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A STUDY ON BANK MERGERS IN INDIA AND ITS IMPACT ON FINANCIAL PERFORMANCE OF THE ACQUIRING COMPANY

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ABSTRACT

The term “mergers and acquisitions” (M&A) refers to the consolidation of businesses. In a merger, two businesses come together to form a single entity, whereas in an acquisition, one business is taken over by another. The fundamental tenet of mergers and acquisitions is that, when two independent businesses come together, they provide more value than they would alone. Maximizing wealth is its goal.

Keywords: *Mergers & Acquisitions, Banking Industry, Financial Performance, Amalgamations, Market Share.*

Introduction

In recent years, there have been several mergers and amalgamations in the banking industry. Companies engage in mergers and acquisitions for strategic business reasons that are, in theory, purely financial. These include expanding distribution capacities or entering other markets in an effort to increase market share, diversifying the assortment of goods and services, and leveraging economies of scale, which apply to various aspects pf research and development and production.

The use of mergers as a quick and an efficient technique for consolidation has grown. Many Indian businesses are on the lookout for foreign businesses.

Punjab National Bank, Oriented Bank of Commerce, and United Bank of India Merger

- On 1st April 2020, in terms of business and branch network, Punjab National Bank (PNB) acquired Oriental Bank of Commerce (OBC) and United Bank of India (UBI) to rank as the nation’s second largest lender.
- The synergy after the amalgamation created a globally competition in the next generation bank. The amalgamated bank has a wider geographical reach through 11000 plus branches.
- The branch’s new logo has distinctive graphics for each of the three public sector lenders.

The Merger of Syndicate Bank and Canara Bank

- The Syndicate Bank was merged with Canara Bank on 1st April 2020.
- Canara Bank is now India’s fourth- largest public sector bank following the merger. The integration has lowered the operating costs because of network overlap.
- The banks have an approximate of 10,342 branches and 12,289 ATM’s.
- Shareholders of the bank get 158 shares for every 1000 shares of Canara Bank.

The Merger of Allahabad Bank and Indian Bank

- On 1st April 2020, Allahabad Bank merged into Indian Bank.
- The merger of numerous public sector banks was announced in Budget 2020 by Finance Minister Nirmala Sitharaman.

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- The Indian Bank announced a share of swap ratio of 115 equity shares of Rs. 10 each of Allahabad Bank.
- Allahabad Bank had the largest number of fixed assets as compared to other banks. It has branches located across the country primarily in UP, Bengal, Bihar and Madhya Pradesh.

Objective of the Study

- To analyze the impact of Mergers on the operational efficiency of selected companies in the banking sector.

Review of Literature

Harpreet Singh Bedi [1] "Merger and Acquisition in India: An Analytical Study": The study examines M&A trends and developments in India. It also takes into account a number of variables that have added India's progress and M7 as implementation.

The study by Viral Upendrabhai Pandya [2] makes use of time- series data as well as significant recent global developments to assess the mergers and acquisitions industry in India from 1991 to 2010. In order to give conclusive evidence for the motivations and causes behind the specific behavior seen, as well as the potential future of mergers and acquisitions activity in India, this article also makes an effort to classify patterns in the manufacturing and non- manufacturing sectors.

Kotnal Jaya Shree [3] (2016) In this research paper, it expressed "the economic impact mergers on profitability of SBI. With the use of financial indicators including gross profit margin, operational profit margin and debt equity ratio, it contrasts the pre- and post- merger financial performance of merging institutions.

Al- Hroot Dr. Yusuf Ali Khalaf [4] (2015) "Pre- and Post- Merger impact on financial performance: a case study of Jordon Ahli Bank". The study's findings revealed that 4 out of 10 ratios (42.63%) significantly improved after the merger with Jordan Ahli Bank, while 2 ratios improved but insignificantly, and 1 ratio (10%) significantly deteriorated after the merger. This demonstrated that the merger has enhanced Jordan Ahli Bank's performance overall by a percentage of 70%. Based on results, the researcher came to the conclusion that Jordan Ahli Bank's financial performance did not considerably improve after the merger.

[5] Tang, Alger C. (2015), "Mergers and Acquisitions and its effects on firm performance: A New Look". The findings demonstrated that, when measuring financial performance using return on assets, it drastically fell following the Merger. The anomalous return on the asset did not significantly differ between before and after the merger activity, according to the researcher.

[6] Gupta Komal (2015), "Mergers and Acquisitions in the Indian Banking Sector: A study of selected Banks". Two merger and acquisition cases- the merger of ICICI Bank and The Bank of Rajasthan and the merger of HDFC Bank and Centurion Bank of Punjab- has been chosen at random as samples for the study. The study's findings showed that mergers and acquisitions had a favorable effect on the financial performance of the chosen institutions.

[7] Dr. Dharmesh Shah and Professor Ritiesh Patel (2016) Through the Economic Value-Added technique and other financial metrics including net profit margin, return on net worth, this research study analyzed the financial performance of the banks before and after their merger. They came to the conclusion that the merger may increase a bank's financial performance.

[8] Chui, B.S. (2011), "A Merger and Acquisition Risk Management Model" In this study, a model for managing merger and acquisition risk was pot out to take risk variables into account when doing merger and acquisition operations. The proposal models aim to manage and reduce related risks in order to optimize the profitability of successful merger and acquisition activities.

Hypotheses

H_0: The financial of the chosen banks did not significantly change before and after the mergers.

H_1: The financial performance of the chosen institutions has significantly changed before and after mergers.

Research Methodology

The study is purely based on secondary data. The data is being collected from various websites, journals, periodicals, books and magazines related to the banks. The data has been collected from secondary sources eg- Prowess, Yahoo Finance, respective company's websites including their annual reports.

Sample size

Acquiring Bank	Acquired Bank	Year of Merger
PNB	United Bank of India, Oriental Bank of Commerce	April 1, 2020
Canara Bank	Syndicate Bank	April 1, 2020
Bank of India	Allahabad Bank	April 1, 2020

The data includes selected efficiency ratios such as return on equity ratio, operating profit ratio, gross profit margin, earning per share, asset turnover ratio

To analyze the efficiency of sample company, various financial ratios have been calculated. Ratio analysis is an important technique of financial analysis which shows the arithmetical relationship between any two figures.

The paired t- test is employed to statistically demonstrate that the merger has had an effect on the efficiency of the acquirer business post- acquisition. To comprehend the impact of mergers and acquisitions on the performance of the firm before and after the acquisition, a t-test is used in this instance. These tests will demonstrate whether there is a significant difference between the pre and post-acquisition performance.

Limitation of the Study

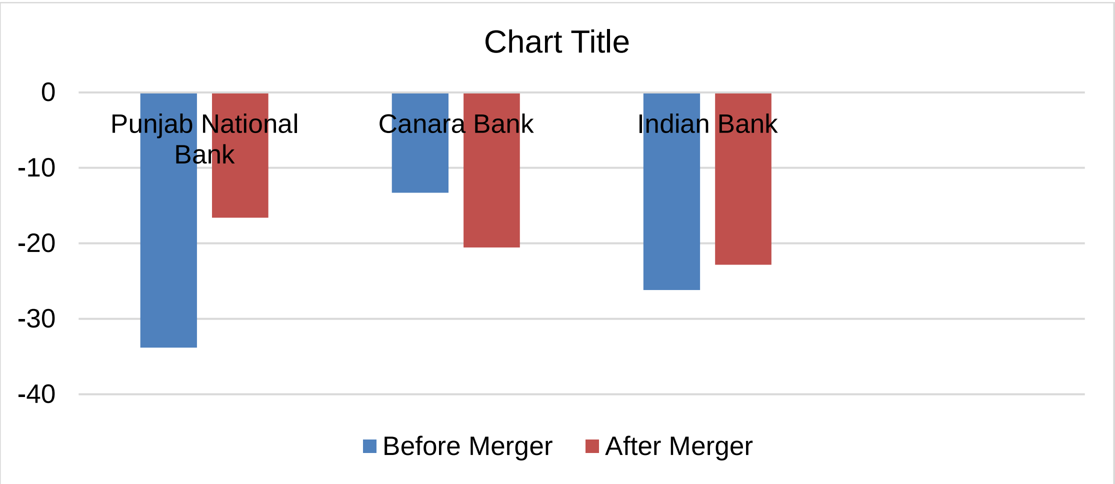
- The study is purely based on merger of 3 selected banks.
- In this study the pre and post info of the selected merger banks are used.
- All the limitations of secondary data make an impact in the analysis because this study is based on data only.

Analysis and Findings

- **Ratio of Operating Profits**

Operating Profit/ Net sales*100 is the Operating Profit Ratio. It typically measures the operating performance and the efficiency of the company.

Bank name	Before Merger(x)	After Merger(y)	Difference(x-y)	Square of Difference
Punjab National Bank	-33.81	-16.61	-17.2	295.84
Canara Bank	-13.30	-20.53	7.23	52.2729
Indian Bank	-26.19	-22.83	-3.36	11.2896



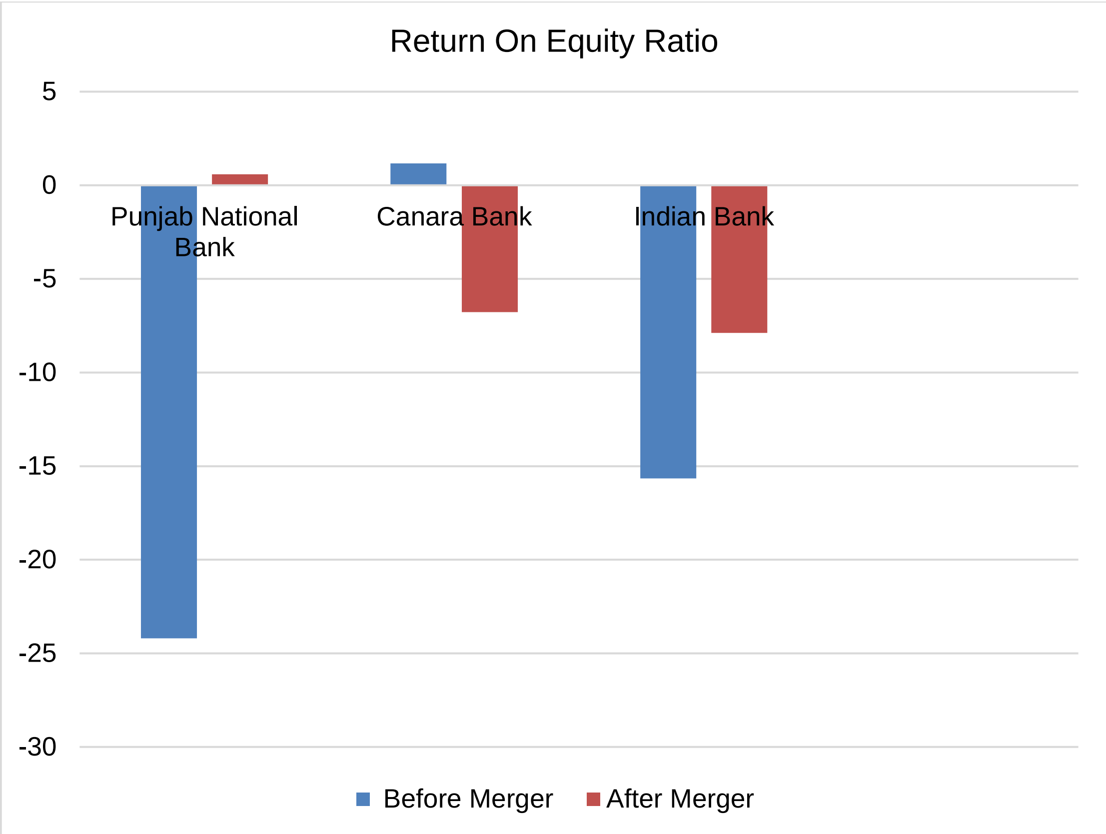
- PNB has the ratio (-33.81) before merger and it has lower ratio after merger (-16.61)
- Canara Bank has the ratio (-20.53) after merger and it has lower ratio (-13.30) before the merger.

- **Return on Equity Ratio**

  Income from equity is calculated by= Net income/ shareholder's equity

  It measures the profitability. Higher the number, higher the return.

Bank	Before Merger(x)	After Merger(Y)	Difference (x-y)	Square of Difference (x-y)^2
Punjab National Bank	-24.20	0.58	-24.78	614.0484
Canara Bank	1.16	-6.78	7.94	63.0436
Indian Bank	-15.66	-7.88	-7.78	60.5284



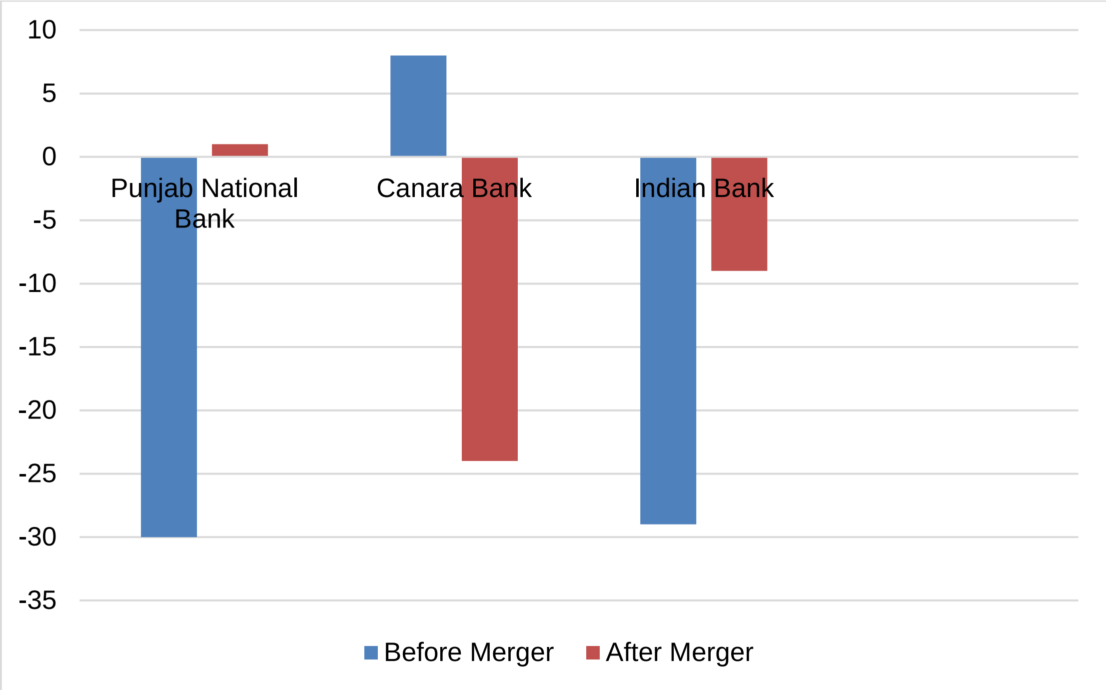
- The return equity ratio of Punjab National Bank increased following the merger from 0.48 to 0.58 from -24.20.
- Canara Bank has a lower ratio following the merger from 1.16 to -6.78.
- Indian Bank has a higher ratio following the merger from – 15.66 to -7.88.

- **Ratio of Earnings per Share (EPS Ratio)**

  Ratio of Earnings per share is the net income of the company divided by the weighted average number of outstanding shares.

  It also serves as an indicator of the company's profitability.

Bank name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square of Difference (x-y)^2
Punjab National bank	-30.00	1.00	-31	961
Canara Bank	8.00	-24.00	32	1024
Indian Bank	-29.00	-9.00	-20	400



- Punjab National Bank has a higher ratio following the merger as compared to the ratio before the merger
- Canara Bank has a lower EPS ratio following the merger as compared to before the merger.
- Indian Bank has a higher EPS ratio following the merger as compared to before the merger.
- Other ratios were also calculated such as the ratio of asset turnover which takes into account both the fixed as well as the current assets to measure the overall financial performance of the company.
- Punjab National bank has an equal ratio (0.07) both before to and following the merger
- Canara Bank has an equal ratio (0.07) both before to and following the merger
- Indian Bank also has an equal ratio (0.07) both before to and following the merger

Analysis of t- test in selected units under the study of Net Profit Ratio

N	**Means**			**Standard Deviation**			**d.f**	**t- test**	**P-values**	**Result**
	X	**Y**	**XY**	**X**	**Y**	**XY**				
5	-9.2820	-3.6321	-5.65000	7.68	4.19	9.438	4	-1.338	0.253	Ho

Here t=-1.338 and p value is0.253

So, t<p

As t is less than p value, so null hypothesis is (Ho) is accepted means the mean score of the chosen units before and after the merger did not significantly change.

Conclusion

The Banking Sector has seen significant merger and acquisition in recent years with the emergence of several international companies as a result of these transactions. This analysis shows that the pre- and post- merger profitability ratios of the chosen Indian Banks did not vary significantly. Punjab National bank and Indian Bank have higher Earning per share ratio after their respective mergers. As a result, it is clear that the emerging institutions saw increased levels of cost efficiency. Shareholder value is impacted by mergers. The return on equity ratio were lower post-merger for each bank. In banking industry, mergers help the weaker banks to strengthen their position by merging with the stronger banks.

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