Mergers, Acquisitions and Regulatory Architecture: Legal Dimensions of India's Banking – Fintech Convergence in 2025

Pranjal Adhikari, BA LLB, Lords Universal College of Law, Goregaon, Mumbai.

Abstract

The article will discuss how the mergers and acquisitions (M&A) deal boom in the Indian banking and fintech sectors is transforming competition in the market, the degree of innovation, and market penetration by 2025. It is determined through case law, statutory structures, and current deal figures that the trend is driven by economic, technological, and policy factors. Among the key experiences are some of the large deals that included the HDFC Bank Merger, the termination of the PayU-Billdesk transaction on the regulatory aspect. It is due to the wide economic growth, high rate of digitization, and the laxity level of the FDI norms that financial services M&A only reached 5.2 billion dollars in the Q1 2025 alone. However, some of the greatest challenges faced by the industry are stricter regulations by various bodies, valuation disagreements, and the burden of adhering to the new law on data privacy of India. This means that M&A is causing increased penetration of finances and technological evolutions; nevertheless, it will require a suitable and efficient regulatory mechanism to perpetuate the trend. It is proposed that a single fintech market be built and this would assist in enhancing competitiveness within an international market, at least, in an electronic economic environment.

Introduction

Mergers and Acquisitions (M&A) Mergers and acquisitions in the banking and fintech industry can be described as the amalgamation of financial entities, which may be a merger of two organizations creating a third organization or the acquisition of one corporation by another. The regulatory regime that is enforced in India is a characteristic feature of the activity because of the systematic importance of the sector to the financial stability, consumer trust, and economic growth.

Although the central bank, the Reserve Bank of India (RBI), imposes strict regulations in the banking industry, the fintech sector must sometimes deal with a layered regulatory environment that has the Securities and Exchange Regulatory Board of India (SEBI), the Competition Commission of India (CCI), and the, in some cases, the Insurance Regulatory and Development Authority of India (IRDAI).

The M&A market in India was worth $29 billion in Q1 deals in 2025, and only financial services had $5.2 billion[1]. The factors behind the trend are consolidation within the industry, adoption of innovative digital services, namely UPI and artificial intelligence, along with high levels of private equity interest. M&A gives banks scale and effective operational structure; to fintechs, scale is access to capital, licenses, and entrenched

[1] Sudhanshu Singh, India's M&A Outlook 2025: Domestic Strength and Sectoral Drivers, 2025, India Briefing, https://www.india-briefing.com/news/indias-ma-outlook-in-2025-37316.html

distribution networks. The paper decodes the laws, landmark deals, business issues, and new regulatory patterns that define M&A in these directions.

Understanding the Banking and Fintech Sectors in India

There are three types of banks in India: public sector banks (PSBs), private banks, and cooperative banks, and their assets amounted to more than 2.5 trillion in 2025. PSBs have a 60% share; however, the innovation is led by the private banks, such as the HDFC Bank and ICICI Bank.[2] The fintech industry, currently worth 150 billion dollars, has seen an incredible expansion owing to digital payments (UPI had 16 billion transactions in June 2025), lending (Razorpay, KreditBee), and neobanks (Jupiter, Fi). The fintech sector utilizes technological opportunities and provides affordable and accessible services, which attracts the attention of 100 million users by the year 2024.[3] The banks are buying fintechs to expand into digital platforms, like Axis Bank acquired Paytm's infrastructure. Fintechs, on the other hand, also join forces with banks through acquisitions or mergers to obtain capital and licenses, as is the case with Slice and North East Small Finance Bank. Such synergies are market penetration and innovation creators, which are within the domain of the 'agenda of India concerning its digital economy'.

Legal Framework Governing M&A in India

(A) General Corporate:

1. **Companies Act, 2013 (Sections 230-234)[4]-**

   The law deals with mergers (the combining of companies), amalgamations (the absorption of one company in another), or rearrangements (such as demergers). You must have the **National Company Law Tribunal (NCLT)** advise.

   - Shareholders and creditors holding at least 75% in value must approve.
   - Final approval comes from NCLT, which usually takes 6-8 months but can get delayed if regulators raise concerns.
   - For smaller mergers (like a fintech subsidiary merging into its parent), **Section 233** allows a fast- track route that avoids NCLT and takes about 2-3 months, unless objections push it back to NCLT.

2. **Foreign Exchange Management Act,1999 (FEMA)[5]-**

   FEMA governs cross-border investments.

   - In banking, up to 74% FDI is allowed automatically; anything higher or from countries like China needs government approval, slowing the process.
   - In fintech, 100% FDI is generally allowed, which makes global acquisitions easier.

[2] Shahrukh Madni and Cheska Lozano, Indian banks grow total assets buoyed by strong economy, 2024, S&P Global, https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/6/indian-banks-grow-total-assets-buoyed-by-strong-economy-82040159

[3] India's UPI Revolution, 2025, Government of India Press Information Bureau, https://www.pib.gov.in/PressNoteDetails.aspx?ModuleId=3&NoteId=154912&utm_source

[4] Companies Act,2013, Sections 230-234.

[5] Foreign Exchange Management Act, 1999, Section 6.

- The 2024 FEMA changes simplified share swaps, making it easier for foreign companies to merge or shift holding structures back to India (reverse flipping).

3. **Income Tax Act,1961[6]-**

Tax treatment can make or break an M&A deal.

- **Section 2(1B)** allows tax-free mergers if conditions are met; otherwise, capital gains tax applies.
- Slump sales (commonly used in NBFC takeovers) have separate tax rules and need advance structuring.
- Fintech startups often enjoy tax incentives, but these can be lost when integrated into regulated banking structures unless carefully planned.

(B) Sector Specific Regulatory Approvals:

1. **RBI Guidelines-**

In the M&A of Banks, RBI is the gate regulator.

- The **Banking Regulation Act,1949,** under **section 44A**[7], necessitates that all mergers between private banks come through the approval of the RBI.
- RBI explores the moral aptness of promoters, capital sufficiency, and post-merger administration.
- With regards to the Fintech tie-ups, the **Master Directions on Amalgamation of 2016**[8] and the **Digital Lending Guidelines of 2022**[9] hold the key. Any merger that dilutes consumer protection, quality of assets, and KYC requirements is likely to be frozen.

2. **SEBI Regulations-**

SEBI rules enter the picture in case of a listed bank or fintech.

- According to the **Takeover Code (2011)**, anyone intending to purchase a superior part of shares should offer an open offer to the rest of the shareholders in case they want to buy more than 26% of shares.[10]
- **LODR Regulations** guarantee disclosures of material events and thus, merger talks and ratios of swaps can no longer remain secret for long. This can be practically done through disclosures in time, and previous planning of open offers to avert volatility in the share price.[11]

3. **CCI Clearance-**

The **Competition Commission of India** considers the deal to determine whether there is a reduction in competition.

---

[6] Income Tax Act,1961, Section 2(1B).
[7] The Banking and Regulation Act, 1949, Section 44A.
[8] Master Directions on Amalgamation of 2016, 2016, Reserve Bank of India, https://www.agloc.org/pdf/rbi_Master_Direction.pdf
[9] Reserve Bank of India, 2022, https://fidcindia.org.in/wp-content/uploads/2022/09/RBI-GUIDELINES-ON-DIGITAL-LENDING-02-09-22.pdf
[10] Takeover Code, 2011, Section 3(1).
[11] Regulation 30 read Schedule III, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

- Previously, one large-asset/ turnover transaction was subject to confirmation. However, with the 2024 Deal Value Threshold (INR 20 billion), even high-value deals in the fintech sector (little turnover, but very high valuations) will now require clearance.[12]
- CCI particularly raises concerns about UPI-based Fintech mergers concerning dominance.

4. **IRDAI-**

In the case of an insurance-linked Fintech, or a bancassurance tie-up, a permit should be obtained from the IRDAI.

- Case in point- The acquisitions made by HDFC Life needed to go through the checks by IRDAI.
- This would increase by one regulation layer when it comes to any transaction with bancassurance products or insure-tech products.

5. **Data Protection Laws-**

The nature of Fintech deals is data-intensive, and this is where the **Digital Personal Data Protection Act,2023,** comes in handy.

- To ensure the target companies meet data localization, consent frameworks, and security protocols, buyers will have to perform a data due diligence.
- The compliance within the **Digital Payments Infrastructure (DPI)** framework, particularly those companies with UPI-based operations, creates further compliance mandates, which require their due diligence processes to be longer and costly.[13]

6. **Insolvency and Bankruptcy Code (IBC),2016-**

A lot of the M&A transactions in the banking and fintech segment demand distressed NBFCs or startups.

- Buyers can purchase stressed assets using IBC to purchase them at a discount and in a structured process.
- Insolvency costs and secured creditors have priority under the **waterfall mechanism in Section 53**[14], and in many cases, fintech investors and equity holders chalk up little or no recovery.
- In practice, IBC-induced acquisitions are faster yet extremely creditor-induced and therefore do not offer the buyer a high degree of flexibility during negotiations.

[12] Archana Rao, India's Anti-Trust Law Updates: Stricter Scrutiny, New Thresholds, and Faster Approvals, 2024, India Briefing, https://www.india-briefing.com/news/india-antitrust-law-amendments-competition-act-2023-september-2024-updates-34652.html
[13] Prashant Phillips and Sameer Avasarala, Digital Personal Data Protection Act- Implications for Financial entities and fintech sector, 2023, Lakshminarayan Sridharan attorneys, https://www.lakshmisri.com/insights/articles/digital-personal-data-protection-act-implications-for-financial-entities-and-fin-tech-sector
[14] Insolvency and Bankruptcy Code, 2016, Section 53.

Recent and Landmark M&A Deals: Case Studies

1. **ICICI Bank & Bank of Rajasthan (2010)[15]:**

- Deal- ICICI Bank bought the Bank of Rajasthan in a share-exchange transaction of $668 million, and with 463 branches, it boosted its presence in the rural market.
- Legal Framework-
  - Section 44A, Banking Regulation Act,1949- Bank mergers have to be approved by the RBI.
  - Companies Act, 2013, under sections 230 & 234- scheme of sanction by Company Court/ NCLT.
  - SEBI Takeover Code- provided fairness in the ratio of share-swap.
- Challenges-
  - Valuation disputes- Fairness opinions are used.
  - Promoter malpractices- Bank controls were put in place by the RBI.
  - Integration of the employees- legal drawing was done to facilitate a smooth transition.
- Impact-
  - The presence of the branch network increased by 25% as ICICI increased low-cost deposits.
  - Provide a benchmark of what is to be expected by RBI with M&As of banks in the future.

2. **HDFC Ltd. & HDFC Bank Merger (2023)[16]:**

- Deal- A $57 billion merger, creating India's second largest bank with an asset base of over $250 billion.
- Legal Framework-
  - Companies Act, 2013 (Sec. 230-234)- NCLT sanctioned the scheme.
  - Banking Regulation Act, 1949 (Sec. 44A)- RBI approval mandated.
  - Competition Act, 2002- CCI clearance obtained to avoid dominance concerns.
  - SEBI LODR & Takeover Regulations- Ensured disclosures and shareholder protection.
- Challenges-
  - IT system integration- Delayed realization of operational synergies.
  - Staff realignment & duplication- Addressed via restructuring frameworks. ○Mortgage regulatory overlap- Required careful RBI-NHB coordination.
- Impact-
  - Strengthened HDFC Bank's retail lending and digital banking capabilities.
  - Improved access to low-cost deposits, enhancing profitability.
  - Set a benchmark for mega-mergers in Indian Banking.

---

[15] Dr. Mary Vimochana, Merger and acquisition of banks with special reference to ICICI and Bank of Rajasthan, 2017, International Journal of Multidisciplinary Research and Development, https://www.allsubjectjournal.com/assets/archives/2017/vol4issue5/4-6-173-735.pdf

[16] Tapamoy Ghose, Hdfc Bank And Hdfc Ltd Merger: A Competition Law Scrutiny, 2022, The RMLNLU Law Review Blog, https://rmlnlulawreview.com/2022/10/07/hdfcbankmerger

3. **BharatPe-Trillion Loans (2023)[17]:**
   - Deal- BharatPe acquired a 51% controlling stake in Trillion Loans to expand into the NBFC lending space, targeting SMEs and retail borrowers.
   - Legal Framework-
     - RBI Approval- required for change of control in an NBFC.
     - FEMA,1999- Applied to funding structure, ensuring compliance with foreign investment norms.
     - Companies Act, 2013 (Sec. 230-234)- Governed share acquisition and structural arrangements.
   - Challenges-
     - Due diligence gaps- Identified compliance and reporting lapses within Trillion Loans.
     - Restructuring requirements- Deal had to be modified to meet RBI's fit-and-proper criteria.
     - Capital adequacy checks- Ensured alignment with NBFC prudential norms.
   - Impact-
   - Enabled BharatPe to diversify from payments into lending and credit solutions.
   - Strengthened SME-focused portfolio, complementing its fintech ecosystem.
   - Positioned BharatPe for long-term competition with banks and other NBFCs.

Empirical Evidence from Recent Studies

In 2025, the study of the effect of fintech acquisitions on the acquirers in India conducted an analysis of 155 M&A transactions carried out from 2010-2023 using fixed effect panel regression and generalized method of moments.[18] In the most significant results presented, the research indicated that fintech acquisitions were described as a two-edged sword due to significant positive net effects on average share price (ASP) signaling improved market valuation and negative net effects on the return of assets (ROA) and net profit margin (NPM). The liquidity had also increased through an increased current ratio (CR), and the financial leverage (FL) had conversely leaned more towards a better equity base. The paper raises the issue of ensuring effective post-merger integration and strategic convergence to achieve long-term gains and states the dangers of operational efficiency despite the environmental perceptions.

Challenges in M&A Transactions in Banking/ Fintech Sector

- RBI Warning Ownership: The RBI limits the fintech ownership shift, calling the move towards financial stability, which complicates deals such as a merger of Slice Bank with North East Small Finance Bank.

[17] BharatPe acquires 51% stake in Trillionloans, 2023, https://bharatpe.com/presslisting/press-release/bharatpe-acquires-51-stake-in-trillion-loans/

[18] Manoj Panda, Pankaj Sharma, Manohar Kapse and Vinod Sharma, The Impact of Fintech Acquisition on Acquirers in India: A Study on Financial Performance and Parameters, AAB & FJ, https://www.uowoajournals.org/aabfj/article/id/1595/

- Valuation Challenges- Fintech new entrants such as Paytm or KreditBee may not be going with a constant revenue stream, and potential valuation slippage risks will emerge, as experienced during the PayU-Billdesk transaction.
- Cybersecurity and Data Privacy- As specified in the DPDP Act, data protection is highly required, making the due diligence of fintech M&A very demanding, especially in P2P platforms.
- Jurisdictional Overlaps- There is no unification or harmonization of various regulators (RBI, SEBI, CCI, IRDAI) to result in compliance overload.
- Due Diligence Complexity- AML and KYC compliance of NBFCs, P2P platforms, is under the spotlight as has been seen in the international examples, such as the Blue Ridge-FVCBnakcrop.
- Acquisition Post-performance- Risks- Empirical research reveals a drop in the ROA and NPM, and the risk of integration in the presence of positive gains in the market.

Conclusion

Q1 2025 is a time of expansion, innovation, and financial equality through M&A in the Indian Banking and Fintech sectors, with a healthy quarter Q1, deal volume of $5.2 billion in 2025.[19] Companies Act, 2013, and RBI, SEBI, and CCI regulations give a complete picture, yet overlapping authorities and the sin of data privacy still remain. The strategy, as well as the departure of regulators in the PayU-Billdesk transaction, can be seen as a banner to go strategically and be compliant. New tendencies, including UPI internationalization and international investments, are signs of a bright future. It is essential to strike a balance between innovation and regulation to keep generating M&A impetus to make India a global leader in the digital economy.

[19] Sudhanshu Singh, India's M&A Outlook 2025: Domestic Strength and Sectoral Drivers, 2025, India Briefing, supra note 1.