FY24-FY25	Dec-20	Status
Net Interest Margin %	1.58%	1.56%	2.89%	5-5.5%	4.65%	On Track
Cost to Income Ratio (%)*	90.35%	94.47%	80.55%	55%	79.20%	On Track
Return on Asset (%)	0.13%	-1.15%	0.37%	1.4-1.6%	0.32%	On Track
Return on Equity (%)	1.11%	-9.71%	3.66%	13-15%	2.92%	On Track

*excluding trading gains

Merger Procedure

I. Accounting :-

When mergers and acquisitions occur, the finances of the combined entity statements should show the effect of the combination. According to Accounting Standard 14 (AS 14) issued by the Institute of Chartered Accountants of India, an amalgamation can be in the nature of pooling of interests, referred to as "amalgamation in the nature of merger', or acquisition. The conditions to be fulfilled for an amalgamation to be treated as an "amalgamation in the merger " are as follows:

1. All assets and liabilities of " Transferor Company" prior to consolidation must be the assets and liabilities of the "Transferee Company".
2. Shareholders holding shares of not less than 90% (by value) of The "transfer company" must be the shareholders of "Transferee" Company ".
3. Consideration paid to shareholders of "Transfer Company" must be in the form of shares in the "Transferee Company" only; money can however, you are paid in respect of partial shares.
4. The " Transferor Company " business is intended to be operated by "Transferee Company."
5. The "Transferee Company" includes, in its balance, the amounts of books for assets and liabilities of "Transfer Company" without external adjustment to the extent necessary to ensure uniformity of accounting policies. The merger, which does not meet all of the above criteria, will be considered "Aquisition".

The accounting treatment of an amalgamation in the books of the "Transferee Company" is dependent on the nature of amalgamation. For a merger, the 'pooling of interest' method is to be used and for an Acquisition the 'purchase' method is to be used. Under 'the pooling of interest' method, the balance sheet of the combined entity is arrived at by a line-by-line addition of the corresponding items in the balance sheets of the combining entities. Hence, there is no asset write-up or write-down or even goodwill. Under the 'purchase' method, however, the "acquiring company" treats the "acquired company" as an acquisition investment and, hence, reports its tangible assets at fair market value. So, there is often an asset write-up. Further, if the consideration exceeds the fair market value of tangible assets, the difference is reflected as goodwill, which has to be amortized over a period of five years. Since there is often an asset write-up as well as some goodwill, the reported profit under the purchase method is lower because of higher depreciation as well as amortization of goodwill.

II. Legal/ Statutory approvals

The process of mergers or amalgamations is governed by sections 391 to 394 of the Companies Act, 1956 and requires the following approvals.

Shareholder Approval:

Shareholders of joint ventures and consolidated companies are present ordered to hold meetings by the relevant high courts to oversee the process of integration. The system needs to be approved by 75% of shareholders, attendees of voting, and voting powers withheld (in numerical terms).

In addition, Section 395 of the Companies Act stipulates that the shares of Opposition shareholders may be acquired, provided that 90% of shareholders, policy terms, consistent with the merger plan. In terms of section 81 (IA) of Corporate law, shareholders in a “consolidated company” are no exception it is necessary to pass a special decision on the issuance of shares to the shareholders of "joint venture".

Creditors/Financial Institutions/Banks Approval: -

Approvals from these are required for the scheme of amalgamation in terms of the agreement signed with them.

High Court Approval: -

Approvals of the High courts of the States in which registered offices of the amalgamating and the amalgamated companies are situated are required.

Reserve Bank of India Approval:-

In terms of section 19 of FERA, 1973 Reserve Bank of India permission is required when the amalgamated company issues shares to the non resident shareholders of the amalgamating company or any cash option is exercised.

SEBI's Takeover Code for substantial acquisitions of shares in listed companies

In India take-over are controlled. On 4th November 1994, SEBI announced a take-over code for the regulation of substantial acquisition of shares, aimed at ensuring better transparency and minimizing the occurrence of clandestine deals. In accordance with the regulations prescribed in the code, on any acquisition in a company, which makes acquirers' aggregate shareholding exceed 15%, the acquirer is required to make a public offer.

III. Valuation

There are many ways to valuate. Some important methods are discounted cash flow, company comparable method, and adjusted book value view. Traditionally, the comparable company approach and the adjusted book value approach were used more commonly. In the last few years, however, the discounted cash flow approach has received greater attention, emphasis, and acceptance.

The discounted cash flow approach to corporate valuation involves four broad steps:

Free cash flow forecast

Calculate the cost of the capital

Estimate the continuing value

Calculate and interpret results.

Merger Strategy

Various aspects of the M&A agreement such as valuation, compliance, accounting and negotiation are very special areas. Advisors are often investors and marketers who are familiar with M&A market players and who are experienced and knowledgeable. Advisors take money for various activities:

· Target identification
· Determination of fair value
· Financial Planning
· Assist in negotiation
· Advising on post-merger integration

If a target is sought, the applicant must carefully state the intentions. For example, objectives can be one or more of:
- Increasing market share in domestic market,
- Eliminating a competitor,
- Enhancing production capacity,
- Entering fast growing markets abroad,
- Leveraging distribution channels

Framework of Corporate Governance

CORPORATE GOVERNANCE

“Corporate governance considers how the financial provision of companies ensures that they receive a return on their investment." Corporate Governance is a system in which business companies are directed and controlled.

Corporate governance is all about promoting corporate justice, transparency and accountability.

CORPORATE GOVERNANCE IN BANKING SECTOR

In the wake of recent corporate scandals, corporate governance has received a lot of attention. Shareholders, lenders, regulators and academics are reviewing the decision-making process in companies and other organizations, and making changes to the structure of governance to increase accountability and efficiency. Therefore, in order to assess changes in the governance structure of banking firms, it is important to understand the current government practices.

BAD CORPORATE GOVERNANCE

Bad corporate governance can lead to these various consequences

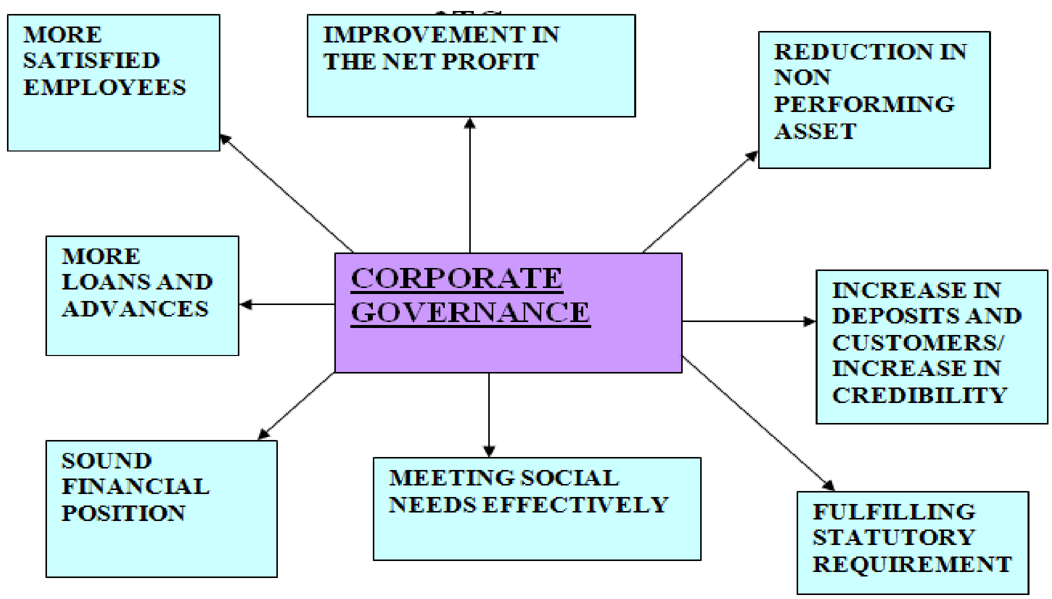
a) Fraudulent and false accounting
b) Complex financial systems
c) To create a false image of financial health and misleading investors.
d) Hide the real financial situation
e) Scandals have become the norm
f) Inflated profits and high debts
g) Complex financial structure

Recent example of a bad corporate governance is rise and fall of YES Bank.
Except one or two above points rest all happened in YES Bank too.

ISSUES RAISED FROM BAD CORPORATE GOVERNANCE

a) Bankruptcy
b) It's dealt a strong blow to those analysts who smugly claimed for something
c) It brought the auditors' role into focus
d) Highlights the peculiarities of the Indian Banking Environment

CORPORATE GOVERNANCE CAN BE SEEN IN THE FORM OF



IMPACT OF MERGERS ON WORKING AND EMPLOYMENT CONDITIONS

Most importantly, integrating different company plans and processes requires alignment of various aspects of employment terms and conditions: pay scales, job titles, rights and other benefits, job descriptions, reporting and management practices are all under review to ensure normal operation in the newly merged organization.

a) Mergers remuneration and other compensation issues

a. Two conflicting aims appear to characterize current practices

b. financial sector remuneration: the need to reduce labour costs within a context of increasing competition and declining profitability and the need for adequate compensation and reward for staff performance and commitment within the ongoing changes and challenges.

b) Mergers and working time

a. The adoption of banks as a retail model encourages them to adjust their hours for customer needs, extending opening hours of at least one day a week and to open other branches on traditionally closed days such as Sundays - a practice that has provoked strong union reactions in many countries. There is no denying that M&As can offer a management opportunity choosing working hours with as many clients as ICICI Bank from 8 a.m. to 8pm.

c) Mergers as factors of stress and demotivation

a. M & As produces high levels of employee stress and stress as their working world is turned upside down, their jobs come under threat and their career prospects and professional competence are called into question. Not surprisingly, it is much easier for managers to convince shareholders about the merits of proposed mergers than it is to persuade their own staff.

d) Mergers and job security

a. Not surprisingly, strong evidence shows that workers everywhere feel more insecure about their jobs. Companies rebuild and retrench frequently, gradually shifting full-time jobs, with part-time jobs, casual or temporary jobs and outsourcing.

IMPACT OF MERGERS ON CONSUMERS

New technologies and increased capacity of financial institutions to provide comprehensive products and services have helped those who have access to them. Consumers earning a normal income and a good credit history are able to borrow money more easily and cheaply than ever before, although this often leads to widespread credit fears. Consumers of commercial services with limited pay, with bad credit details or unstable communities, find it difficult to gain access to the traditional financial services and traditional banking services. The process that has been similar to that of merging acquisitions in the financial services sector has been the 'law enforcement'. Insurance companies and construction communities into well-respected co-operatives, run by their 'members' that is, it is consumers who hold policies or credit products and are entitled to vote on policy and other matters at annual general meetings.

Reactions by consumers to mergers

Also, it is almost impossible to determine the direct impacts of certain encounters and findings on the levels of customer loyalty in the available evidence. This type of information is very sensitive, and is not easily released by firms. However, it is well known that the industry sees a decline in customer loyalty levels as a problem, even though customer flow rates vary widely between sectors. The rate of travel is very high in critical price areas such as car and home insurance, and low in complex products such as securities and in declining banking services. Everywhere the product grows, a number of clients are ready to move their business from one firm to another. While in all financial services customers tend to be overly conservative, it is often the wealthy and financially literate customers who are best prepared to buy goods and sell their financial services when needed.

Challenges and opportunities in Indian banking sector

In a few years from now there will be more international players in the Indian financial system and some Indian banks will become international players in the coming years. And the competition is not only with outdoor turf but also in the home field. A new mantra for Indian banks to travel around the world in search of new markets, customers and profits. But to do so the Indian banking industry will have to face some challenges. Some of them are –

I. **FOREIGN BANKS –**

India is experiencing a huge presence of foreign banks over time. As a result many problems will arise as to how small national banks can compete in India, and whether they themselves will need to produce a large international presence? Second, the potential for conflict between foreign regulators and foreign directors: how will this be resolved and resolved in the coming years? It has been observed in recent years that even the strongest regulatory measures taken by regulators in such international banks have had a negligible market or a positive impact on them in terms of stock prices or similar metrics.

II. **GREATER CAPITAL MARKET OPENNESS** –

An important aspect of the Indian financial reform process has been the calibrated opening of the capital account along with current account convertibility. It should be noted that the volatility of capital inflows does not lead to unacceptable disruption in exchange rate determination with inevitable real sector consequences, and in domestic monetary conditions. The vulnerability of financial intermediaries can be remedied through smart regulations and their monitoring; risk management of non-financial organization. This will require market development.

III. **TECHNOLOGY IS THE KEY** –

IT is central to banking. Foreign banks and new private banks have adopted the technology since its inception and continue to do so even now. Although public sector banks have exceeded 70% of computer use, the guideline is 100%. Communication in banks has also been gaining attention in recent times. A common practice in the banking industry is the distribution of ATMs by banks. This is one area where India needs to make a significant ‘catch’. It is wise for Indian banks to use this world-class expertise, available locally, to their full advantage.

IV. **PUBLIC SECTOR BANKS -**

Public sector banks have greater access to distribution, which is why they have the opportunity to successfully contribute to achieving financial inclusion. But they are also the ones who face the most difficult challenges in human resource development. They will have to invest heavily in skills development at all levels: at a high level of setting new goals; intermediate level for the purposes of these purposes; and at the cutting edge lower levels for delivering the new service modes.

V. **COST MANAGEMENT –**

Reducing costs is key to stabilizing bank profitability and long-term performance. In India, however, in 2003, operating costs as part of the total assets of commercial banks set at 2.24%, which is very high compared to other economies. The tasks ahead are thus clear and within reach.

VI. **RISK MANAGEMENT –**

Bankruptcy in today's economy is all about risk management. Successful negotiations and the implementation of the Basel II Accord may lead to a greater focus on risk assessment and risk management at the institutional level. Risk management practices can be an important pillar of stay ahead of the competition. Banks themselves, can create 'early warning indicators' tailored to their needs, business profile and risk appetite in order to better monitor and manage risks.

VII. **GOVERNANCE –**

The level of corporate governance in banks becomes increasingly critical as competition grows, banks strive to retain their customers, and regulators go out of control and management of small rules. The goal should be to strive for excellence. The development of policy framework, regulatory law, market perceptions, and indeed, popular banking sentiment needs to be at the forefront of the agenda - serving the needs of our society and the facts while in line with the global vision.

MERGER OF IDFC BANK AND CAPITAL FIRST NBFC

Collapse of IDFC Bank

This bank started its operation in Oct 2015. After just three years of operation they grew their NPA to almost 5-6%, which is not a common case in Indian private sector banks. Mainly it was due to large chunks of corporate loans IDFC bank was providing. As on SEP 2018, 87% of their loan book was corporate loans. Out of which more than 50% were infrastructure loans which are so much risky in nature. Therefore bank started becoming more and more volatile.

In Nov 2016, when demonetization happened, Most companies who took loan from this bank started defaulting their monthly or quarterly aur semi annually installments, and countdown of bank was started then.

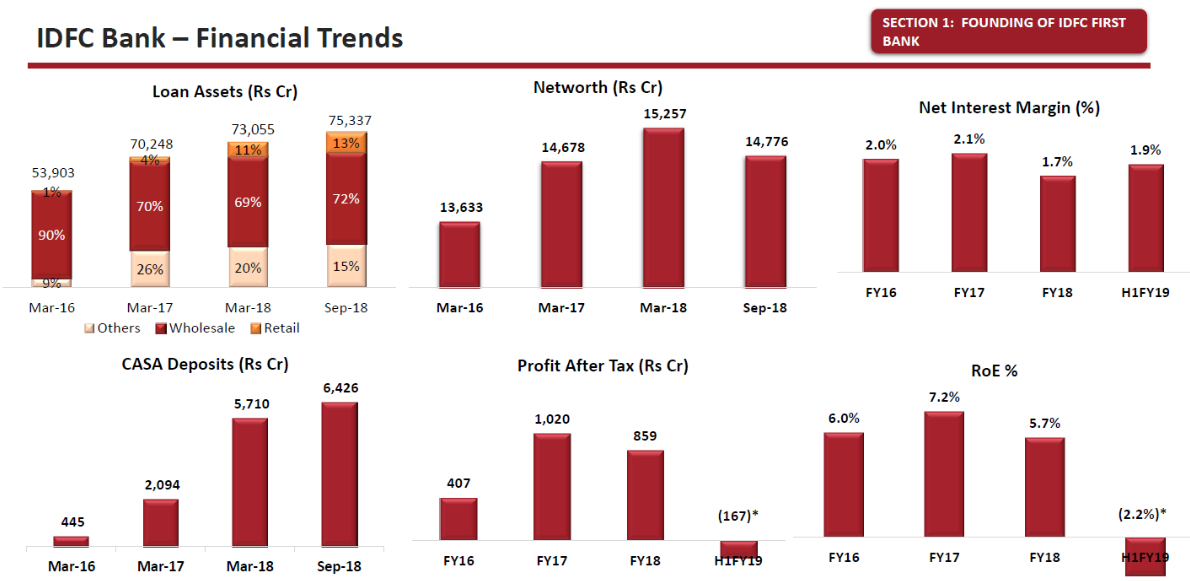
Losses in Annual Accounts

In just 1-2 year of operation bank started posting losses. Their quarterly profits were not consistent, gradually bank was in a great trap of NPAs and was fighting to become profitable again.

Wholesale Loans and Wholesale Deposits

Wholesale Loans problem was the core problem because they were doing it from years, but the other big issue was wholesale deposits unlike of retail deposits they are not stable in nature. Anytime depositor can withdraw whole money from the account which in some serious case can result in Illiquidity.

Other issue is they are costlier in nature, unlike retail deposits on which banks have to pay mere 3-5% interest annually, in wholesale deposits IDFC bank was paying 8% interest. And they were giving loan on an average 10% so their **NIM** (Net Interest Margin) was just 2%.



Stock Performance

Source- Screener.in

EVENTS LEADING TO THE MERGER in January 2018- At IDFC Bank side

IDFC Limited was established in 1997 to fund infrastructure that focuses on project finance and to promote private infrastructure development funds. The Company's ability to influence international financial and Indian financial resources has made it a well-known expert in infrastructure finance.

Dr Rajiv Lall joined the company in 2005 and successfully expanded the business into an Asset Management, Institutional Broking and Infrastructure Debt Fund. He applied for a bank trading license from the RBI in 2013. As a result of his efforts, in 2014, the Reserve Bank of India (RBI) granted IDFC Limited official approval to establish a new private sector bank. Thus Erstwhile IDFC Bank was created by demerger of the infrastructure lending business of IDFC to IDFC Bank in 2015.

IDFC Bank Limited were listed on the exchange list in November 2015. Over the next three years, the bank established a strong and competent framework to integrate strong IT capabilities and infrastructure to expand banking operations. The Bank has developed an effective financial management system for its related business, as well as customer performance management. The bank varies from being a financial sponsor to infrastructure to full banking services. With a large portion (90%) of the bank being a store (infrastructure and corporate loans) as an asset from IDFC Limited until 2017, the company immediately put together a strategy to retailize its loan book. Retail required specialized skills for the marketplace, seasoning, and scale for profitability, the Bank was looking for partners who already have specialized skills, profits and skills, to merge with

As part of its strategy to diversify its loan book from infrastructure, the bank was looking for a merger with a retail finance institution with adequate scale, profitability and specialized skills.

Capital First Before Merger

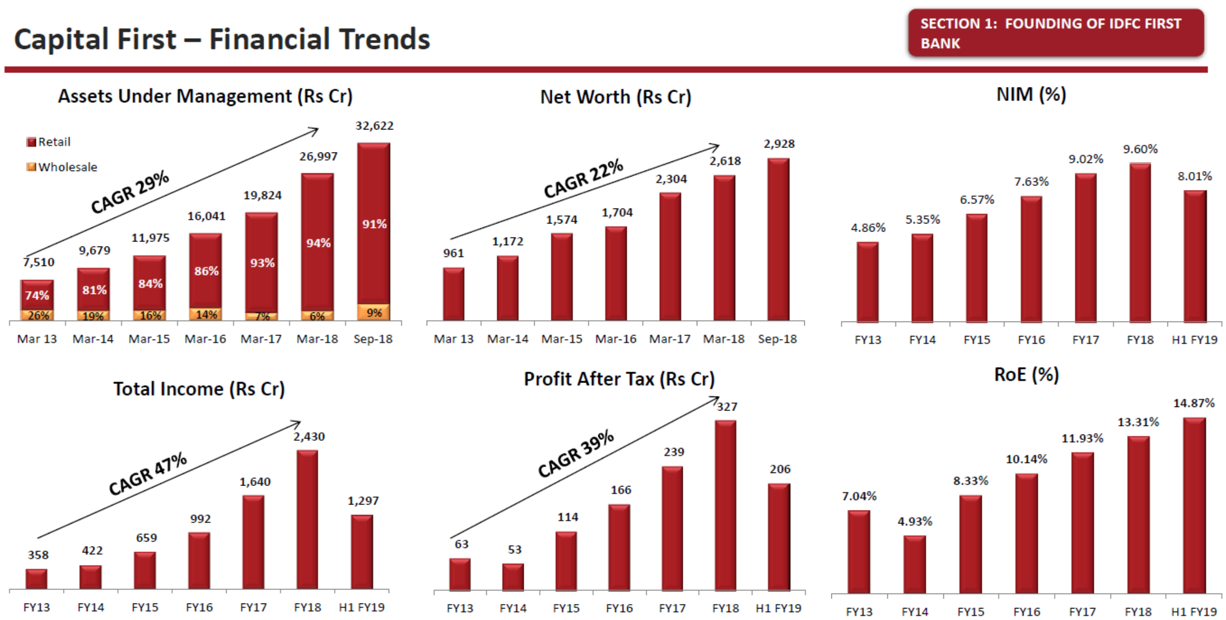
V. Vaidyanathan

(MD & CEO IDFC FIRST Bank)

In 2009 the total Asset Under Management (AUM) of Capital First Ltd. Was 935cr and in 2018 at the time of merger the AUM was more than 27000cr. That is more than 27times in 10years. Shareholders of that company enjoyed CAGR growth of 45-50% for 10 years on their capital.

Before forming Capital first Mr. V. Vaidyanathan was retail head of ICICI Bank, He uses the same pattern in Capital First that he used in ICICI bank. Like his most priority is on retail loans instead of corporate loans. He focuses on Asset Quality, The long term GNPA of capital first was 2% and NNPA was 1%.

Stock Performance



EVENTS LEADING TO THE MERGER in January 2018- At Capital First side

About the same time (2010-2017), when these events were playing in the IDFC Group, some events were playing the same at Capital First. Mr. Vaidyanathan, who built the ICICI Bank Retail Banking business from 2000-2009 and became the MD and CEO of the ICICI Prudential Life Insurance Company in 2009-10, left the group for an entrepreneurial foray.

During 2010-11, he acquired a large number in the NBFC's separate financial list and prepared the company's Leveraged Management Buyout land by introducing commercial businesses to small businesses and consumers. He has created a technology-led sales loan book worth Rs. 770 Cr in March 2011, and presented this as proof of concept to independent international financial players in the Buyout administration. Meanwhile, it has evolved from non-core businesses such as stockbrokers, Foreign Exchange Business, and other unrelated businesses. In 2012, he managed India’s largest Management Buyout by receiving an equivalent subsidy of Rs. 810 Crores from Warburg Pincus, acquired a new partnership with the company and established Capital First as a new organization with new shareholders, a new Board, new business lines, and new equity inclusion. Between March 31, 2010 to March 31, 2018, the Company's Assets Sales under Management increased from Rs. 94 crores up to Rs. 25,243 Cr. The company has supported seven million customers with a new type of age technology. The credit rating has increased from A + to AAA. The Gross and Net NPA decreased from 5.28% and 3.78% respectively to 2% and 1% respectively and the quality of the assets remained consistently high. In addition, the company reversed a loss of Rs. 30 crores and Rs. 32 crores in FY 09 and FY 10 respectively, up to Rs. 327 crores in 2018, represent a 5 year increase in CAGR by 39.5%. Loan assets have grown by 5 CAGR for 29% of the year. The ROE increased slightly from 2.5% in 2013 to about 15%. The company's market share has grown tenfold from Rs. 780 crores in March 2012 during the LBO over Rs. 7800 crores in January 2018 at the time of the announcement of the merger. Funding could be a barrier, so the company wanted a banking license.

Capital First, in the meanwhile, was on the lookout for a commercial banking license in order to access large pool of funds for growth and to access low cost of funds.

Merger in Both Entity (IDFC First Bank)

After merger Mr. V. Vaidyanathan took over the place of MD & CEO of the merged entity. 2018 was the turning point for IDFC First Bank, They changed their whole strategy of banking. Before merger, bank was focused on infrastructure, corporate, wholesale loans and very less in retail. In fact full form of IDFC is Industrial Development Financial Corporation.

But after 2018, V. Vaidyanathan, publicly said after merger that he will change the way bank is working and now bank will only focus on retail and he proved it in less than 3years. Now the bank is a retail oriented bank.

Milestones of CEO and their status

Status of our achievements vis-à-vis Guidance provided at the time of the merger

ASSETS

	Pre Merger		At merger	Post Merger		
Particulars	**Mar-18**	**Sep-18**	**Dec-18**	**Guidance given at the time of merger for FY24-FY25**	**Dec-20**	**Status**
Retail Funded Assets	Rs. 7,038 Cr	Rs. 9,916 Cr	Rs. 36,236 Cr	Rs. 100,000 Cr	Rs. 66,665 Cr	On Track
Retail as a % of Total Funded Assets	10%	13%	35%	70%	60%	On Track
Wholesale Funded Assets	Rs. 53,871 Cr	Rs. 54,084 Cr	Rs. 56,809 Cr	~Rs. 40,000 Cr	Rs. 34,809 Cr	On Track
- of which Infrastructure loans	Rs. 26,832 Cr	Rs. 23,637 Cr	Rs. 22,710 Cr	Nil in 5 years	Rs. 11,602 Cr	On Track
Top 10 borrowers as % of Total Funded Assets (%)	18.75%	17.97%	12.8%	< 5%	6.3%	On Track
GNPA (%)	3.31%	1.63%	1.97%	2-2.5%	1.33%*	On Track
NNPA (%)	1.69%	0.59%	0.95%	1.1.2%	0.33%*	On Track
Provision Coverage Ratio (%)	50%	64%	52%	~70%	75%	On Track

*These figures include the impact of the Supreme Court notification to stop NPA classification post August 31, 2020 till further orders. Without this impact the GNPA as on 31 December 2020 would have been **4.18%** and the NNPA would have been **2.04%**.

IDFC FIRST Bank

Status of our achievements vis-à-vis Guidance provided at the time of the merger

← Pre Merger →← At merger →← Post Merger →

LIABILITIES

Particulars	Mar-18	Sep-18	Dec-18	Guidance given at the time of merger for FY24-FY25	Dec-20	Status
CASA as a % of Deposits (%)	11.54%	12.98%	8.68%	30% (FY24), 50% thereafter	48.31%	Achieved
Retail CASA + Retail Term Deposits as a % of Total Deposits & Borrowings	5.41%	8.91%	8.04%	50% (FY24)	46.83%	On Track
Branches (#)	150	203	206	800-900	576	On Track
Additional Achievements				Revised Guidance		
Customer Deposits <=5 crore as a % of Total Customer Deposits (%)	28%	30%	31%	80%	78%	Achieved
Top 20 Depositors concentration (%)	42%	40%	40%	~5%	10%	On Track

Status of our achievements vis-à-vis Guidance provided at the time of the merger

← Pre Merger →← At merger →← Post Merger →

PROFITABILITY

Particulars	Mar-18	Sep-18	Dec-18	Guidance given at the time of merger for FY24-FY25	Dec-20	Status
Net Interest Margin %	1.58%	1.56%	2.89%	5-5.5%	4.65%	On Track
Cost to Income Ratio (%)*	90.35%	94.47%	80.55%	55%	79.20%	On Track
Return on Asset (%)	0.13%	-1.15%	0.37%	1.4-1.6%	0.32%	On Track
Return on Equity (%)	1.11%	-9.71%	3.66%	13-15%	2.92%	On Track

**excluding trading gains*

Source- https://www.idfcfirstbank.com/

IDFC FIRST Bank

Financials of the two entity just before merger

Financials of the two institutions for the last quarter before the merger (September 30, 2018)

SECTION 1: FOUNDING OF IDFC FIRST BANK

	CAPITAL FIRST LIMITED[1]	IDFC BANK LIMITED
Loan Asset (on-Book)	Rs. 27,351 Cr	Rs. 75,337
% of Retail Loan Assets	89%	13%
Total Borrowing + Deposits	Rs. 24,550 Cr	Rs. 101,232
CASA	-	Rs. 6,426 Cr
Net worth	Rs. 2,928 Cr	Rs. 14,776 Cr
NII	Rs. 615 Cr	Rs. 451 Cr
Total Income	Rs. 695 Cr	Rs. 571 Cr
Opex	Rs. 327 Cr	Rs. 552 Cr
Provisions	Rs. 210 Cr	Rs. 601Cr
PAT	Rs. 105 Cr	Rs. -370 Cr*
NIM%	7.86%	1.85%
Cost to Income Ratio	47.07%	102.01%
RoA	1.57%	-1.17%
RoE	14.46%	-9.51%

Income statement of the merged entity

Income Statement

SECTION 7: FINANCIAL STATEMENTS

In INR Cr	Q3 FY19*
Interest Income	3,664
Interest Expenses	2,519
Net Interest Income	1,145
Fee & Other Income	301
Core Operating Income	1,446
Operating Expenses	1,142
Core Operating Profit	305
Trading Gain	3
Credit Provisions	338
Treasury MTM Provisions on AFS Book	(125)
Profit Before Tax & Exceptional Items	95
Exceptional Items	2,599
Profit Before Tax	(2,504)
Tax	(966)
Profit After Tax	(1,538)

** The P&L for Q3-FY19 represents the combined financials of both merging entities- IDFC Bank and Capital First and are therefore not comparable with the previous quarters of either entities. Hence no reference has been provided for prior quarter or year. From the succeeding quarter, we will represent sequential and corresponding quarter's financials as applicable. The pro-forma results of both entities pre-merger have been provided earlier in the presentation.*

IDFC FIRST Bank

Balance Sheet of The Merge Entity

SECTION 7: FINANCIAL STATEMENTS

Balance Sheet

In INR Cr	Dec-18*
Shareholders' Funds	18,376
Deposits	61,914
Borrowings	68,614
Other liabilities and provisions	8,012
Total Liabilities	**1,56,916**
Cash and Bank Balances	1,636
Net Retail and Wholesale Assets	1,01,694
Statutory Investments	21,456
Trading Investments	22,018
Fixed and Other Assets	10,112
Total Assets	**1,56,916**

** The Balance Sheet as of 31 December 2018 represents the combined financials of both merging entities- IDFC Bank and Capital First and are therefore not comparable with the previous quarters of either entities. Hence no reference has been provided for prior quarter or year. From the succeeding quarter, we will represent sequential and corresponding quarter's financials as applicable. The pro-forma results of both entities pre-merger have been provided earlier in the presentation.*

Path Ahead

1) Asset Strategy

- **Growth of Assets**

• The Bank plans to grow the retail asset book from Rs. 36,236 Cr (December 31, 2018) to over Rs. 100,000 Cr in the next 5-6 years

• The Bank plans to reduce the loans to infrastructure segments (Rs. 22,710 as of 31 December 2018) as they mature.

• For the Non-Infra Corporate Loans, the bank will continue to grow the loan book, based on opportunities available in the marketplace. The bank does not intend to have a specific target on this count.

- **Diversification of Assets:**

The loan book of the bank needs to be well diversified across sectors and a large number of consumers. On (December 31, 2018) the retail book contributes to 34.62% of the total funded assets. The Bank plans to increase the retail book composition to more than 70% in the next 5-6 years.

- **Gross Yield Expansion:**

As a result of the growth of the retail loan assets (at a relatively higher yield compared to the wholesale loans), the gross yield of the Bank's Loan Book is planned to increase from 9.2% (as per Q2-FY19 published financials, before the merger) to ~ 12% in the next 5-6 years. The bank will expand Housing loan portfolio as one of its important product lines.

2) Liability Strategy

- **CASA Growth:**

The key focus of the Bank would be to increase the CASA Ratio from 10.3% (December 31, 2018) on a continuous basis year on year and strive to reach 30% CASA ratio within the next 5-6 years, as well as set a trajectory to reach a CASA ratio of 40-50% there on. Array of digital savings & current accounts are to be offered to the customer base (more than 7 million customers) of Erstwhile Capital First.

- **Diversification of Liability:**

Diversification of Liabilities in favour of the retail deposit (including CASA and Retail Term Deposits) is essential for the bank. As a percentage of the total borrowings, the Retail Term Deposits and CASA is proposed to increase from 10.5% currently (December 31, 2018), to over 50% in the next 5-6 years and set up a trajectory to reach 75% thereafter.

- **Branch Expansion:**

In order to grow Retail Deposits and CASA, the bank plans to set up 600-700 more bank branches in the next 5-6 years from the current branch count of 206. This would be suitably supported by the attractive product propositions and other associated services as well as cross selling opportunities.

3) <u>Profitability</u>

- **Net Interest Margin:**

As the retail asset contribution moves towards 70% of the total fund assets, it is planned that the gross yield will continuously increase. Coupled with lower cost of funds (From improved CASA ratio), it is planned to expand NIM to about 5.5% in the next 5-6 years.

- **Cost to Income:**

The Bank plans to improve C:I ratio to ~50-55% over the next 5-6 years, down from ~80% (post-merger results, Quarter ended December 31, 2018)

Analysis

Reason of Merger (IDFC Bank)

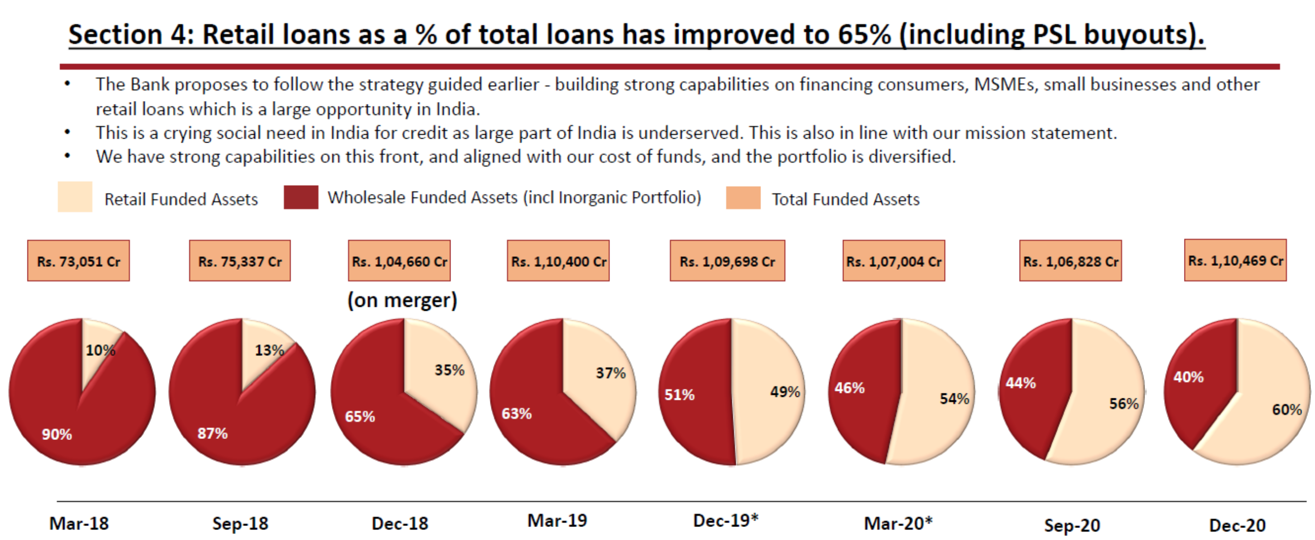
With a large portion (90%) of the bank being a store (infrastructure and corporate loans) as an asset from IDFC Limited until 2017, the company immediately put together a strategy to retailize its loan book. Retail required specialized skills for the marketplace, seasoning, and scale for profitability, the Bank was looking for partners who already have specialized skills, profits and skills, to merge with.

As part of its strategy to diversify its loan book from infrastructure, the bank was looking for a merger with a retail finance institution with adequate scale, profitability and specialized skills.

Reason of Merger (Capital First)

Capital First, in the meanwhile, was on the lookout for a commercial banking license in order to access large pool of funds for growth and to access low cost of funds. But was unable to get commercial banking license from RBI for almost 5years. So they decided to merge with a Bank.

Retail loans increased from 10% to 60% since merger



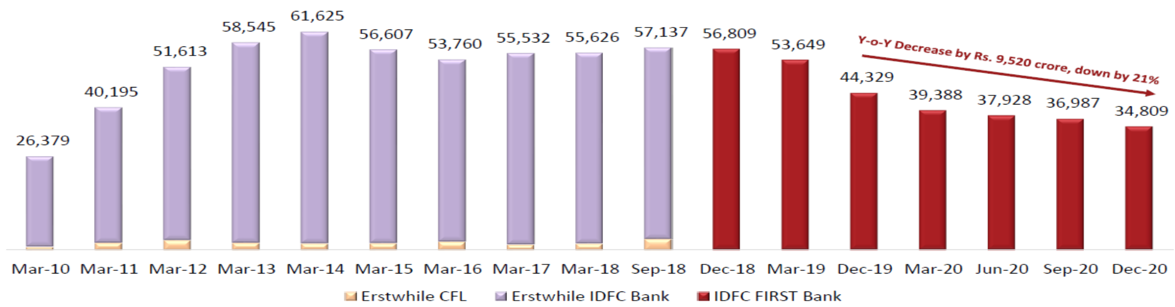
Retail loan was 35% at time of merger i.e, 36000cr, as on 31dec-20 retail loan increased to 60% of loan book i.e, 66281cr. But the overall loan book remained constant, which toally reflect idea of CEO. He wants to make stable asset then they start growing the bank.

Wholesale loans decreasing continuously

Section 4: Wholesale loan Assets have 10 years track record

- Wholesale loan Assets have steadily reduced over the last two years
- Erstwhile IDFC Bank had a significant corporate and infrastructure loan book of Rs. 54,084 crore.
- Post merger, the Bank has gradually reduced the overall Wholesale Funded Assets of the combined entity, in order to diversify the loan book and for better margins.

All amounts are in Rs. crore unless specified

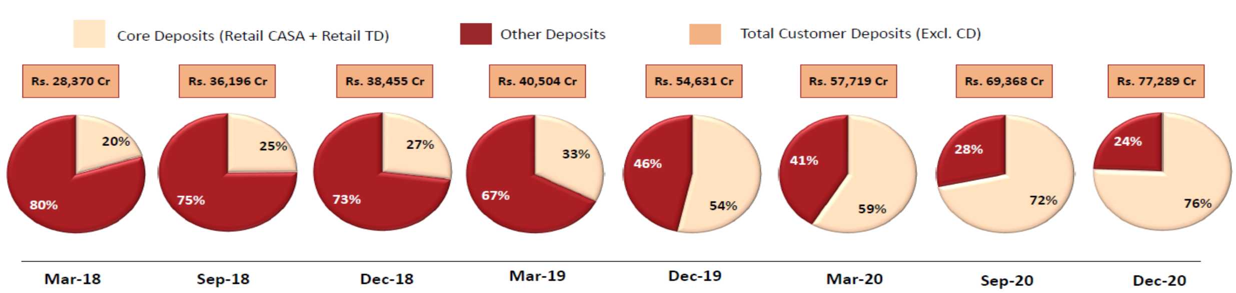


After merger wholesale asset is continuously decreasing quarter by quarter. In last 2 year it has decreased by 21%annually. Since wholesale loans are costlier as well as risky so management wants to decrease it to the extent possible.

Casa deposits increased from 27% to 76% (Retailization of Liabilities)

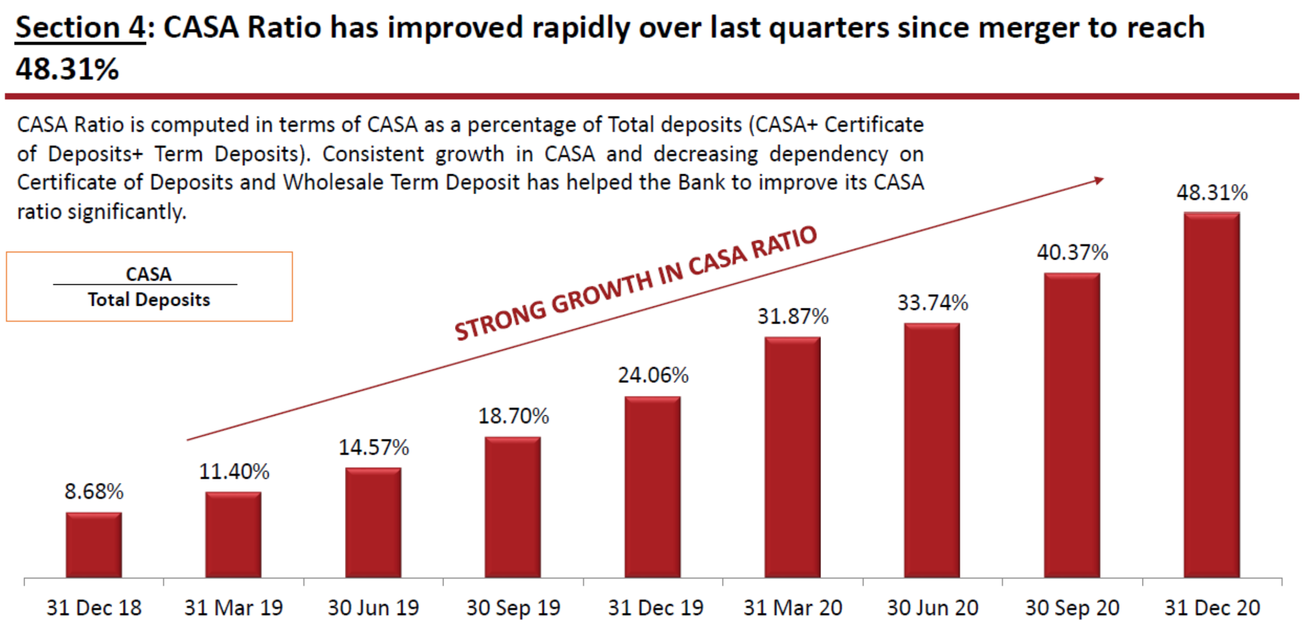
Section 4: The Bank has made rapid progress in retailization of Liabilities. Retail liabilities now comprise 76% of customer deposits, up from 27% at merger.

- The Bank recognises that large institutional deposits pose concentration risk to the Bank.
- Hence, the Bank is focused for retailization of the liabilities which is reflected in the growth in its Core Deposits.
- Such Deposits are sticky and sustainable in nature in comparison to institutional borrowings.
- We are happy to report that the Bank has increased the Core Deposits (Retail CASA + Retail Term Deposits) as a % of Total Customer Deposits of the Bank as on December 31, 2020 to **76%** as on December 31, 2020 from **27%** as on December 31, 2018 (merger quarter).



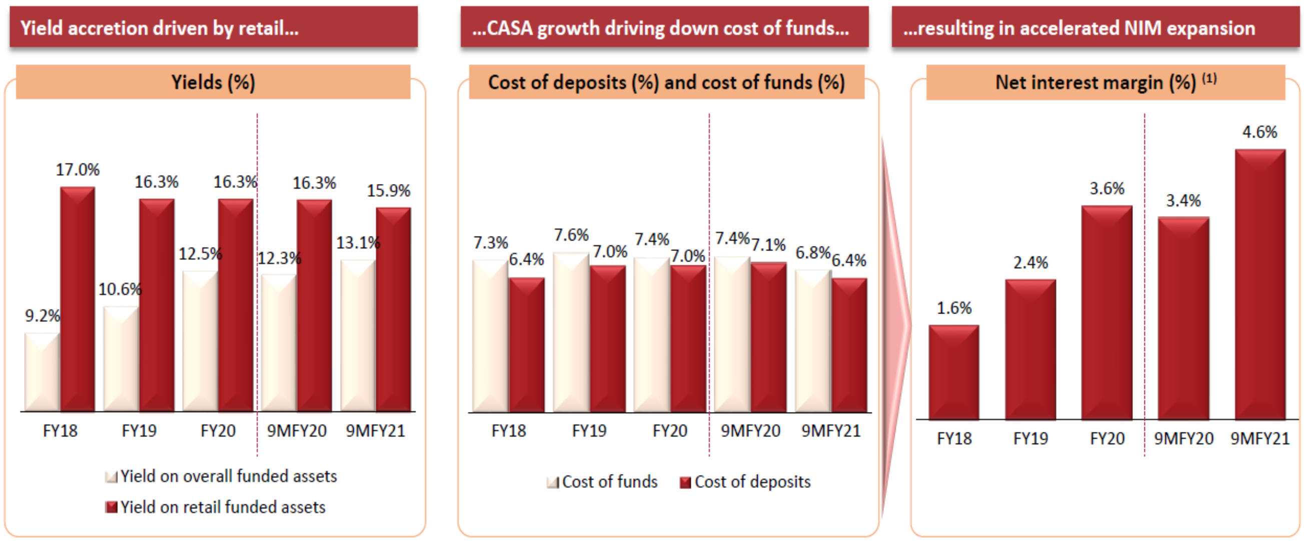
Since merger casa deposits increased from 27% of total deposits i.e, 10300cr to 76% of total deposits i.e, 59000cr. The major two benefits of this deposit is they are very cheap to bank and they are sticky money. So bank can give really long term loans to customers without facing any liquidity issue.

CASA Ratio has improved from 8.68% to 48% since merger



At the time of merger target given by CEO was to achieve CASA ratio of 45% in 5years. But they have achieved almost 50% in just 2years, which happened first time in the banking industry. Prior to this the record was of achieving 50% CASA ratio in just 5years by Kotak Mahindra Bank, but IDFC First Bank have break this record by a huge margin.

Growth in higher yield retail assets with increasing contribution from a low cost retail deposits driving an accelerated NIM expansion



NIM (Net Interest Margin) improved from 1.6% to 4.6% since merger because of growth in retail loans on which yield is 16% so overall yield on loan increased to 13%. Also cost of deposits gradually decreased from 7.3% to 6.8%. So these two altogether resulted in improving NIM of the bank.

Long term target of bank is to achieve NIM of 9-10%, which can happen in next 2-3 years when this bank will also decrease it savings account interest rate from 7% to 3-4% like other big banks. So let say its overall cost of funds will be 4% and yield on overall funded assets will increase to 15%, then bank can easily earn a spread of 9-10%.

If we see the business of capital first since it was NBFC so its cost of fund was expensive (8%) even then in 4-5 year of business they achieved NIM of 9.2% and IDFC First Bank have edge of lower cost of fund, It can borrow money at an avg 4% as compare to 8% of Capital First, so one can imagine the amount of margin this bank can make in coming few years.

Limitation of the study

- The project is carried out for the period of 45 days only.
- Mergers & Acquisitions are difficult to occur, so the details associated with it are very limited.
- It was impossible to cover all the features. This view is a critical limitation.
- Data were collected in secondary data, so limitations occurred in the exact interpretation.
- Also the information was collected from secondary data so sometimes the results may be related to a specific area / feature.
- Since the process of mergers and acquisitions of banks is kept confidential from the general public, so the exact process and the reasons behind it are difficult to obtain.
- Various financial terms related to mergers and acquisitions are difficult to understand.
- It is difficult to explain specific impacts made on consumers from merger and acquisition in the financial services sector.

FINDINGS

The combination of factors - the increase in global competition, regulatory changes, rapidly changing technologies, the need for rapid growth and the strengths of the emerging sectors - have accelerated integration and acquisition (M&A) in recent times. The status of M&A is seen not only in developed markets such as the US, Europe and Japan but also in emerging markets such as India.

Major acquisitions have strategic implications because they leave a small amount of trials and errors and are difficult to reverse. In addition, the risks involved are higher than the financial level. Failed mergers can disrupt work processes, lower customer confidence, damage corporate reputation, cause employees to leave and lead to lower levels of motivation for employees. So the old saying, discretion is the better part of valour, is well and truly applicable here.

A comprehensive assessment of the various risks involved is a must before striking an M&A deal. Circumstances under which the acquisition may fail including the worst case scenarios should be carefully considered. Even if the probability of a failure is very low but the consequences of the failure are significant, one should think carefully before rushing to complete the deal.

Conclusion

After merger of the IDFC Bank and Capital First following changes has been taken place:

- Change in Management
- Loan Customers change from wholesale customers to retail customers
- Change in Liability Strategy
- Decreased dependency on top 20 customers from both Asset and liability side
- Retailization of Bank

After analysing the whole case of merger of the IDFC Bank with Capital First following conclusions can be drawn

If a company have good corporate governance and required skill they can always achieve those milestone which seems unrealistic for whole market.

Like at the time of merger every sing analyst was saying it is not possible to reach a CASA ratio of 24-25 % in 2-3 years for a bank like IDFC which has done nothing in last 3 years. But the management achieved 50% CASA ratio in 2 years. Because they were confident that if customer will see value they will definitely come and this bank is giving the highest interest rate of 7% on savings account in India.

If the management is trustful and transparent then even a complicated merger can happen this much smoothly. And now the bank is running 2-3 years ahead according to target set at the time of merger because of the synergy happened due o merger.

Recommendation

There is no guarantee that a shiny new company will bring in indescribable wealth, and you cannot guarantee that you will not expose your most sensitive information by compromising your network infrastructure. What you can do to reduce the risk of expensive security. Link it to your financial due diligence and make it happen.

- Assess the Business Risk
- Review external boundaries
- Pay attention to attitude
- Review the company's security plan
- Review critical programmes Pay attention to antiviral efforts
- Learn how security intelligence is collected and how programmes are viewed
- Look at emergency response procedures

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