Growth Synergies Achieved by Kotak Mahindra Bank Limited by Being Merged with Ing Vysya

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DOI: 10.29322/IJSRP.9.11.2019.p9514
http://dx.doi.org/10.29322/IJSRP.9.11.2019.p9514

Abstract

Growth synergies have been obtained by Kotak and hence the merger has been a success. Having evaluated the Cost-Benefit Analysis, we obtain that an increase of profit with the benefits including the presence in SME and deposit base strengthening are outweighing the costs in the merger. Additionally, the AT Kearney synergy curve shows us that the initial IT cost and documentation have been short-term issues as with time, the cost efficiencies have expanded as economies of scale was obtained and hence growth synergies would be resulted.

Index Terms
Market Capitalization, Income Redistribution, Revenue Synergy

Introduction

Bigger. Bolder. Better. Kotak Mahindra Bank sent out a message to the whole banking industry with this quote. They spent $2.4 billion at the end of 2014 and merged with ING Vysya. The merger is in its 5th year and has increased Kotak's market share and expanded its customer base, net assets too.
As a result of the merger, Kotak's branches have more than doubled and have established a strong presence in the south of India too. The branches increased from 684 to 1,384 and the ATMs from 1,273 to 2,051. A leader in its small and medium enterprise segment in Europe, ING Vysya has added to Kotak's . From less than 10 per cent of loans, Small Medium Enterprise now contributes about a fifth of Kotak's loan portfolio. Hence, this would lead to the development of Kotak's product portfolio. For comparing the prices listed in the study to US dollar you can use the conversion rate of $1 = ₹70 (Indian Rupee) for convenience.
Challenging existing viewpoints in the Indian banking industry, the research question is worthy of investigation as this industry has seen many mergers where a loss-making bank and a profit-making bank combine, however this is an example of a rare instance where 2 profitable banks have merged to form something bolder and better- a strong entity. The bank is now in its 5th year since the merger and the revenue synergies and the cost efficiencies are particularly alien to the society.

Research and Methodology

To augment my knowledge on mergers and acquisitions, ING Vysya's past company profile and the current position of Kotak Mahindra Bank would be analysed. Scholarly articles such as ' Kotak delivering a steady track ; on track with merger integration' would be studied. Going through both the costs and revenues related with the merger would be efficient as the data would be both accurate and precise. This research aims to measure the growth synergies achieved in the merger through 2 tools through the dual lens of the quantitative and qualitative- Cost Benefit Analysis, and AT Kearney Synergy Curve. A Cost-Benefit Analysis would show the effectiveness of the merger in the last 4 years. Additionally, the AT Kearney Synergy Curve has also been utilised .The curve is used to display the synergies gained by the bank since merging. Hence, this research would analyse both the driving and restraining forces to Kotak since the merger and the synergies it has gained throughout. The position Kotak has reached due to the merger and the strategies it would adopt would also be evaluated.

Studies and Findings

1. **COST AND BENEFIT ANALYSIS**

Benefits-

- Increased Threat to Competitors

After the merger, Kotak Mahindra Bank surpasses Axis in terms of market capitalization to become the 4th largest bank They reached ₹1.20 lakh in 2014 and hence rocketed past Axis Bank with a market capitalization of ₹1,14 lakh . Recently, they also overtook ICICI in terms of market capitalization with ₹2.46 lakh crore, just behind HDFC bank at first. Now, due to the success of the merger, the market capitalization stands at ₹2.48 Lakh Crore.

- Loan Book Has Increased Significantly

Reports from 2016 tell us that its stand-alone loan book grew 3.3% from the previous quarter ago , which is above the 2.4% growth for the industry. The loan book has continued to grow. This growth was driven mainly by the corporate segment. Kotaks subsidiary businesses boosted its combined numbers. Its aggregate loan book increased 4.8% sequentially. Hence, an increase in its loan book has resulted in the overall increase in profits to Kotak Mahindra Bank.

- Deposit base has strengthened

From March 2016 to March 2017, CASA increased from 38.1% to 44%. For Q4 FY17, the mean CASA payments grew up by 35% to ₹60,265 crore in the total deposit. ING Vysya and Kotak both contribute to its deposit base. ING Vysya's healthy growth has been from current account deposits. The deposits grew from ₹23,282 crore in March 2016 to ₹27,261 in March 2017, thus growing by 19% ,and Kotak has built a strong CASA by growth in savings deposits. Reports from 2019, tell us that the deposits grew by 34% to amount to ₹ 73,958 crore. Thus by the facts , we see that the deposit base has strengthened with the combined statistics of the merger.

Costs –
- Provision of Loans has gone up

The combined book was under great stress as it amounted to 2.5% for Kotak Mahindra Bank in June 2015. Additionally, the provisions of loans launched up to ₹148 crore, from ₹84 crore during the same period last year. This is mainly due to the merger with ING Vysya. The bank couldn't cope up with the demand initially and hence consumer satisfaction was comparatively low. With satisfaction low, Kotak would expect a decrease in revenue with people withdrawing their accounts. Hence, as loans weren't maintained, the asset quality decreased.

- Increased Capital Expenditure

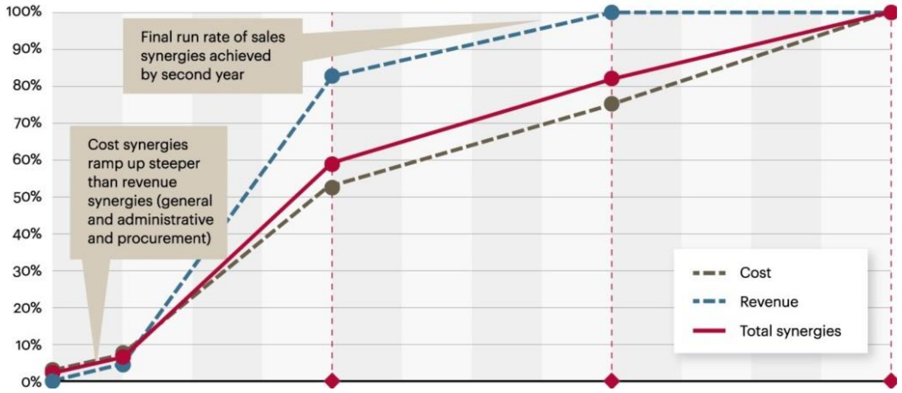
Due to the merger, there was an increase in the branches and ATMs as mentioned earlier in the benefits. This sounds positive; however, some ATMs and branches were very close to each other which brought higher costs to Kotak without impacting revenue as much. The branches increased from 684 to 1,384 and the ATMs from 1,273 to 2,051. This sudden increase served as a negative synergy with the assets not providing enough revenue for them to cover up their costs and turning it to profits for their shareholders in the short run.

- **Unsatisfied employees**

While some employees from ING Vysya were happy to work with Kotak, other employees felt less confident due to job duplication. The number of employees increased from 30,000 to 46,500 after the merger in Kotak. This discouraging mood had impacted the employees and hence their motivation level also decreased which effects the firm negatively. The employees wanted a tri-partite agreement with Kotak that guaranteed job security however Kotak didn't answer and ultimately declined the offer as some employees leaving wasn't a big cost for the firm.

Assessing both the benefits and the costs, it is clear to us that the benefits outweigh the costs. Most of the costs of the merger are short-run and hence in the long run, with factors like economies of scale coming into play, these problems won't occur. Therefore, through this tool we conclude that growth synergies are obtained.

2. **AT KEARNEY SYNERGY CURVE**



In the first year, the cost-efficiency curve gradient was less steep than the revenue synergy curve because of IT costs, legal and general documentation of the merger between Kotak Mahindra Bank and ING Vysya amounted to a stunning ₹63 crores. Hence, the cost synergies wouldn't lift up freely due to the corporate culture change and the dismissal of employees. With a merger comes the combination of 2 cultures into one too and therefore the adoption of new working practices had reduced motivation of some employees which made them quit. Negative synergies have played a major role in allowing the cost synergies to grow in the initial year.

However, after the first year of the merger, uniting both the banks together with the resources they have, economies of scale were gained from the merger. In 2015-16 Kotak Mahindra Bank had registered a PAT of ₹1865.98 crore, about more than ₹350 crore than the previous year. With economies of scale coming into play, Kotak introduced reforms in other departments to increase revenue and decrease cost. Investing in Research and Development, Kotak had brought many technological changes. "Genie" – end to end Sales solution – New functionalities like KBank KYC[1] with promotion strategies such as getting vouchers free for completing KYC, on-line payments, image compression, deduplication, were added in the 2016-17 year.

Although, the costs did increase with the number of employees from 5,563 on March 31, 2016 to 5,806 as on March 31, 2017, the revenue synergies of large-scale operations bettered that significantly. The revenue ₹6101.51 crore in 2016-17 with the personal (employees expenses doubling) and administrative expenses increasing to a great extent, however the PAT had still increased slightly from ₹1865.98 crore to ₹2089.78 crore. In the next 2 years, with the employees cost not changing drastically overall due to the lesser inflow of the same, the revenue synergies had excelled. The firm also introduced Distributor Engagement – Konnect [2]– A chat-based solution enabling active conversation with distributors and providing real time resolution of customer queries on products and commission has been implemented. Moreover, it has also released KEYA, the first bilingual voice bot in Indian Banking[3], thus engaging in customer loyalty with minimum costs. The PBT was registered at ₹4084.30 in 2018, increasing more than two-fold since the start of the merger.

Furthermore, the company has launched zero-balance services from Kotak Mahindra Bank's app which would boosts the revenue due to technologies of scale, while not affecting the costs in the foreseeable future. Hence, the revenue synergies curve would boost up, while the cost synergies curve would increase steadily, thus the slope for revenue synergies would be steeper as profit has been made and hence the gap would augment with the continued trend.

Therefore, due to revenue and cost synergies being obtained as seen through the graphical representation of the curve, we, again, see that growth synergies are acquired due to the merger.

Conclusion

Thus, delving deep into the dual lens of the quantitative and qualitative, the extent to which growth synergies were achieved by Kotak Mahindra Bank Limited by being merged with ING Vysya has been proven. Both, the cost and benefit analysis and the AT Kearney synergy curve has helped us in reaching to the conclusion.

Appendix

Kotak Mahindra Bank Profit and Loss Statement

Standalone Profit & Loss account	**------------------- in Rs. Cr. -------------------**				
Net Profit for the Year	**4,084.30**	**3,411.50**	**2,089.78**	**1,865.98**	**1,502.52**
Profit brought forward	10,756.29	8,214.12	6,769.97	4,005.29	3,016.60
Total	**14,840.59**	**11,625.62**	**8,859.75**	**5,871.27**	**4,519.12**
Equity Dividend	114.21	0.07	91.84	82.07	63.08
Corporate Dividend Tax	21.70	-0.68	18.70	13.58	8.69

[1] Appendix 3
[2] Appendix 3
[3] Appendix 3

Per share data (annualised)					
Earning Per Share (Rs)	**21.43**	**18.53**	**11.39**	**24.16**	**19.51**
Equity Dividend (%)	14.00	12.00	10.00	18.00	16.00
Book Value (Rs)	196.69	150.01	130.61	183.09	159.35
Appropriations					
Transfer to Statutory Reserves	1,100.08	869.94	535.10	587.06	366.93
Transfer to Other Reserves	0.01	0.00	-0.01	93.30	75.13
Proposed Dividend/Transfer to Govt	135.91	-0.61	110.54	95.65	71.77
Balance c/f to Balance Sheet	13,604.60	10,756.29	8,214.12	5,095.26	4,005.29
Total	**14,840.60**	**11,625.62**	**8,859.75**	**5,871.27**	**4,519.12**

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