THE IMPACT OF MERGERS AND ACQUISITIONS ON THE FINANCIAL PERFORMANCE OF INDIAN BANKING SECTOR: AN ANALYTICAL STUDY

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ABSTRACT

An efficient and sound banking system is one of the cornerstones of a strong economy. India's banking system differs greatly from that of other Asian countries due to the nation's distinct geographic, social, and economic attributes. The banking industry makes a significant contribution to the Indian economy by providing timely loans to all societal segments while also collecting deposits from them. Commercial banks promote balanced regional development in India by providing the required financial infrastructure and finances for underdeveloped areas. They also encourage individuals to preserve their money and use it for investments in profitable endeavours, so fostering economic growth and resulting in a significant boost to employment prospects. In recent times, the Indian banking sector is an industry that is expanding quickly and changing its shape through mergers and acquisitions with prime objectives to control the rise in bad loans or non-performing assets, robust financial health, upgradation of technology and ensure better scale efficiency. Numerous domestic and foreign banks are involved in merger and acquisition activities. This study tries to examine how major mergers and acquisitions have operated in the Indian banking industry. A crucial pre-requisite is the integration of the Indian banking sector through mergers and acquisitions based on business considerations and strategies. Bank mergers encourage institutions to expand globally and create better synergy while also enabling larger banks to acquire the troubled assets of smaller banks. Thus, the present paper is an initiative to elucidate the need for bank mergers and acquisitions and to study the impact of such mergers and acquisitions on the equity shares of the shareholders' capital and on the financial performance of the concerned banks.

Keywords: Indian Banking Sector, Mergers, Acquisitions, Stakeholders, Equity Shares, Synergy, Financial Performance.

INTRODUCTION

Growth is the rule in today's world of fierce competition. A company can grow both internally by increasing operations and creating new divisions as well as externally through mergers and acquisitions (M&As), takeovers, amalgamations, joint ventures, etc. Mergers and acquisitions have been the most popular long-term strategy for company restructuring and strengthening in the current globalised world as the level of competition increases day by day.

Banks, like all other business entities, must take precautions against risks and take advantage of possibilities that are made available by current and anticipated trends. To stay effective and sustainable in the face of an environment that is rapidly changing, the banking industry is turning to corporate restructuring, consolidation, and strengthening. Because of this, mergers and acquisitions have emerged as the go-to method for increasing the size of banks, which in turn significantly affects their ability to enter the global financial market.

A bank acquisition occurs when one business purchases another, typically smaller one. The smaller bank ceases to be an independent entity and merges into the larger bank. Depending on the conditions of the agreement, the bank might retain its previous name or it might be incorporated into the bigger bank. Bank mergers give the institution more strength to endure in the dynamic corporate environment. The weaker banks can easily adjust to changing market conditions and expand in both the domestic and global financial markets through mergers.

The dilemma of whether or not bank mergers should be regarded as new developments in the Indian banking industry now emerges. The answer to this concern is that bank mergers have been a part of the Indian banking industry for quite a long time. Bank mergers have been a common occurrence in India since before independence. The first bank merger in India took place in 1921 when the Bank of Bengal, Bank of Bombay, and the Bank of Madras amalgamated with what is now known as the State Bank of India.

In the Indian banking industry, mergers and acquisitions are an important activity that benefit both the economy of the nation and the banks themselves financially. Today's corporate clients' preferences and assumptions are changing, forcing banks to reassess their operations and develop brand-new technologies to support them. The central government in India severely restricts the financial system, depriving it of the independence that would allow for mechanical advancement, ongoing development, and fierce competition. Consolidation strategies like mergers and acquisitions (M&A) become one of the most practical methods for gaining the edge under these circumstances.

The recent bank mergers in Indian banking sector are as follows:

Sr. No.	**Name of the Acquiring Bank**	**Name of the Banks Merged**	**Year of Merger**
1.	Indian Bank	Allahabad Bank	April 1, 2020
2.	Union Bank of India	Andhra Bank & Corporation Bank	April 1, 2020
3.	Punjab National Bank	Oriental Bank of Commerce & United Bank of India	April 1, 2020
4.	Canara Bank	Syndicate Bank	April 1, 2020
5.	Bank of Baroda	Dena Bank & Vijaya Bank	April 1, 2019
6.	State Bank of India	○ State Bank of Bikaner & Jaipur ○ State Bank of Mysore ○ State Bank of Patiala ○ Bharatiya Mahila Bank ○ State Bank of Travancore ○ State Bank of Hyderabad	April 1, 2017

The Need for Bank Mergers and Acquisitions - The Indian banking industry has been perfectly shaped through mergers and acquisitions. There is always optimism for an improvement in the current situation after bank mergers, despite the fact that there appear to be different perspectives on this particular topic. The following are the points explaining the need for bank mergers and acquisitions-

- *Reduction in the cost of banking operations*- By lowering deposit rates, merging with a larger bank will enhance banks' profit margins. A bigger organisation can better manage its short and long-term liquidity. Overnight borrowing in the call money market and from the RBI via the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) will be less required.
- *Expanding the geographic range*- The geographically concentrated regionally present institutions will be able to broaden their clientele by using their combined experience as a result of the merger. The number of branches and ATMs available to customers will increase.
- *Improved risk management and decrease in NPAs*- The burden on the central government to recapitalize the public sector banks will significantly decrease with a stronger capital base and greater liquidity. Big banks would be able to offer large loans on their own without joining a consortium since they would have a wider capital base.
- *Overcoming technological gaps*- The banks will be able to overcome any gaps in their product or technology through mergers and acquisitions. A larger bank purchasing a smaller bank may enable the smaller bank to drastically update its technology platform.
- *Lessen the degree of inefficiency*- The level of inefficiency, which is higher in small banks, will be reduced thanks to the broad experience in every area of banking operation that is now available. Consolidating the banks into smaller, healthier banks could benefit the system.
- *Integrated expansion of the banking industry*- The Greater Bank size will enable the combined banks to provide more goods and services. Small banks can expand more safely if they combine to form larger institutions with the capacity to appraise huge projects and corporations.

- *Positive Synergies*- One plus one is more than two, and this is the basic justification for mergers and acquisitions. When two businesses merge, their main goal is to produce a result that is better than the combined impact of the two businesses acting independently.

REVIEW OF LITERATURE

Under the title “A Study of Mergers and Acquisitions in Indian Banking Sector”, ***Srivastava Nidhi et al. (2022)*** focused on the Mergers and Acquisitions (M&A) that have taken place in the Indian financial sector to understand the long-term effects of the merger and any ensuing cooperative synergy. The findings of the study revealed that the current banking formative approaches are paving the way for a simpler framework by removing obstacles to reinforcement. It further stated that the combination of two powerful banks can create the amount of synergy necessary for them to compete on a global scale. The researchers find out that it is possible that not all banks experience the same influences on M&A performance. As opposed to that, a disastrous merger may disrupt business operations, reduce client confidence, damage the company's credit, result in the departure of representatives, and lower employee inspiration levels.

Gupta Komal (2015) assessed how mergers and acquisitions affect the financial performance of the chosen Indian banks. For this study, the researcher selected two cases of mergers and acquisitions at random. The outcome of this study showed that in the merger between Bank of Rajasthan and ICICI Bank, the banks' performance significantly improved in terms of net profit margin, return on assets, net interest margin, capital adequacy ratio, CASA, and cost to income, but there was no appreciable change in total income/capital employed, return on equity, or credit deposit ratio in the post-merger period. The analysis of the merger between Centurion Bank of Punjab and HDFC Bank reveals significant improvements in the following areas: net profit margin, return on assets, return on equity, credit deposit ratio, CASA, cost to income; however, there has been no change in total income/capital employed and capital adequacy ratio, and net interest margin has decreased in the post-merger period.

“Recent Mergers and Acquisitions in Indian Banking Sector- A Study” by ***B Ravi. (2019)*** focused on the causes and effects of the bank mergers in the Indian economy. This study stated that the primary goal of the merger is to generate faster business growth. It further stated that with mergers and acquisitions, the business can protect its raw material sources and achieve purchasing efficiencies such as discounts, reduced transportation expenses, reduced buying department overhead costs, etc. This study revealed that the size can help a company stay competitive in the dynamic business climate that is characterised by speed, adaptability, and client responsiveness. With partnering for competitiveness being a recognised strategic rationale for the same, mergers and acquisitions (M & A's) as a technique to increase competitive power come to the fore in this context.

Under the title “Mergers and Acquisitions in Indian Banking Sector- A Strategic Approach” by ***Kumari Parveen (2014)*** focused on finding out the causes of the mergers and acquisitions, their impact on the Indian banking industry, and their position before and after mergers and acquisitions. The findings of this study revealed that the small and medium-sized banks are working in an environment that is full of challenges for them, including inadequate resources, outmoded technology, an overly systematised management style, unsuccessful marketing initiatives, a fragile financial structure, an absence of product innovations, and technique obsolescence. With a merger, they may be re-established in healthy banks of the ideal size and with a global reach. This study further stated that with merchant bankers and financial advisors developing abilities in chopping up banks to absorb failing banks and turn them back into successful enterprises, the merger cult in India has yet to take off. This study finds out that after mergers and acquisitions, all amalgamated firms grow more rapidly than they did before the combination.

Singh and Das (2018) in their study assessed that how mergers and acquisitions affect the financial performance of the Indian banks. This study also focused on to determine how the announcement of mergers and acquisitions throughout the study period affected security prices. This study's foundation is secondary data that was used for research purposes. The findings of this study revealed that regarding responses to the merger announcement, the market first attempted to respond unfavourably to the news of the majority of the banks' acquisition, but generally, there was either wealth creation or destruction for shareholders of both public and private sector banks. This study further stated that the surviving workers of the amalgamated banks had a favourable opinion of the merger activity undertaken by their company. Although the news of the merger originally made the employees uneasy, management communication helped them adjust to the new situation. By including them in the transformational process, the staff gained trust in their company and began to understand the goals of the merger plan.

OBJECTIVES OF THE STUDY

The present study seeks:

1. To elucidate the need for bank mergers and acquisitions.
2. To study the impact of mergers and acquisitions on the concerned bank's stock and the effect on the equity shares of the shareholders' capital.
3. To analyse how mergers and acquisitions affect the Indian banking sector's financial performance.

RESEARCH METHODOLOGY

The present study has made use of secondary data. The financial and accounting information was gathered from the bank's public annual reports, publications of the Reserve Bank of India and from a number of websites that provide data on the banks chosen as a sample in order to look into how mergers and acquisitions affected the financial performance of the sample banks.

Six merger and acquisition instances in Indian Banking Sector are chosen as a sample for this study which includes merger of Indian Bank with Allahabad Bank; Union Bank of India with Andhra Bank & Corporation Bank; Punjab National Bank with Oriental Bank of Commerce & United Bank of India; Canara Bank with Syndicate Bank; Bank of Baroda with Dena Bank & Vijaya Bank; and State Bank of India with State Bank of Bikaner & Jaipur, State Bank of Mysore, State Bank of Patiala, Bharatiya Mahila Bank, State Bank of Travancore & State Bank of Hyderabad.

For this study, the key financial metrics used to analyse the pre- and post-merger financial performance of the concerned banks includes- Return on Assets; Return on Equity; Net Profit Ratio and Earning Per Share. The average financial ratios before and after the merger were calculated for the two years before to and following the year the merger was completed.

DATA ANALYSIS AND INTERPRETATION

Return on Assets- The Return on Assets (ROA) ratio is calculated by dividing a company's net, after-tax income by all of its assets. It's crucial to remember that because banks are so heavily leveraged, even a ROA of 1 to 2% may still imply sizable revenues and profits for a bank. The return on assets of the concerned banks from this study are shown in the following table:

Table 1: Return on Assets in selected units

Name of the Bank	Year of Merger	Return on Assets (ROA) in %			
		Pre-merger		Post-merger	
		31-03-2019	31-03-2020	31-03-2021	31-03-2022
1. Indian Bank	April 1, 2020	0.11	0.24	0.47	0.58
2. Union Bank of India	April 1, 2020	-0.59	-0.52	0.27	0.44
3. Punjab National Bank	April 1, 2020	-1.28	0.04	0.16	0.26
4. Canara Bank	April 1, 2020	0.04	-0.30	0.22	0.46
		31-03-2018	31-03-2019	31-03-2020	31-03-2021
5. Bank of Baroda	April 1, 2019	-0.33	0.05	0.04	0.07
		31-03-2016	31-03-2017	31-03-2018	31-03-2019
6. State Bank of India	April 1, 2017	0.42	0.38	-0.18	0.02

(Source: moneycontrol.com)

The above table indicates that the return on assets of Indian Bank, Union Bank of India, PNB, and Canara Bank significantly increased following their merger and purchase, however the

ROA of the Bank of Baroda barely changed. The table clearly shows that SBI's ROA was higher prior to the merger than it was during the post-merger era.

Return on Equity- Return on equity (ROE) is a two-part indicator of financial performance that combines the balance sheet and income statement. It is regarded as a measurement of an institution's profitability and effectiveness in creating profits. By dividing a bank's net income by its shareholders equity, profitability may be calculated; the larger the number, the better the return. The return on equity of the concerned banks from this study are shown in the following table:

Table 2: Return on Equity in selected units

Name of the Bank	Year of Merger	Return on Equity (ROE) in %			
		Pre-merger		Post-merger	
		31-03-2019	31-03-2020	31-03-2021	31-03-2022
1. Indian Bank	April 1, 2020	1.97	3.94	11.88	10.52
2. Union Bank of India	April 1, 2020	-12.15	-9.46	4.87	7.94
3. Punjab National Bank	April 1, 2020	-24.20	0.58	2.41	3.90
4. Canara Bank	April 1, 2020	1.16	-6.78	5.05	9.85
		31-03-2018	31-03-2019	31-03-2020	31-03-2021
5. Bank of Baroda	April 1, 2019	-5.60	0.94	0.76	1.07
		31-03-2016	31-03-2017	31-03-2018	31-03-2019
6. State Bank of India	April 1, 2017	6.89	6.69	-3.37	0.39

(Source: moneycontrol.com)

According to the aforementioned table, the return on equity of the Indian Bank, Union Bank of India, PNB, Canara Bank, and Bank of Baroda all significantly increased after their mergers and acquisitions, but the State Bank of India's return on equity, which was higher before the merger (i.e., 6.89), went from being positive to negative following the merger and then back to positive during the following fiscal year.

Net Profit Ratio- The net profit ratio, also known as the net profit margin ratio, is a profitability statistic that assesses how much money is brought into the company relative to its earnings. To put it another way, the net profit margin ratio shows how a business's net profit after taxes and net sales are related to one another. The concerned banks' net profit ratios from this study are shown in the following table:

Table 3: Net Profit Ratio in selected units

Name of the Bank	Year of Merger	Net Profit Ratio (in %)			
		Pre-merger		Post-merger	
		31-03-2019	31-03-2020	31-03-2021	31-03-2022
1. Indian Bank	April 1, 2020	1.67	3.51	7.68	10.15
2. Union Bank of India	April 1, 2020	-8.65	-7.78	4.22	7.70
3. Punjab National Bank	April 1, 2020	-19.44	0.62	2.50	4.61
4. Canara Bank	April 1, 2020	0.74	-4.56	3.69	8.18
		31-03-2018	31-03-2019	31-03-2020	31-03-2021
5. Bank of Baroda	April 1, 2019	-5.57	0.87	0.71	1.17
		31-03-2016	31-03-2017	31-03-2018	31-03-2019
6. State Bank of India	April 1, 2017	6.06	5.97	-2.96	0.35

(Source: moneycontrol.com)

Table No. 3 clearly shows that the net profit ratio of the Indian Bank, Union Bank of India, PNB, Canara Bank, and Bank of Baroda shows a positive change after merger and acquisition, but the net profit ratio of SBI was higher prior to the merger (i.e., 6.06) but became negative post-merger and acquisition and then returned to positive in the following financial year.

Earnings Per Share- The monetary worth of an organization's earnings per outstanding share of common stock is known as earnings per share. It is a crucial indicator of organisational profitability and is frequently applied to stock pricing.

Table 4: Earnings Per Share in selected units

Name of the Bank	Year of Merger	Earnings Per Share (in Rs.) [Basic EPS]			
		Pre-merger		Post-merger	
		31-03-2019	31-03-2020	31-03-2021	31-03-2022
1. Indian Bank	April 1, 2020	6.70	14.33	26.61	32.38
2. Union Bank of India	April 1, 2020	-25.08	-12.49	4.54	7.73
3. Punjab National Bank	April 1, 2020	-30.94	0.62	2.08	3.16
4. Canara Bank	April 1, 2020	4.71	-26.50	16.91	32.49
		31-03-2018	31-03-2019	31-03-2020	31-03-2021
5. Bank of Baroda	April 1, 2019	-10.53	1.64	1.36	1.78
		31-03-2016	31-03-2017	31-03-2018	31-03-2019
6. State Bank of India	April 1, 2017	12.98	13.43	-7.67	0.97

(Source: moneycontrol.com)

Table No. 4 demonstrates that after the merger, the EPS of the Indian Bank and Canara Bank significantly increased. Before to the merger, the EPS of the Union Bank of India, PNB, and Bank of Baroda was negative; after the merger, it was positive. Yet, SBI's EPS was at its highest before the merger (13.43), fell after the merger (-7.67), and then rose (0.97) in the next fiscal year.

CONCLUSION

Mergers and acquisitions are one of the most widely used business strategies by organisations looking to boost value development. Mergers aid banks in strengthening their financial foundation, gaining access to tax advantages, and having direct access to cash resources. The structural elements that can affect the reality of a merger and acquisition's success include the relative sizes of the merging partners, the method of financing mergers and acquisitions, and the number of bids. The shareholder value may be influenced by structural forces working independently. According to the current study, the financial indicators examined, including those for the pre- and post-merger and acquisition time periods of the chosen Indian banks, show a noticeably beneficial shift in the financial performance of the concerned banks except for the SBI after the merger. Poor performance has to be accommodated for during the SBI and its associate banks' merger. Nonetheless, the phrase "there may be short-term pain but the long-term rewards will not take far long to present themselves" serves as the driving force behind the consolidation and merger of banks.

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