

MANAGEMENT PROGRAMME

Term-End Examination 06316

December, 2013

MS-11 : STRATEGIC MANAGEMENT

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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- Note : (i) There are two Sections A and B.
(ii) Attempt *any three* questions from section-A, carrying 20 marks each.
(iii) Section - B is *compulsory* which carries 40 marks.
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SECTION - A

1. (a) Explain meaning, nature and essence of strategy giving examples.
(b) Explain the characteristics of strategy.
2. Consider petrochemicals industry and discuss how the external factors influence the said industry. Use PESTEL analysis to explain the concept.
3. (a) What is diversification and explain its rationale ?
(b) Differentiate between concentric diversification and conglomerate diversification giving examples.
4. What are the different methods of control ? Discuss them in brief.

5. Write short notes on **any four** of the following :
- (a) Corporate culture
 - (b) Balanced score card
 - (c) Mission versus Vision statements
 - (d) Mother - Daughter type structure
 - (e) Focus strategy

SECTION - B

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

Synergy in Merger of Centurian Bank of Punjab with HDFC Bank

The banking sector which play a very vital role in the economic development of India has been witnessing tremendous change. The various stages in the banking arena have already begun to feel the heat of the intense competition. M&A is one among the various modes of restructuring resorted by banks to ensure a better growth prospect.

The major M&A activity in banking sector since 2000 are :

- (a) Standard Chartered Bank acquired ANZ Grindlays.
- (b) ICICI Bank acquired Bank of Madura
- (c) Bank of Baroda acquired Benaras State Bank
- (d) Punjab National Bank acquired Nedungadi Bank
- (e) HDFC Bank acquired Times Bank
- (f) Centurion Bank merged with Bank of Punjab
- (g) Centurion Bank of Punjab acquired Lord Krishna Bank

Some of the reasons for the growing tendency of adopting M&A tactics are due to the increasing needs to achieve economies of large scale, brand building, expanding branch networks over a wider geographical area, mitigate the perils of NDA , acquire synergies of expert management to solve the problems associated with capital adequacy norms, to increase the earning capacity and strengthen their capital base. Currently foreign banks have permitted to buy stakes upto 74% in the Indian banks. In order to expand operations and presence in India, the foreign banks would join hands with Indian banks.

HDFC Bank Profile :

HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. The Housing Development Finance Corporation (HDFC) is the promoter company of HDFC Bank. The bank, at present has a network of over 754 branches spread over 327 cities across India, plus a network of about 1,906 networked ATMs across these cities. The bank had issued ESOPs which could be converted into equity shares in the future, has taken into consideration for merger valuation exercise. The shares of HDFC Bank are listed on BSE and NSE. Its American Depositary shares are listed on the New York Stock Exchange. Previously Times Bank has merged with HDFC Bank. Times Bank was a new generation private sector bank established by the Times group. As part of HDFC Bank's strategy of attaining great heights it has merged with Times Bank.

Centurion Bank of Punjab profile :

Centurion Bank of Punjab (CBOP) has a

nationwide reach through its network of 394 branches / extension counters, 452 ATMs and 180 locations. The Centurion Bank was renamed CBOP after its merger with Bank of Punjab. With an appointed date of April 1, 2006, Lord Krishna Bank was also merged with CBOP. CBOP has issued ESOPs and warrants which could be converted into equity shares in the future, was factored into the valuation exercise. The shares of the bank are listed on BSE and NSE, and the GDRs are listed on the Luxembourg Stock Exchange. The major shareholders in CBOP are Bank of Muscat 14.02 percent , followed by Kephinance Investment Mauritius Pvt. Ltd. at 6.13 percent stake. Mr. Rama Talwar Sabre's capital which holds management control, has a stake of 3.48 percent.

Centurion has traditionally adopted the inorganic route to expansion. It took over Bank Muscat's Indian operations in 2003 followed by Bank of Punjab in 2005 and the Lord Krishna Bank in 2006. Centurion has a large presence in the north and a considerable exposure to the agricultural sector, with its merger with Bank of Punjab in 2005. The merger with Lord Krishna Bank in 2006 has brought a large branch network in Kerala. This gave an opportunity to leverage the NRI business in the Gulf. CBOP has faced major issues with the senior management over the last six months before merger, as a result of which people were quitting CBOP. The Bank was also burdened with non - performing assets in trade financing and huge liabilities , as a result of which performance was on a dip.

Key Merger Parameters

Particulars	HDFC Bank	Centurion Bank of Punjab	Combined after Merger
Branches	754	394	1,148
ATMs	1906	452	2,358
Employees (approx.)	23,000	7,500	30,500
Deposits (Rs. Crores)	99,387	20,710	1,20,097
Advances (Rs.crores)	71,387	15,083	86,470
Capital adequacy (%)	13.8	11.5	
NPA (%)	0.4	1.69	

Shareholding Pattern (%)

HDFC Bank	(%)	Centurion Bank of Punjab	(%)
Promoter group (HDFC)	23.28	FII's	26.80
FII's	26.57	Bank of Muscat	14.02
Custodians (ADR)	22.06	Custodians (GDR)	10.68
Individuals	11.00	Individuals	14.24
Others	17.09	Others	45.36
Total	100.00	Total	100.00

Methodology adopted in arriving at Swap Ratio:

Both the banks have agreed on a share swap ratio of 1:29. The share exchange ratio is in line with the suggestions of Dalal & Shah and Ernst & Young, which acted as independent valuers to the transaction. For arriving at the merger swap ratio, they have used the three prevalent methods applied for mergers in India: Net assets Value (NAV) method, Income method and Market price method.

For the market price method, it is considered price quotations of both banks on NSE and BSE for last 2 years, last 6 months, last 3 months and last 2 weeks. It is also considered prices at which both

banks issued significant amount of fresh capital to institutional investors in the last 6 months. It may be interesting to note that as per each of these variations of the market price method swap ratio was coming to around the recommended ratio with 10 percent range or either side. Again, swap ratio as per NAV method comes close to the recommended swap ratio of 29 shares of CBOP for every one share of HDFC Bank.

Synergy :

After the merger, the combined entity would have a formidable network of over 1,100 branches with a wider presence. This would overtake ICICI Bank in terms of branch network (955). However, in terms of balance sheet size, ICICI Bank maintains its lead by a large margin. As on December 31, 2007 the balance sheet size of Centurion Bank of Punjab stands at Rs. 25,403 crore and of HDFC Bank at Rs. 1.31 lakh crore. ICICI Bank's balance sheet stands at a much larger figure of Rs. 3.76 lakh crore.

- (a) How will this merger create a win - win situation for both the banks ? Discuss.
- (b) What impact will this merger have on the customer base and in turn the customer services of HDFC bank ?
