IDBI’S MERGER WITH IDBI BANK

Brand: Mehta Solutions
Product Code: case465
Weight: 0.00kg

Price: Rs500

Short Description

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case study

Description

IDBI, one of India’s leading Development Financial Institutions (DFI), .merged with IDBI bank, its banking subsidiary, in a move aimed at consolidating businesses across the value chain and realizing economies of scale. IDBI was established on July 1, 1964, under an Act of the Indian Parliament, as a wholly owned subsidiary of the Reserve Bank of India (RBI). It was entrusted with the responsibility of providing credit and other facilities to India’s then developing industry. IDBI Bank, the banking arm of IDBI, was created in September 1994. The case discusses the rationale for IDBI opting for a merger as opposed to other options including financial restructuring. Development financial institutions such as IDBI had become irrelevant with the changing economic scenario in India, and were also commercially unsustainable because of the high cost of funds and vulnerability to asset-liability mismatches. At the same time, there were also disadvantages to the merger. The merger happened on the assumption that the advantages outweighed the disadvantages.

Issues:

» Business restructuring as a means to steer troubled FIs to profitability.

» Pros and Cons of merger of a DFI with a bank

Introduction

On April 2, 2005, the merger of IDBI Bank Ltd. (IDBI Bank), the banking subsidiary of Industrial Development Bank of India (IDBI) with its parent company (IDBI held 57% stake in IDBI Bank) was announced. However, the merger was to be effective retrospectively from October 1, 2004. The swap ratio was established at 1:1.42 , that is, IDBI issued 100 equity shares for every 142 equity shares held by the shareholders in IDBI Bank. The merged entity was to be called IDBI Ltd…

Questions for Discussion:
Critically examine the business restructuring strategy adopted by Investment Development Bank of India (IDBI) to ensure its survival and improve competitiveness.

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