

MANAGEMENT PROGRAMME

Term-End Examination

June, 2017

04821

MS-011 : STRATEGIC MANAGEMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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- Note :**
- (i) *There are two Sections : Section-A and Section-B.*
 - (ii) *All questions carry equal marks.*
 - (iii) *Answer any three questions from Section-A.*
 - (iv) *Section-B is compulsory.*
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SECTION - A

1. What are the different levels of strategy ? Describe each one of them with the help of examples.
2. Explain how the general environment impacts a business. Give examples to support your answer.
3. (a) List and explain the causes of experience - curve effect.
(b) What are the additional considerations for using experience curve effect ?
4. Explain how does an organization 'go international' ? Discuss this in terms of International Expansion.
5. Explain different forms or approaches to organizational structuring by giving examples.

SECTION - B

6. Read the following case and answer the questions given at the end.

Introduction :

In November 2014, Kotak Mahindra Bank Limited (Kotak) announced its acquisition of ING Vysya Bank Limited (ING Vysya), a quasi - foreign bank owned by Dutch multinational, the ING Group, in a full-share deal worth of US\$2.4 billion. The deal, the biggest in the Indian banking sector, created the fourth largest private bank in India with a balance sheet size of ₹ 2 trillion and market capitalization of over ₹ 1 trillion. According to industry experts, this deal helped Kotak to expand its presence in India and to compete with other topnotch private sector players in the Indian banking industry.

According to experts, the Indian banking sector needed such mergers not only to create world-sized banks to compete with foreign banks but also to create banks with a sufficient capital base to fund various large infrastructure projects crucial to maintain the growth of Indian economy. However, industry experts had doubts on the synergies of the merger. They quoted a study by KPMG and Wharton which found 83% of Merger and Acquisitions (M&A) failed to produce any benefits and over half of M&A ended up reducing shareholder value instead of increasing it. Some experts were worried about the various challenges the merger deal threw up, such as the cultural differences between the two banks and the reaction of the employees union among others. However, other experts were positive about the deal.....

Since ancient times, an indigenous banking industry had prevailed in India with some communities being traditionally involved. These communities mostly ran huge businesses apart from the banking business. In fact, the banking business was relatively smaller than their other businesses. They mainly dealt in money lending, did not accept deposits from customers, and discouraged savings. They used their personal wealth and that of their ancestors and income from other businesses for lending purposes. They lent money for personal as well as business purposes and were infamous for the high rates of interest they charged and their unethical banking practices.

The western type of banks came into the picture in the late 18th century in India when Bank of Hindustan was established in 1770 in Calcutta (now Kolkata) in Eastern India. Later, General Bank of India was established in 1786 in Calcutta. Calcutta became the center of banking activities mainly due to the trading activities of British Empire. In the 19th century, the major development in the Indian banking industry was the establishment of three presidency banks by the British East India Company. However, in 1921, these three presidency banks were amalgamated to create the Imperial Bank of India.

M&A Activity In Indian Banking Sector.

The Indian banking sector did not witness too many M&A activities when compared to Western and other countries. After the first stage of nationalization in 1969, only 34 mergers took place in the Indian banking sector. In 26 of these deals, PSBs acquired private sector banks that were on the brink of failure, mostly on a directive from the RBI. The remaining 8 deals happened between private sector banks.

The merger prior to the Kotak and ING Vysya merger in the private sector banking space took place in 2010 when Bank of Rajasthan merged with ICICI Bank in a US\$398 million deal. There were many reasons for the low number of M&As in India. These included restrictive regulations, a major part of the banking industry being owned by the Indian government, and the rigid resistance by strong employees unions.

About Kotak Mahindra Bank Limited (Kotak)

Kotak started as a Non Banking Financial Company (NBFC) - Kotak Mahindra Capital Management Finance Limited (KMCMFL) - in 1985 in India. KMCMFL was renamed Kotak Mahindra Finance Limited (KMFL) in 1985 and it received its banking license in February 2003 to become the first NBFC to be converted into a full-fledged private bank in India. It was renamed as Kotak Mahindra Bank Limited (Kotak).

About ING Vysya Bank Limited (ING VYSYA)

ING Vysya was incorporated as Vysya Bank Limited (Vysya Bank) in 1930 in Bangalore, Karnataka, in Southern India. In 2002, ING Vysya came into existence when the ING Group acquired a major stake in Vysya Bank. This was the first acquisition of an Indian bank by any foreign bank. ING Vysya offered various financial services under four business segments - Treasury, Corporate/Wholesale Banking, Retail Banking, and Other Banking Operations. At the end of FY14, ING Vysya had generated revenue of ₹ 60.72 billion with a net profit of ₹ 6.58 billion.

The Merger Deal

On November 20, 2014, Kotak announced the merger with ING Vysya in an all-stock deal worth of ₹ 148.51 billion or US\$2.4 billion. On regulatory approval, all of ING Vysya's branches and businesses would merge with Kotak. ING Vysya's shareholders would get 0.725 share of Kotak stock for every one stock of ING Vysya they held i.e. 725 shares of Kotak for every 1,000 shares of ING Vysya. This exchange ratio indicated that the implied price of each stock of ING Vysya was ₹ 790 which was based on the average stock price of Kotak and ING Vysya for one month - from October 20, 2014, to November 19, 2014 - which came to ₹ 1089.50 and ₹ 682 respectively.

Synergies Out Of the Merger

The merger increased the geographical presence and further deepened Kotak's network, thanks to the complementary network of ING Vysya. The merger increased Kotak's number of branches and its ATMs network by 47% and 35% to 1,214 and 1,794 respectively. Before the merger, 80% of the Kotak's branches were in the western and northern parts of the country and only 15% were in the southern part of India. On the other hand, ING Vysya had a greater presence in the southern part of the country with 64% of its branches located there and only 32% its branches in the western and northern parts of the country. After the merger, Kotak had a balanced presence in different parts of the country.

Challenges of This Deal

The major challenge was related to human resource management. The salary structure of both banks was also quite different. Around one-third employees of the 10,591 employees of ING Vysya were unionized and their pay structure came under the Indian Banks Association. The employees of ING Vysya were worried whether their pay structure would continue or not. Some of the employees of ING Vysya had other concerns too. Employees in positions like regional manager, sales head, zonal manager, etc., were apprehensive that duplication of positions could lead to transfers or even to their losing their jobs.

Looking Forward

According to experts, completing the deal under the nose of the employees' union was the big challenge for Kotak as the employees had already threatened to go on strike on the issue. In 2009, a merger deal between Federal Bank and Catholic Syrian Bank Ltd. did not go through due to the employees union. The troubles for Kotak were compounded when the Securities and Exchange Board of India (SEBI) started an investigation into unusual trading in the shares of Kotak and ING Vysya before the merger was announced in November 2014.

- (a) Do you think the merger between Kotak and ING Vysya would help the Indian Banking Industry ? Justify.
 - (b) Discuss the synergies of the merger between ING Vysya and Kotak.
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