

Merger and Acquisitions in Indian Banking Sector of Five Years (2018-2022): A Review

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Abstract: *The Indian Banking System plays a very extensive role in the economy development of the country. The banking sector of India is one of the expeditiously growing sector in the country. Merger and Acquisition plays a Critical role in Indian banking Sector, as it helps in increasing the pre and post Merger Financial performance of banks to achieve their goals. However the banks should keep in their views about both the positives and negatives of their entities and make decisions accordingly. merger of Andhra Bank, Corporation Bank with Union Bank of India, the main objectives of the study to know the reasons as to why the merger is necessary and to know the impact of merger on the performance of banks; to find out the challenges and benefits of merger on the banks and customers; to determine the overall impact on the Indian economy; and to know the after effect of merger on the senior authorities of merged banks, the trends in M&A's in Indian banking and then impact of M&A's has been studied in three leading banks of India (BOB, OBC, PNB), to analyze financial performance of Canara Bank pre and post-amalgamation, evaluates the financial performance of Pre and Post Merger of ICICI Bank and Bank of Rajasthan, the reasons behind mergers and shows its effect on profitability and productivity of SBI. It also studies Bank of Baroda and its Associates merger with Vijaya Bank and Dena bank, and this study discuss the amalgamation held between the Punjab National Bank, Oriental Bank of Commerce and United Bank of India and this is the largest amalgamation in the history of Banking sector took place on August 30, 2019.*

1. Introduction

The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as an important strategic choice. The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy. India has emerged as one of the top countries with respect to merger and acquisition deals. In 2007, the first two months alone accounted for merger and acquisition deals worth \$40 billion in India.

Problem Statement

Since the integration of Universal Banking memes in 1999, global mergers and acquisitions account for a significant proportion of value created in the industry. Banking M&A are large impact strategies that are frequently proved to be counter-productive in the literature with contradictory results in the US and the UK. Event studies have also become infrequent in the literature believing the worst to be true and in line with the low Abnormal Returns for bidders being contrary to the perceived and observed gains of synergy and the attractiveness of the inorganic large impact strategies. We propose to investigate Indian Banking M&A in the available transactions and assume results consistent with

Corporate Finance Theory are possible. In particular, we propose to show the following:

- Banking M&A is a viable large impact strategy
- Banking sector M&A is economical and needs a low barrier of Opportunity costs to execute and overcomes specific deal level outcomes that guarantee

M&A success:

- Reducing time to completion.
- Larger deals are easy to consummate and extraordinary synergies realized with ease.

2. Significance of Study

The project helps in understanding the clear meaning of merger and acquisitions in Indian banking sector. And also helps to know about the benefits of merger and acquisition and effect of M&A of banks.

M&As have many potential benefits, which mainly focus on boosting profits and shareholder value through:

- The economies of scale produced by increasing market share.
- The expanded use of an existing distribution network by the acquisition of new product capabilities.
- The extension of a strong product capability into new markets.
- The diversification of product and market risks.

This way mergers and acquisitions become an essential tool for corporate development in today's global marketplace, which is characterized by consolidation, convergence, the competition for talent and technology, and the increasing importance of such intangible assets as knowledge, skills and customer relationships.

Objectives of the Study

- 1) To critically analyze the impact of mergers and acquisitions on the operating performance of the bank.
- 2) To analyze the Impact of post-merger and acquisition activities on the financial performance of banks.
- 3) To analyze the different motives behind merger and acquisition.

Scope of the Study

The scope of the study is to find out the different motives behind the merger and acquisition with the help of research articles. Along with that it help to find out the post merger

effect from different cases of banks merger and acquisition. And also help to know about the recent trend in bank merger.

Research Design

This is descriptive research design. As it is a review paper which studies the Merger & Acquisitions in Indian Banks.

Sampling Design

I have reviewed 10 articles to analyze merger and acquisitions in Indian Banking Sector.

S. No.	Article Title
1.	Study on the Merger of Andhra Bank and Corporation Bank with Union Bank of India
2.	Impact of post-merger and acquisition activities on the financial performance of banks: a study of Indian private sector and public sector banks
3.	Effect of Amalgamation on Financial Performance: A Case Study of Canara Bank Ltd
4.	Merger & Acquisition of ICICI Bank with Bank of Rajasthan
5.	Effect of Merger on Banking Sector-A Case Study Of SBI
6.	Motives of merger and acquisitions in Indian Banking Sector.
7.	Recent Mergers and Acquisition in Indian Banking sector-A Study
8.	Merger and Acquisition in Banking Industry: A Case Study of Bank of Baroda.
9.	Allahabad Bank's Merger With Indian Bank: Can It Hit The Bulls Eye.
10.	A Study Of Amalgamation Of Oriental Bank Of Commerce and United Bank of India Into Punjab National Bank.

Data Collection Method**Secondary Data**

The mechanism involved in secondary data collection, mainly borrowing through adequate journal/ articles (related to merger and acquisition), web portals, books, white papers.

3. Limitations to the Study

- I have reviewed articles related to merger and acquisition of 5 years (2018-2022)
- I have reviewed on merger and acquisition in only banking sector.
- I have taken the case of Indian banking sector only.

4. Results & Discussion

- **From the study on the merger of Andhra bank and corporation bank with union bank of India** I found that the amalgamation of Andhra Bank and Corporation Bank into Union Bank of India has not resulted in any job loss and instead employees have benefited from the amalgamation as a result

.. The bank further informed that increased scale and customer base in the region has enabled opening of additional regional offices and credit processing centers, equipping the bank for better serving customers of the region. With customers of region benefiting due to increase in the number of bank branches and ATMs from which they may avail of banking services, larger bouquet of products and services through harmonization of the same across the three banks, and enhanced lending capacity for loans of larger size due to increase in size of the balance-sheet.

- **From the study on Impact of post-merger and acquisition activities on the financial performance of banks: a study of Indian private sector and public sector**

banks I found that acquisition activities of BOB (Bareilly Corporation Bank), OBC (Nedungadi Bank Ltd) and PNB, the 6 year mean CR remains almost same between pre and post period, it indicating no improvement in the period of 5 year after acquisition activities. So, it can be concluded that for longer time period also, the acquisition activity of BOB, PNB and SBI has impact on their left-over earnings. At the same time, the acquisition activities of BOB with Banaras State Bank, HDFC with Times Bank, OBC with Punjab Cooperative Bank / Bari Doab Bank and PNB with Nedungadi Bank do not have any impact on ROCE.

- **From the study on Effect of Amalgamation on Financial Performance: A Case Study of Canara Bank Ltd** I found that there is no significant improvement in the various ratios of Canara Bank in post amalgamation period. Canara Bank, the amalgamated company was unable to encash the benefit of synergy in the short term. Re-pricing of existing Canara Bank savings account deposits negatively impacted on margins. But for a long term it will be beneficial for Canara Bank. The amalgamated entity benefited from wider customer base, distribution network and product suite, this would translate into higher cross selling of Canara's products.

- **From the study of Pre and Post Financial Performance analysis of Bank of Rajasthan and ICICI Bank after its Merger** I found that in order to save Bank of Rajasthan from complete Insolvency, this merger saved them. Continued loss of BOR through weak management as well ICICI Bank's ambition to achieve greater capacity with a little space and their endless desire the extension enables both banks to go on for a Merger. The results in this study indicate that post financial merger performance is better when compared to the Pre Merger. Therefore, the Merger is Beneficial for both the banks.

- **From the study of Effect Of Merger on Banking Sector-A Case Study Of SBI**, I found that there is not much difference in productivity as well as profitability in pre and post merger period. However the total assets, liabilities and employees as well as branches had increased significantly due to merger. The slight decrease in the productivity indicator both employee wise and branch wise is mainly due to huge increase in branches and employees due to merger. It is interesting to note that profitability as per spread and burden approach shows a positive response. However these conclusions are just based on the observations on the study and it's too early to show exact impact of merger on SBI.

- **From the study of Motives of merger and acquisitions in Indian Banking Sector** I found that After the economic policy reforms and merger wave, number of changes has been taken place in banking sector. Efforts were also made by the banking sector to remain competitive in the globalized era. Government took initiatives regarding M&As also and is still in the process of announcing and implementing the consolidation activity. it was found that synergy was the main motive behind M&As. But there are some other variables like advantages of diversification and faster market entry which triggers the merger. For increasing market share, three motives i.e. strategic motives, performance motives and growth motives are most significant.

- **From the study of A review on recent trends in bank merging system in India** I found that in most of the M&A cases, in the long run the acquiring firms were able to generate value creation in one or the other form, that is higher cash flows, cost cutting and greater market power, however in spite of improved financial performance sixty-four per cent of cases showed increased debt to equity ratio. It is also significant to note that profit before tax in all the merging cases has shown a positive trend for both financial sector companies.

- **From the study of Merger and Acquisition in Banking Industry: A Case Study of Bank of Baroda** I found that after this three-way Merger, Bank of Baroda is become third largest bank to serving at every part of nation and strengthening the Indian Economy. Now it is concluded on the basis of Annual Report whether merged entity is navigating towards predefined goal. Overall, the mergers would help in better management of capital. Along with merger the focus should be on adequate reforms in governance and management of these banks. Finally the area of service is more widened due to merger. Bank of Baroda has experienced positive impact due to merger.

- **From the study of Allahabad bank's merger with Indian bank: can it hit the bulls eye** it reveals that: Indian Bank is in a better position in comparison to Allahabad Bank in terms of Revenue, Net Interest Margin, Operating Profit, Net Profit, ROE, ROTA, Segmental Performance as well as NPA Management & ALM. The merged entity had a leverage of the combined strengths of both Indian & Allahabad Bank. But, the global crisis in the form of COVID 19 will have an impact in the business of Indian Bank. Hence it is to be seen, how well Indian Bank copes up with the increased competition and successfully achieve its

targets in future. Thus, the question still remains whether this merger would succeed and realize its projected synergies.

- **From the study of A Study of Amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab**

National Bank I found that the Amalgamation between the 3 Banks seems to be a value creator. It has lead to high CASA and lending capacity, and reach wider geographical presence with 2nd largest branch network in India with 11, 437 branches and 13856 ATMs across India and 12, 814 BCs to cater to a base of 18 crore Plus customer. The Amalgamation has drive the PNB to the 2nd largest Public sector Bank in the country with business of 17.95 Lakh Crore. Despite challenges on the economy front, there was visible progress in the key parameter of core profitability, assets quality and capital. This merger will play an important role in making India a \$5 trillion economy by increasing their lending capacity so that they can provide better services using one of the modern technologies.

5. Discussion on findings of the study

- The most of the study reveal that some merger have the positive impact as it benefited from wider customer base, distribution network and product suite,
- Bank of Rajasthan saved from insolvency with the help of merger with ICICI Bank and that merger is also beneficial for ICICI Bank.
- It was found that synergy was the main motive behind M&As and For increasing market share, three motives i. e. strategic motives, performance motives and growth motives are most significant.
- Bank of Baroda has experienced positive impact due to merger.
- The merged entity had a leverage of the combined strengths of both Indian & Allahabad Bank. But, the global crisis in the form of COVID 19 will have an impact in the business of Indian Bank.
- Amalgamation of Oriental Bank of Commerce and United Bank of India into Punjab National Bank seem to be a value creator.
- But in some cases the acquisition activities of BOB with Banaras State Bank, HDFC with Times Bank, OBC with Punjab Cooperative Bank / Bari Doab Bank and PNB with Nedungadi Bank do not have any impact on ROCE.
- There is not much difference in productivity as well as profitability in pre and post merger period in the merger of SBI and its associates.

6. Conclusions

In the emerging economies like India, the banking industry is one of the fastest rising industries. In India, the post-liberalization period has seen rapid development, one of which is banking. M&A in the banking sector has demonstrated that this is the useful tool of merging into a larger Bank for the survival of weak banks. Our study shows that the effects of the global economy are therefore difficult for small and local banks, and that they need support and this is one of the reasons for their Merger. Whole study

covers the effect of merger and acquisition in different banks. In most of the cases it results positive impact on the banks financial performance, it helps in increasing market share of the bank, it benefited from wider customer base, distribution network and product suite, and in some cases that there is not much difference in productivity as well as profitability in pre and post merger period. So it is concluded from the study is merger and acquisition have different impact on Indian banking sector.

7. Suggestions

The researcher would be focusing on the research carried out with respect to the field of mergers and acquisitions. However since particular periods and scenarios would prevail at different point in times, it would be necessary for the research to be further enhanced. This research topic of analyzing the impact of mergers and acquisitions on the operating performance and financial performance of the acquiring firm holds immense scope for further analysis. This topic can be further studied by conducting research using different variables or different set of sectors or companies.

8. Directions for Future Research

- 1) Further study should be conducted on a broader scope.
- 2) Research should be conducted on other sector also.

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