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MERGER & ACQUISITION IN BANKING SECTOR AND ITS IMPACT ON THEIR EFFICIENCY: A STUDY

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ABSTRACT

The banking sector serve as the backbone of an Indian economy as it facilitates channelizing the surplus public funds into the most productive channels, inculcating saving habits and accelerating the rate of capital formation. The Indian banking industry has witnessed the paradigm shift from traditional functioning of banks' lending and borrowing to the modern banking which includes internet banking, mobile banking, micro-banking, Core Banking Solution (CBS), insurance and locker facilities so as to strengthen their financial system. In present scenario, the Indian banking industry has suffered many challenges in relation to their normal functioning of business such as booming of net loss, mounting of NPA, proliferating operating costs, erosion of net worth, intensifying unhealthy competition between public & private sector banks that necessities the Government of India announced Merger & Acquisition so as to revive the performance of Indian banking industry. The Merger & Acquisition in banking sector has bring the repositioning of financial structure base and integration of the Indian financial market with the global financial market through ameliorated operational efficiency, reduction of financial risk, access to expertise services, improvement of lending capacity and broadening the scope of financial inclusion services. The paper has made an attempt to investigate the impact of Merger and Acquisition on the efficiency of banks so as to find the areas that will need to be addressed at the time of proposed M&A of banks and also analysed the motive behind such forced Merger and Acquisition announced by the Government of India in the banking sector. For this purpose, the study has taken into consideration five variables for the comparative analysis capital, business, advances, deposit and net profit in the pre and post M&A of banks. The conclusion of study witnessed that merger and acquisition has positively influence the efficiency of banks.

Keywords: *Merger & Acquisition, Efficiency, Banking Sector, Growth, Indian Financial Market.*

Introduction

The bank is a financial institution the whole structure of which is dependent on two important functions-deposits and advances. The banking sector serve as the backbone of an Indian economy as it facilitates channelizing the surplus public funds into the most productive channels, inculcating saving habits and accelerating the rate of capital formation. The scope of Indian banking sector has undergone several changes in relation to their structure, function and role so as to accelerate the pace of the growth of an economy. The Indian banking industry has witnessed the paradigm shift from traditional functioning of banks' lending and borrowing to the modern banking are internet banking, mobile banking, micro-banking, Core Banking Solution (CBS), insurance and locker facilities. There have been several reforms in the Indian banking sector as well as quite a few successful Merger

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&Acquisition which have helped it grow manifold. Merger and acquisition are considered to be as the relatively faster and efficient way to enter into the new markets and gain larger market share. Prior to Liberalisation, the economic policies had the stringent rules and regulation in relation to the M&A but after introduction of LPG policies in 1991, the Government of India has made a myriad of relaxation in respect to M&A through the amendment of Acts such as MRTP and FERA. In present scenario, the Indian banking industry has suffered many challenges in relation to their normal functioning of business such as booming of net loss, mounting of NPA, proliferating operating costs, erosion of net worth, intensifying unhealthy competition between public & private sector banks that necessities the Government of India introduced Merger & Acquisition so as to revive the performance of banking industry. The merger and acquisition facilitate the shift from "Large Number of Small Bank" to "Small Number of Large Bank". The Merger & Acquisition (M&A) in banking sector has bring the repositioning of financial structure base and integration of the Indian financial market with the global financial market through ameliorated operational efficiency, reduction of financial risk, access to expertise services, improvement of lending capacity and broadening the scope of financial inclusion services. The Merger and Acquisition (M&A) can boost the economic growth of an industry as it raises the capital flow, return to shareholder, research & development and endless opportunities of growth. Thus, it can be said that Merger & Acquisition (M&A) of banks has significantly influence the GDP growth of country. Despite that, the banks have to face many challenges while going through Merger and Acquisition (M&A) which may hamper their efficiency of banks. Thus, it is the need of an hour to comparatively analyse the several parameters to assess the efficiency of banks pre and post M&A.

Table 1: List of Merger & Acquisition of Banks in India

Acquiring Bank	Acquired Bank	Year of Acquisition
ICICI Bank	Bank of Rajasthan Ltd	2010
Kotak Mahindra Bank	ING Vyasa Bank	2014
State Bank of India	State Bank of Travancore (SBT) State Bank of Bikaner and Jaipur (SBBJ) State Bank of Hyderabad (SBH) State Bank of Patiala (SBP) Bhartiya Mahila Bank (BMB)	2017
Bank of Baroda	Vijaya Bank and Dena Bank	2019
Indian Bank	Allahabad Bank	2020
Union bank of India	Andhra bank and Corporation Bank	2020
Canara Bank	Syndicate bank	2020
Punjab National Bank	Oriental Bank of Commerce United Bank of India	2020

Literature Review

(2022) S. Sasikala and B. Sudha paper titled "post-merger performance of the State Bank of India: An Analysis" opined that Mergers is a significant development in the banking industry, with a long-term impact. According to the findings, the SBI's performance was satisfactory throughout the post-merger period. Despite initial losses owing to NPAs and aggregated losses of partner banks, the bank has since generated a profit and returned to a strong position. As a result, SBI's post-merger success will serve as a blueprint for future mergers.

(2021) Jia Li et.al paper titled "Productivity Analysis for bank's Merger & Acquisition using stage DEA: Evidence from China." The study's major empirical findings tell the tale of M&A in China's banking industry during the previous 15 years. Initially, some inefficient banks decided to merge in order to increase their efficiency. According to efficiency measurement and GMI, M&A worked in the short term but had a varied impact on banks' accumulating and earning processes. The M&A transactions boosted banks' overall production and earning processes, while the accumulation process remained stable. The difference is due to a learning event that occurred during the earning process. Furthermore, the dissection of GMI revealed the various effects of M&A on the productivity change feature in each process. The EC improved during the earning process, despite a negative indication.

(2020) Abhay Kant titled "pre-and post-merger of financial performance of Commercial banks in India." The study opined that bank make efficient use of company's asset for enhancing the operational efficiency and also makes in-depth analysis the pros and cons of the merger and acquisition and also recommends that bank adopt better tools and techniques to overcome Non-Performing Assets.

(2019) Neelam Tandon, Navneet Saxena and Deepak Tandon titled "The merger of associate banks with State Banks of India: A pre- and post-merger analysis. "The study opined that SBI's consolidation with its partners led in the development of a monopoly and a lack of competitive spirit resulted in a slow rate of growth. The study also addresses a variety of concerns that emerge as an obstacle including significant numbers of merged client accounts, branch overlaps, and varied company cultures that must be unified that emerge as the challenge.

(2018) Sonia Singh and Shubhankar Das titled "Impact of post-merger and acquisition activities on the financial performance of banks: a study of Indian private sector and public sector banks." The study opined that procedural, physical, and socio-cultural context tactics and policies were critical in the post-merger and acquisition process. Furthermore, the qualitative effects of post-M&A operations such as accounting reports, market appraisals and key informant descriptions are huge and critical to the Bank's and its subsidiaries' success capabilities.

(2017) Burhan Ali Shah and Niaz Khan titled "Impacts of Mergers and Acquisitions on Acquirer Banks' Performance." The study concludes that in the post-merger era, major profitability ratios, including ROE, ROA, net mark-up, and non-mark-up income to total assets, have decreased. In the post-merger period, net interest margin and administrative expenditures to profit before taxes ratios show just a minor improvement. The liquidity ratios of the acquiring banks have also deteriorated in the post-merger era. Thus, study opined that bank may be better off investing their resources on developing their networks rather than participating in unsuccessful mergers.

(2016) Svetlana Santosh Tatuskar titled "pre-merger v/s post-merger performance evaluation of public sector banks vis a vis private sector banks in India that have merged during period 1993-94 to 2004-05."The conclusion of study states that that acquiring bank performance during with respect to capital adequacy, asset quality, management efficiency, and earning quality and liquidity management seemed to exhibit slow improvement in the performance during post-merger period in contrast with pre-merger period.

(2015) Gwaya Ondieki Joash and Mungai John Njangiru titled "The Effect of Mergers and Acquisitions on Financial Performance of Banks (A Survey of Commercial Banks in Kenya)." The study opined that the primary motivation for firms, particularly those in Kenya's banking industry, to combine and acquire others is to expand their market share and profitability and improve resources like as skills, management systems, equipment, processes, and procedures with the goal of increasing productivity.

Research Gap

There is plethora of study undertaken on the impact of merger and acquisition on the efficiency of bank but until now none of the study has critically analysed the impact of Merger and Acquisition (M&A) of those banks that are part of mega merger which are announced by the Government of India.

The previous studies do not define the probable factors that instigate the higher or lower level of performance after Merger & Acquisition of banks.

Objectives of Study

The primary objective of study is to interpret the effect of M&A on the efficiency of banking sector. In this regard specific objective of the study are as follows:

- To keep track of the recent trend in the merger and acquisition in the banking sector.
- To identify the motives behind the merger and acquisition of the banking sector.
- To know the impact of changes in capital, deposits, advances business and net profit of the selected banks.

Research Methodology

Problem Statement

A study on Merger &Acquisition in banking sector and its impact on their efficiency

Research Design

The proposed study will be constructed on the analytical research design. Analytical research is a specific type of research that involves critical thinking skills and the evaluation of facts and information relative to the research being conducted.

Sample Profile

The sample comprises of three set of banks that has undergone M&A in the year 2020 which are as follows**:**

- Syndicate bank merged into Canara Bank
- Oriental bank of Commerce (OBC) & United Bank of India (UBI) merged into PNB.
- Allahabad bank merged into Indian Bank.

Sampling Technique

The deliberate and judgemental sampling techniques have been used for the present study.

Sources of Data Collection

The secondary sources of data collection i.e., RBI bulletins, Annual report, manual, websites and official records of the selected banks are taken into consideration for the present study.

Period of Study

As the merger of the selected banks took place in the year 2020.Therefore, three year prior to and one year post M&A has been taken into consideration for the study:

- Pre-merger year 2017-19.
- Post-merger year 2020-21.

Statistical Tools and Techniques

The data collected from distinct sources has been in-depth analysed by using MS-EXCEL. The study also compiled various charts for graphical representation of data.

Hypothesis of the Study

H_0: There is no significant difference in the impact of pre and post M&A on the banking sector's efficiency.

H_1: There is significant difference in the impact of pre and post M&A on the banking sector's efficiency**.**

Limitations of the Study

- The present study ignores the impact of changes in accounting policies and method adopted by the selected banks.
- The study based on secondary data derived from RBI bulletin, websites and annual reports of selected banks. The reliability and validity of the result of the findings of the present study is based upon data published by selected banks and RBI.
- There are many approaches and parameters to evaluate the efficiency of selected banks which may result in the variation of findings.
- The present study takes into consideration four years viz. 3 years prior to M&A and one year post M&A as the M&A took place in the year 2020.
- In this study the effect of inflation has not been considered at the time of analysing the efficiency of selected banks in the pre and post M&A of banks.

Data Analysis and Interpretation

The core parameter that has been taken into consideration for analysing the impact of M&A on the efficiency of the selected banks are capital, deposits, advances, business and net profit.

Table 2: Comparative Analysis of Capital in Pre and Post M&A of the Sample Banks

(Amount in Cores)

		Canara Bank	**Syndicate Bank**	**PNB**	**OBC**	**UBI**	**Indian Bank**	**Allahabad Bank**
Pre M&A Capital	2017	597	904	425	346	1,394	480	743
	2018	733	1,417	552	632	3,000	480	844
	2019	753	2,487	920	1370	7,427	480	2096
Post M&A Capital	2021	1,646		2,095			1,129	
Pre M&A	Growth% (2018)	22.76	56.68	29.72	82.79	115.05	No change	13.49
	Growth % (2019)	2.72	75.54	66.78	116.54	147.56	No change	148.42
Post M&A	Change % (2021)	-49		-79			-56	

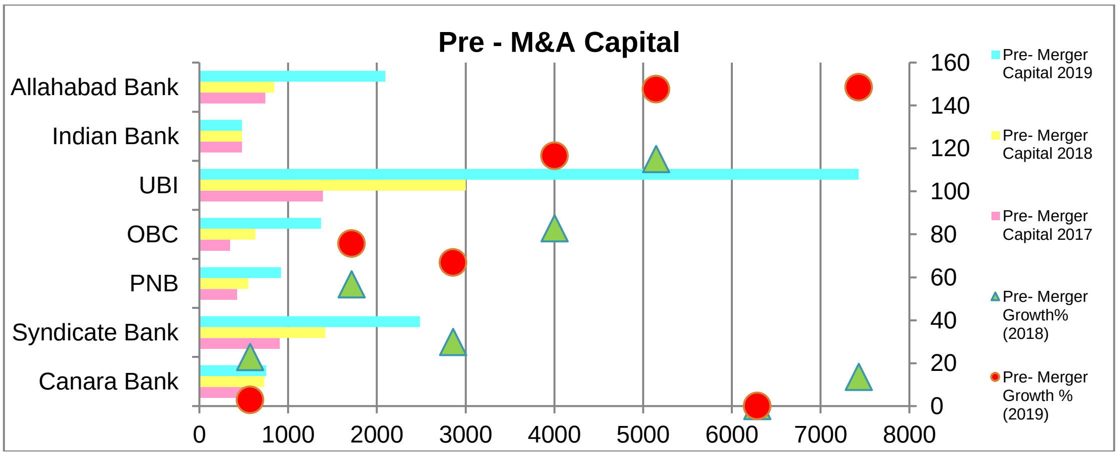
Source: Compiled from the annual report of banks.

The above table exhibits the comparative analysis of capital in pre and post M&A of banks. The first set of banks taken for such analysis is Canara Bank and Syndicate Bank. The Canara Bank's Capital before absorption of Syndicate Bank was reported Rs.597 crores in the year 2017 which was extended to Rs. 733 crores by the bank in the year 2018 and the bank further extended its capital to Rs.753 crores in the year 2019. The Table 2 also indicated the capital of Syndicate Bank before merging with Canara Bank which was amounted to Rs.904 crores in the year 2017 that was increased by the bank in the year 2018 to Rs. 1,417 crores and further it was increased by bank to Rs.2,487 crores in the year 2019. Thus, capital growth of Syndicate Bank was proportionately more than that of Canara Bank as the capital growth of Canara Bank in the year 2018 was 22.76% in contrast with Syndicate Bank's capital growth which was 56.68%. In the year 2019, the capital growth of Canara bank was only 2.72% in contrast with Syndicate bank's capital growth which was 75.54%. The table also witnessed that after the M&A of Canara Bank and Syndicate Bank, the consolidated capital in the year 2021 was amounted to Rs. 1,646 crores which was 49% less than the total capital of Canara and Syndicate Bank as in the year 2019.

The second set of banks taken for the comparative analysis of capital before and after M&A is PNB, OBC and UBI. The PNB's Capital before absorption of UBI and OBC was reported to Rs. 425 crores in the year 2017 which was extended to Rs. 552 crores by the bank in the year 2018 and in the year 2019 bank further extended its capital which amounted to Rs. 920 crores. The OBC's capital before merging with PNB was reported Rs. 346 crores in the year 2017 which increased to Rs. 632 crores in the year 2018 and it was further increased by the bank up to Rs. 1,370 crores in the year 2019. The Table also exhibits the capital analysis of UBI before merging with PNB which amounted to Rs.1394 crores in the year 2017 and further increased to Rs. 3,000 crores in the year 2018 and the bank further extended its capital up to Rs. 7,427 crores in the year 2019. Thus, capital growth of UBI is proportionately more than PNB and OBC. The capital growth of PNB and OBC in the year 2018 was 29.72% and 82.79% respectively in contrast with UBI's capital growth which was 115.05%.On the other hand, the capital growth of PNB and OBC in the year 2019 was 66.78% and 116.54% respectively in contrast with UBI's capital growth which was 147.56%. The table also shows that after the M&A of PNB, OBC and UBI, the consolidated capital in the year 2021 was amounted to Rs. 1646 crores which was 79% less than the total capital of PNB, OBC and UBI as in the year 2019.

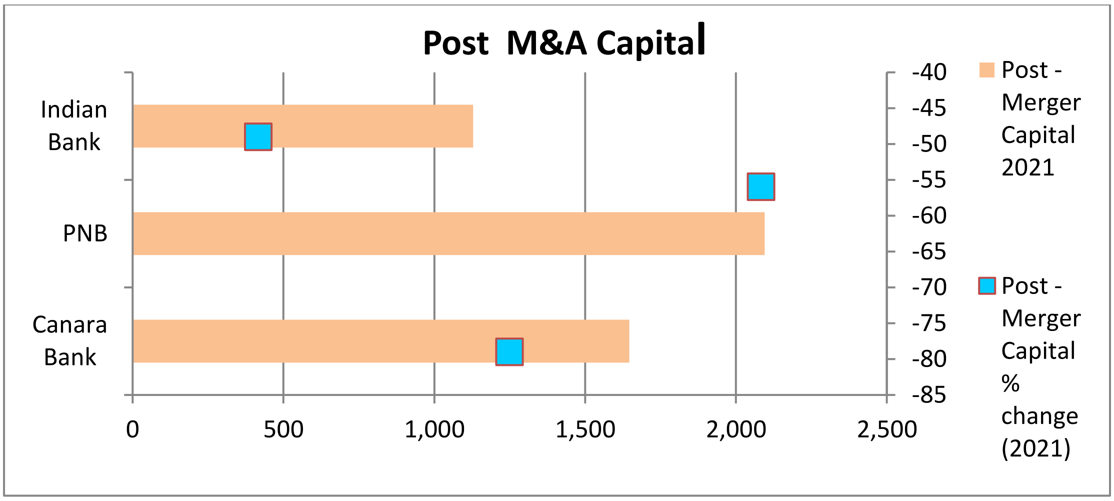
The third set of banks taken for the comparative analysis of capital before and after M&A is Indian Bank and Allahabad Bank. The Indian bank's capital before absorption of Allahabad Bank was remained constant in the year 2017, 2018 and 2019 which amounted to Rs. 480 crores as the bank has efficiently utilised its capital. The Table also shows the Allahabad bank's capital before merging with Indian Bank. It was recorded at Rs. 743 crores in the year 2017 which was increased to Rs. 844 crores and was further extended by the bank up to Rs. 2,096 crores. Thus, capital growth of Indian Bank was proportionately more than the capital growth of Allahabad Bank as there is no change in the capital of Indian Bank. The capital growth of Allahabad Bank was recorded at 13.49% and 148.42% in the year 2018 and 2019 respectively. The table also witnessed that after M&A of Indian Bank and Allahabad Bank, the consolidated capital in the year 2021 was amounted to Rs. 1,129 crores which was 56% less than the total capital of Indian Bank and Allahabad Bank as in the year 2019.

Chart 1(i): Comparative Analysis of Capital in Pre-M&A of the Sample Banks



The data in Table 2 in relation to pre - M&A analysis of capital has been graphically represented in chart No.1 (i). The capital analysis of the selected banks in different years before M&A has been shown by different coloured bars. The pink, yellow and blue coloured bars represent the capital in the year 2017, 2018 and 2019 respectively of the selected banks and the capital growth in the year 2018 and 2019 has been represented by green triangle & red circle respectively. The chart clearly shows that the capital is on the increasing trend. On the other hand, the proportionate change in capital showing an increasing trend except in case of Canara Bank which may be due to Canara bank has utilised its capital in technology up gradation, providing training to staff and investing funds for better loan recovery model. It is noteworthy here that UBI has largest capital and records highest capital growth among the selected banks that may be due to the enormous support provided by the Government of India to improve its operating efficiency and asset quality. On the other hand, Indian bank has witnessed no change in its capital growth rate which is a clear signal of the sound operating efficiency of the bank

Chart 1(ii): Analysis of Capital in Post M&A of the Sample Banks



The data in Table 2 in relation to post M&A analysis of capital has been graphically represented in Chart No.1 (ii). The capital of three acquiring banks viz. Canara Bank, PNB and Indian Bank has been represented by green coloured bars and capital growth of these three banks has been represented by blue coloured square. The chart clearly shows that Canara Bank, PNB and Indian Bank recorded an exponential capital growth after M&A. But in relative terms, the sample banks have witnessed a sharp decline in the capital after M&A. In the year 2021, the selected banks have recorded a negative proportionate change in capital which is (49%), (79%) and (56%) for Canara Bank, PNB and Indian Bank respectively. The chart also shows that the proportionate fall in the capital of PNB (including OBC and UBI) is way more than the proportionate fall in the capital of Canara Bank and Indian Bank. The obvious reason for such a decline in the capital may be that the PNB has utilised more capital than Canara Bank and Indian Bank for the purpose of purchasing the assets and also for setting-off the liabilities of the acquired banks.

Table 3: Comparative Analysis of Deposit in Pre and Post M&A of Sample Banks

(Amount in Crores)

		Canara Bank	Syndicate Bank	PNB	OBC	UBI	Indian Bank	Allahabad Bank
Pre M&A Deposits	2017	4,95,275	2,60,560	6,21,704	2,19,339	1,26,939	1,82,509	2,01,870
	2018	5,24,771	2,72,776	6,42,226	2,07,346	1,29,326	2,08,294	2,13,603
	2019	5,99,033	2,59,896	6,76,030	2,32,645	1,34,983	2,42,075	2,14,334
Post M&A Deposits	2021	10,10,874		11,06,332			5,38,071	
Pre M&A	Growth% (2018)	5.95	4.68	3.3	-5.46	1.88	14.12	5.81
	Growth % (2019)	14.15	-4.72	5.26	12.2	4.37	16.21	0.34
Post M&A	change % (2021)	17.69		6			42.7	

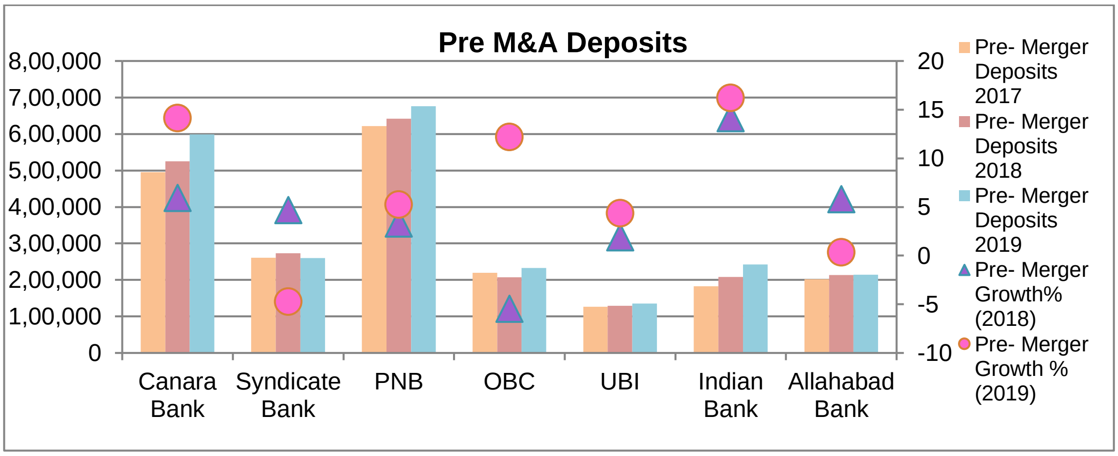
Source: Compiled from the Annual report of banks.

The Table 3 shows the comparative analysis of pre and post M&A deposits of the selected banks. The first set of banks taken for such analysis is Canara Bank and Syndicate Bank. The Canara Bank's deposits before absorption of Syndicate Bank was amounted to Rs. 4,95,275 crores in the year 2017 which was increased to Rs. 5,24,771 crores in the year 2018 and it further increased to Rs. 5,99,033 crores in the year 2019. On the other hand, Syndicate Bank's deposit before merging with Canara Bank was amounted to Rs. 2,60,560 crores in the year 2017 which was increased to Rs. 2,72,776 crores in the year 2018 but in the year 2019, the bank's deposits declined to Rs. 2,59,896 crores. Thus, growth in deposits of Canara Bank was proportionately more than that of Syndicate Bank as the deposits growth rate of Canara Bank was 5.95% in the year 2018 in contrast with Syndicate Bank which was 4.68%. In the year 2019, the deposits growth rate of Canara bank was 14.15% but on the other hand, the rate of deposits of Syndicate Bank is recorded at 4.72% which clearly indicate a decline in the rate of deposits. The Table 4 also indicated that after M&A, Canara Bank has witnessed an exponential growth in deposits which amounted to Rs. 10, 10,874 crores in the year 2021 which is 17.69% more than the combined deposits of Canara Bank and Syndicate Bank as in the year 2019.

The second set of banks taken for the comparative analysis of deposits in pre and post M&A of banks are PNB, OBC and UBI. The PNB's deposits before absorption of OBC and UBI was amounted to Rs.6, 21,704 crores in the year 2017 which increased to Rs. 6,42,226 crores in the year 2018 and it was further increased to Rs. 6,76,030 crores in the year 2019. The OBC's deposits before merging with PNB was amounted to Rs. 2, 19,339 crores in the year 2017 which decreased in the year 2018 and amounted to Rs. 2, 07,346 crores and then it increased to Rs. 2, 32,645 crores in the year 2019. The deposits of UBI before merging with PNB was Rs. 1, 26,939 crores; 1,29,326 cores and 1, 34,983 crores in the year 2017, 2018 and 2019 respectively. The deposits of PNB, OBC and UBI reflect a haphazard pattern as there is continuous fluctuation in the proportionate change of deposits during the year 2018 and 2019 respectively. The table also indicated that after M&A, the PNB has witnessed an exponential growth in deposits which amounted to Rs. 11, 06,332 crores which is 6% more than the combined deposits of PNB, OBC and UBI as in the year 2019.

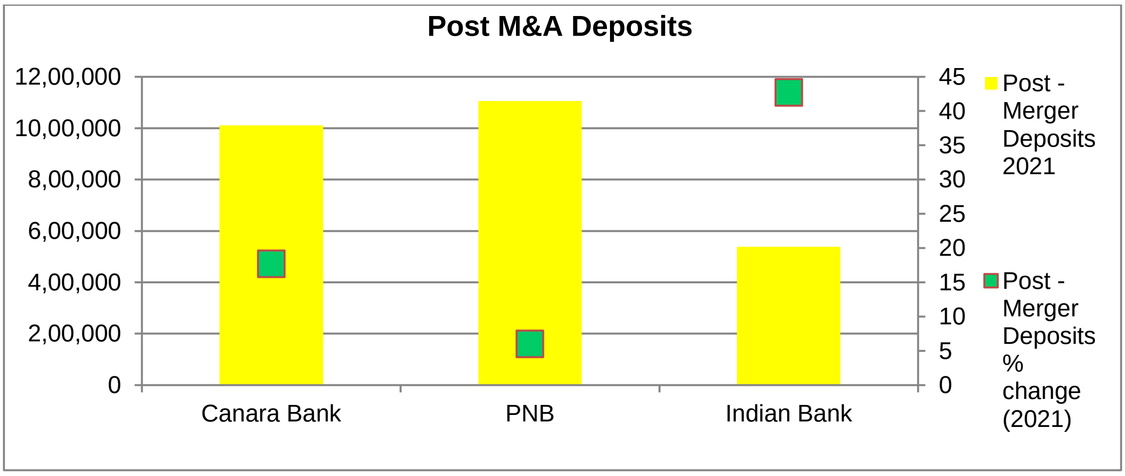
The third set of banks taken for such analysis is Indian Bank and Allahabad Bank. The Indian Bank's deposit before absorption of Allahabad Bank was recorded at Rs.1, 82,509 crores; Rs 2, 08,294 crores and Rs. 2, 42,075 crores in the year 2017, 2018 and 2019 respectively. On the other hand, Allahabad Bank deposits before merging with Indian Bank was amounted to Rs. 2,01,870 crores in the year 2017 which increased in the year 2018 and amounted to Rs.2,13,603 crores and it further increased to Rs. 2,14,334 crores in the year 2019. The deposits growth rate of Indian Bank and Allahabad Bank for the year 2018 is 14.12% and 5.81% respectively and on the other hand for the year 2019 it is 16.21% and 0.34% respectively. Thus, it can be clearly stated that the growth in deposits of Indian Bank in the year 2018 and 2019 was proportionately more than the growth in deposits of Allahabad Bank. The table also indicated that after M&A the Indian Bank has witnessed an exponential growth in deposits which amounted to Rs. 5, 38,071 crores which is 42.70% more than the combined deposits of Indian Bank and Allahabad Bank.

Chart 2(i): Analysis of Deposits in the Pre-M&A of the Sample Banks



The data in Table 3 in relation to Pre-M&A analysis of deposits has been represented graphically in Chart No.2 (i). The deposits of the selected banks in the different years have been shown by different coloured bars. The green, orange and blue coloured bars represent the deposits in the year 2017, 2018 and 2019 respectively and the deposits growth in the year 2018 and 2019 has sequentially been represented by purple triangle and pink circle. The chart clearly show fluctuations in deposits of Syndicate Bank and OBC. The Syndicate bank has deposits of Rs.2, 60,560 crores in the year 2017 which jumped up to Rs. 2, 72,776 crores in the year 2018and then declined to Rs. 2,59,896 crores in the year 2019. On the other hand, OBC has deposits amounted to Rs. 2,19,339 crores in the year 2017 which then declined to Rs. 2,07,346 crores in the year 2018 and thereafter in the year 2019 there is an increase in deposits which amounted to Rs. 2,32,645 crores. The chart also exhibits the increasing trend of deposits and deposits growth rate in the case of Canara Bank, PNB, UBI and Allahabad bank except Indian bank. It is important to mention that PNB has witnessed and overall hike in the amount of deposits but in relative terms, it is Indian Bank which has witnessed the highest growth of deposits in the year 2018 and 2019 which was 14.12% and16.21% respectively. The fluctuation in deposits may be due to varying interest rates, emergence of digital technology and security concerns, etc.

Chart 2(ii): Analysis of Deposits in Post M&A of the Sample Banks



The data in Table 3 in relation to Post M&A analysis of deposits has been graphically represented in Chart No.2 (ii). The deposits of three acquiring banks viz. Canara Bank, PNB and Indian Bank has been represented by yellow-coloured bars and deposits growth of these three banks has been represented by green coloured square. The chart clearly shows that after M&A, the PNB has recorded the highest amount of deposits which was Rs. 11, 06,332 crores in the year 2021 in comparison to Canara Bank & Indian Bank which was Rs.10, 10,874 crores & Rs.5, 38,071 crores respectively but in the relative terms, the Indian bank has recorded the highest deposits growth which was 42.70% while PNB and Canara Bank has witnessed a growth of 17.61% and 6% respectively in the year 2021. Thus, after making the comparative analysis of pre and post M&A deposits with the help of Chart No 2(i) and 2(ii) it was concluded that M&A has brought a significant improvement in the deposits of the selected banks.

Table 4: Comparative Analysis of Advances in Pre and Post M&A of Sample Banks

(Amount in Crores)

		Canara Bank	Syndicate Bank	PNB	OBC	UBI	Indian Bank	Allahabad Bank
Pre M&A	2017	3,42,008	2,05,044	4,19,493	1,59,284	66,139	1,27,699	1,50,752
	2018	3,81,707	2,10,683	4,33,734	1,36,367	62,490	1,56,568	1,52,060
	2019	4,27,727	1,99,669	4,58,249	1,57,706	66,955	1,81,261	1,42,212
Post M&A	2021	6,39,048		6,74,230			3,64,010	
Pre M&A	Growth% (2018)	11.6	2.75	3.39	-14.38	-5.51	22.6	0.86
	Growth % (2019)	12.05	-5.22	5.65	15.64	7.14	13.62	-6.47
Post M&A	% change (2021)	1.85		-1.27			12.53	

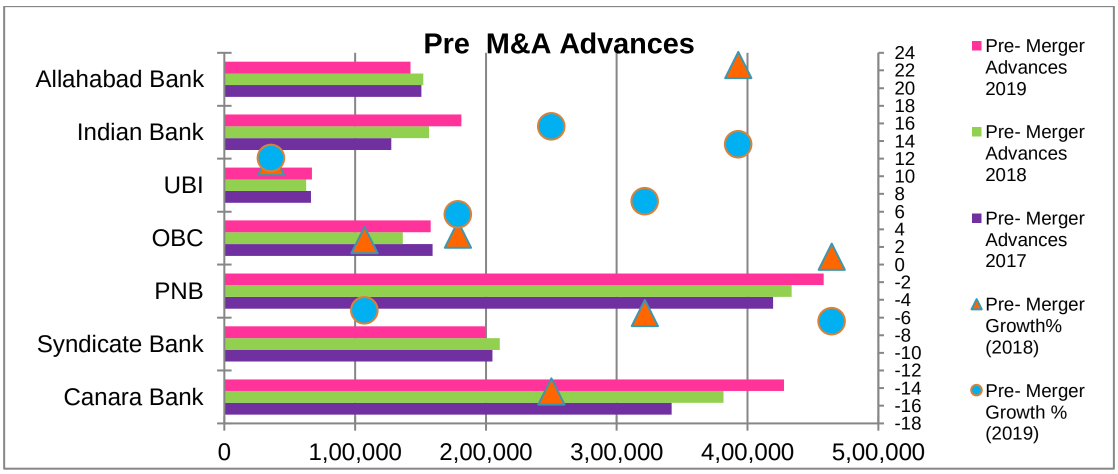
Source: Compiled from Annual Report of Banks.

The Table 4 exhibits the comparative analysis of advances in the pre and post M&A of selected banks. The first set of banks taken for such analysis is Canara Bank and Syndicate Bank. The Canara Bank's advances before absorption of Syndicate Bank was amounted to Rs. 3,42,008 crores in the year 2017 which was increased to Rs. 3,81,707 crores in the year 2018 and it further increased to Rs.4,27,727 crores in the year 2019. The Syndicate Bank's advances before merging with Canara Bank was reported in their annual report as follows- Rs. 2,05,044 crores in the year 2017; Rs. 2,10,638 crores in the year 2018 and Rs.1,99,669 crores in the year 2019. Thus, the growth rate of advances of Canara Bank was proportionately more than that of Syndicate Bank's growth rate. It can be clearly seen from the table that rate of advances of Canara Bank has been increased by 11.60% and 12.05% in the year 2018 and 2019 respectively whereas the rate of advances of Syndicate Bank has shown a mere growth of 2.75% in the year 2018 and 5.22% in the year 2019.The table also witnessed that after the M&A of Canara Bank and Syndicate Bank, the advances in the year 2021 was amounted Rs. 6,39,049 crores which was 1.85% more than the total advances of Canara Bank and Syndicate Bank as in the year 2019.

The second set of banks taken for the comparative analysis of advances are PNB, OBC and UBI. The PNB's advances before the absorption of OBC and UBI was recorded at Rs.4,19,493 crores; 4, 33,734 crores and 4, 58,249 crores in the year 2017, 2018 and 2019 respectively. The advances of OBC before merging with PNB amounted to Rs. 1,59,284 crores in the year 2017. It went down to Rs.1,36,367 crores in the year 2018 and further raised up to Rs. 1,57,706 crores in the year 2019. The advances of UBI before merging with PNB was amounted to Rs. 66,139 crores in the year 2017 which decreased in the year 2018 and amounted to Rs. 62,490 crores and after that there is a slight increase in the advances of bank which amounted to Rs. 66,955 crores in the year 2019. Thus, growth in advances of PNB, OBC and UBI follows a haphazard pattern; as in the year 2018, the growth in advances of PNB was 3.39% whereas OBC & UBI have witnessed a negative proportionate change in advances in the year 2018 which is (14.38%) and (5.51%). On the contrary, both the banks have witnessed a positive proportionate change which is 5.65% & 7.14% respectively in the year 2019.The table also witnessed that after the M&A of PNB, OBC and UBI; the advances in the year 2021 amounted to Rs. 6, 74,230 crores which is 1.27% less than the total advances of PNB, OBC and UBI in the year 2019.

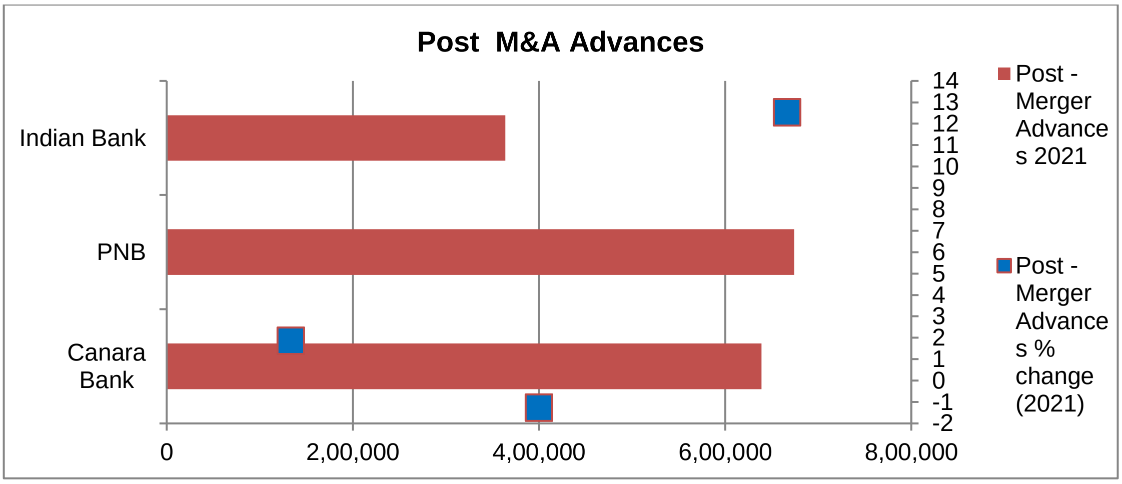
The third set of banks taken for the comparative analysis of advances in the pre and post M&A of banks is Indian Bank and Allahabad bank. The Indian Bank's advances before absorption of Allahabad Bank were amounted to Rs. 1, 27,699 crores; 1, 56,568 crores and 1,81,261 crores in the year 2017, 2018 and 2019 respectively. On the other hand, Allahabad Bank's advances before merging with Indian bank amounted to Rs. 1, 50,752 crores in the year 2017, Rs. 152,060 crores in the year 2018 and Rs. 1, 42,212 crores in the year 2019. Thus, growth in advances of Indian Bank in the year 2018 was proportionately more than the growth in advances of Allahabad Bank. It is clearly evident from the table that Indian Bank has reported 22.60% and 13.62% growth in advances in the year 2018& 2019 respectively; in contrast with the proportionate change in advances of Allahabad bank which is recorded at 0.86% in the year 2018 and 6.47% in the year 2019. The Indian Bank has witnessed an exponential growth in advances after the M&A which was amounted to Rs. 3, 64,010 crores in the year 2021 which was 12.53% more than the total advances of Indian Bank and Allahabad Bank as in the year 2019.

Chart 3(i): Analysis of Advances in Pre-M&A of the Sample Banks



The data in the Table 4 in relation to pre M&A analysis of advances made by the banks has been graphically represented in Chart No. 3(i). The analysis of advances of the selected banks in different years before M&A has been shown by different coloured bars. The violet, green and pink coloured bars represent the advances in the year 2017, 2018 and 2019 respectively and the proportionate growth of advances of the year 2018 and 2019 has been represented by orange triangle & blue circle respectively. The chart clearly shows that there is fluctuation in the advances made by Syndicate Bank, UBI, OBC and Allahabad Bank thereby instigating the Government of India to merge these inefficient banks. The chart also exhibits the advances made by Canara Bank, PNB and Indian Bank has been increasing continuously year after year. It is also noteworthy here that PNB has witnessed the highest lending of advances among all the selected banks in the year 2019 which amounted to Rs. 4,58,249crores. In relative terms, Indian Bank has witnessed the highest percentage of growth in advances among all the selected banks in the year 2018 and 2019 which was 22.60% & 15.77% respectively.

Chart 3(ii): Analysis of Advances in Post-M&A of the Sample Banks



The data in Table 4 in relation to post M&A advances has been graphically represented in Chart No.3 (ii). The horizontal axis represents the amount of advances whereas vertical axis represents the percentage growth of advances. The advances of three acquiring banks viz. Canara Bank, PNB and Indian Bank has been represented by orange-coloured bars and the percentage growth in advances has been represented by blue coloured square. The chart clearly shows that after M&A the PNB has recorded the highest amount of advances which is Rs. 6, 74,230 crores in comparison to Canara Bank & Indian Bank which is Rs. 6, 39,048 crores and Rs. 3, 64,010 crores respectively in the year 2021.On the other hand, the Indian bank has recorded the highest growth in advances which is 12.53% in contrast to proportionate change in advances of Canara Bank & PNB which is 1.85% & (1.27%) respectively. Thus, after making a comparative analysis of pre and post M&A advances with the help of Chart No 3(i) and 3(ii) it can be concluded that there is a significant increase in the advances issued by Canara Bank and Indian Bank but so far as PNB is considered, it reported a fall in the advances issued after M&A.

Table 5: Comparative Analysis of Business in Pre and Post M&A of Sample Banks

(Amount in Crores)

		Canara Bank	Syndicate Bank	PNB	OBC	UBI	Indian Bank	Allahabad Bank
Pre- M&A Business	2017	8,37,284	4,65,605	10,41,197	3,78,624	1,93,078	3,10,208	3,52,622
	2018	9,06,479	4,83,459	10,75,960	3,43,713	1,91,816	3,64,863	3,65,664
	2019	10,26,760	4,59,566	11,34,279	3,90,351	2,01,938	4,23,337	3,56,446
Post M&A Business	2021	16,49,923		17,80,723			9,02,081	
Pre M&A	Growth% (2018)	8.26	3.83	3.33	-9.22	-0.65	17.61	3.69
Pre M&A	Growth % (2019)	13.26	-4.94	5.42	13.56	5.27	16	-2.49
Post M&A	change % (2021)	11		3.13		15.66		

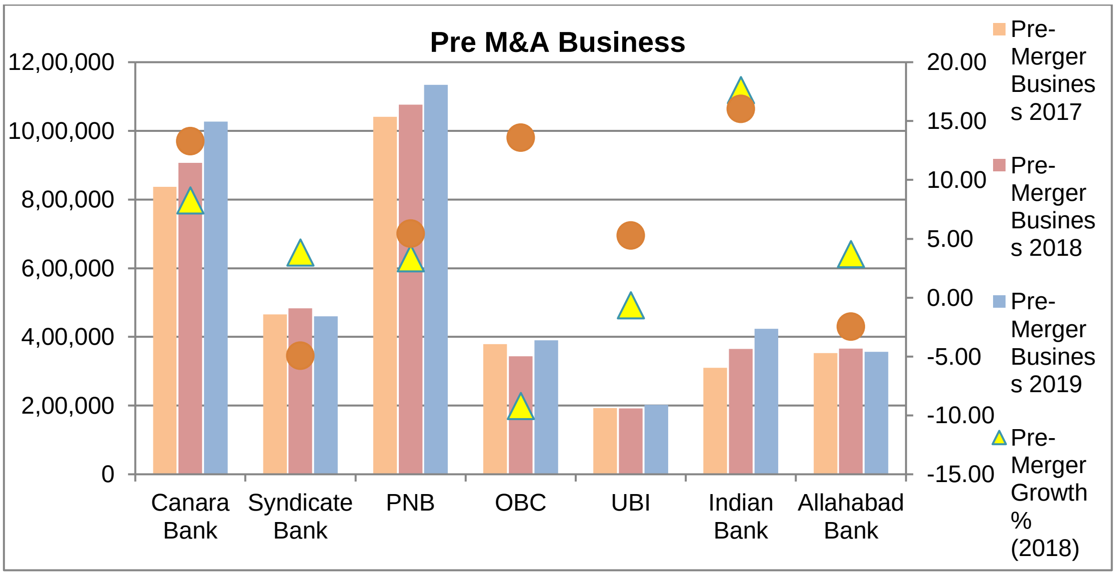
Source: Compiled from the Annual Report of banks

The Table No.5 exhibits the comparative analysis of business in the pre and post M&A of banks. The business comprise of the advances and deposits of the banks. The first set of banks taken for such analysis is Canara Bank and Syndicate Bank. The Canara Bank's business before absorption of Syndicate Bank amounted to Rs. 8, 37,284 crores in the year 2017, Rs. 9, 06,479 crores in the year 2018 and Rs. 10, 26,760 crores in the year 2019. On the other hand, Syndicate Bank's business before merging with Canara Bank was amounted to Rs. 4, 65,605 crores; Rs. 4, 83,459 crores, Rs. 4, 59,566 crores in the year 2017, 2018 and 2019 respectively. Thus, business growth of Canara Bank is proportionately more than that of Syndicate Bank's business growth rate. In the year 2018 and 2019, the business growth of Canara Bank was 8.26% and 13.26% respectively in contrast with the business of Syndicate Bank which was only 3.83% in the year 2018 and showed a negative change of 4.94% in the year 2019. The Canara Bank has witnessed an exponential growth in business after the M&A which amounted to Rs. 16, 49,923 crores which is 11% more than the total business of Canara Bank and Syndicate Bank as in the year 2019.

The second set of banks taken for the comparative analysis of business is PNB, OBC and UBI. The PNB's business before absorption of OBC and UBI was amounted to Rs. 10,41,197 crores in the year 2017; Rs. 10, 75,960 crores in the year 2018 and Rs. 11, 34,279 crores in the year 2019. The business of OBC before merging with PNB was amounted to Rs. 3,78,624 crores; 343,713 crores and 3, 90,351 crores in the year 2017, 2018 and 2019 respectively. The business of UBI before merging with PNB was amounted to Rs. 1,93,078 crores; Rs. 1,91,816 crores and Rs. 2,01,938 crores in the year 2017, 2018 and 2019 respectively. It is clearly evident from the table that OBC & UBI has recorded a negative proportionate change of (9.22%) & (0.65%) in the year 2018and a positive proportionate change of 13.56% & 5.27% respectively in the year 2019. On the other hand, PNB has recorded a positive proportionate change of 3.33% in the year 2018 and 5.42% in the year 2019.The table also indicated that after M&A of PNB, OBC and UBI, the consolidated business of bank amounted to Rs. 17, 80,723 crores in the year 2021 which was 3.13% more than the total business of PNB, OBC and UBI as in the year 2019.

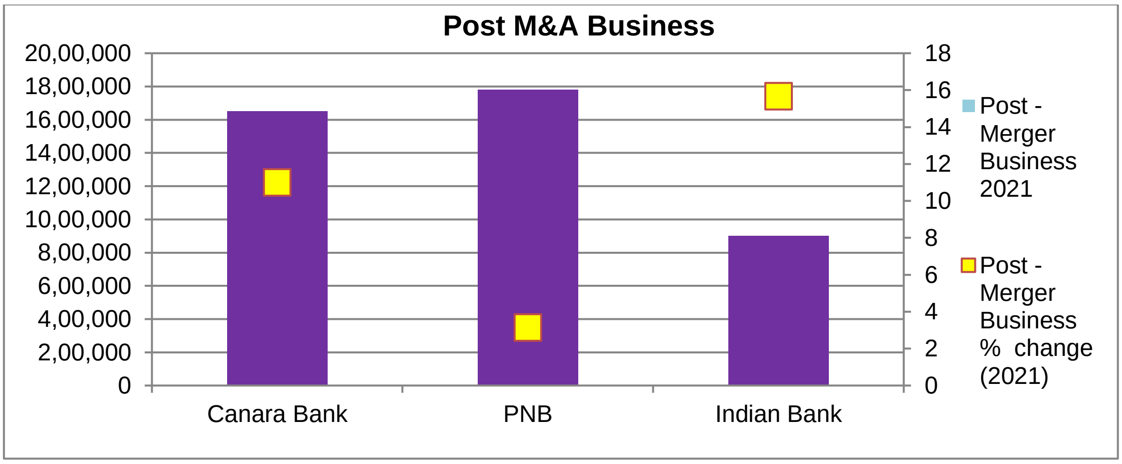
The third set of banks taken for such analysis is Indian Bank and Allahabad Bank. The business of Indian Bank before M&A amounted to Rs. 3,10,208 crores in the year 2017; Rs. 3,64,863 crores in the year 2018 and Rs. 4,23,337 crores in the year 2019. On the other hand, Allahabad Bank's business was recorded at Rs. 3, 52,622 crores, Rs. 3, 65,664 crores and 4, 59,566 crores in the year 2017, 2018 and 2019 respectively. The business growth of Indian Bank is 17.61% & 16.02% in the year 2018 and 2019 respectively whereas Allahabad bank has recorded 3.69% growth in business in the year 2018 but thereafter reported a decline of 2.49% in the year 2019. Thus, business growth of Indian Bank is proportionately more than the business growth of Allahabad bank. The Indian bank has witnessed an exponential growth of business after the M&A which amounted to Rs.9,02,081 cores in the year 2021 which is 15.66% more than total business of Indian bank and Allahabad Bank as in the year 2019.

Chart 4(i): Analysis of Business in Pre-M&A of Sample Banks



The data in the Table 5 in relation to the Pre-M&A business has been represented graphically Chart No 4(i). The analysis of business of the selected banks in different years before M&A has been shown by different coloured bars. The green, orange and blue coloured bars represent the business in the year 2017, 2018 and 2019 respectively and the business growth in the year 2018 & 2019 has been represented by yellow triangle & green circle respectively. The chart clearly shows the fluctuation in business of Syndicate Bank, OBC, UBI & Allahabad Bank and also exhibits the increasing trend of business in case of Canara Bank, PNB and Indian Bank. Thus, indicating stability in the business of the said banks thereby encouraging the Government of India to announce the Mega Merger in 2020 in order to strengthen the acquiring banks' position in the global financial market. It is noteworthy here that PNB has witnessed the highest amount of business in absolute terms whereas while considering business growth in relative terms, it is Indian Bank that has recorded highest percentage of business growth among all the banks.

Chart 4(ii): Analysis of Business in Post M&A of sample Banks



The data in Table 5 in relation to post M&A business has been graphically represented in Chart No.4(ii). The business of three acquiring banks viz. Canara Bank, PNB and Indian Bank has been represented by purple-coloured bars and business growth of the said banks has been represented by yellow coloured square. The chart clearly shows that after M&A the PNB has recorded the highest amount of business i.e. Rs. 17, 80,723 crores whereas Canara Bank and Indian bank has reported business of Rs. 16, 49,923 crores and Rs. 9, 02,081 crores respectively. On the other hand, the Indian Bank has recorded highest business growth in relative terms which is 15.66% in the year 2021. The business growth rate of PNB and Canara Bank is 3.13% and 11% respectively. Thus, on comparing the pre and post M&A with the help of Chart No 4(i) and 4(ii), it can be concluded that M&A has brought a significant improvement in business of the selected banks and thus, strengthening their position in the global financial market.

Table 6: Comparative Analysis of Net Profit in Pre and Post M&A of Sample Banks

(Amount in Crores)

	Year	Canara Bank	Syndicate Bank	PNB	OBC	UBI	Indian Bank	Allahabad Bank
	2017	1,121	358	1,324	-1,094	-219	1,405	-313
Pre M&A	**2018**	-4,222	-3,222	12,282	5,871	1,454	1,258	-4,674
	2019	347	-2,588	9,975	54	2,316	321	-8,333
Post M&A	**2021**	2,557		2,021			3,004	

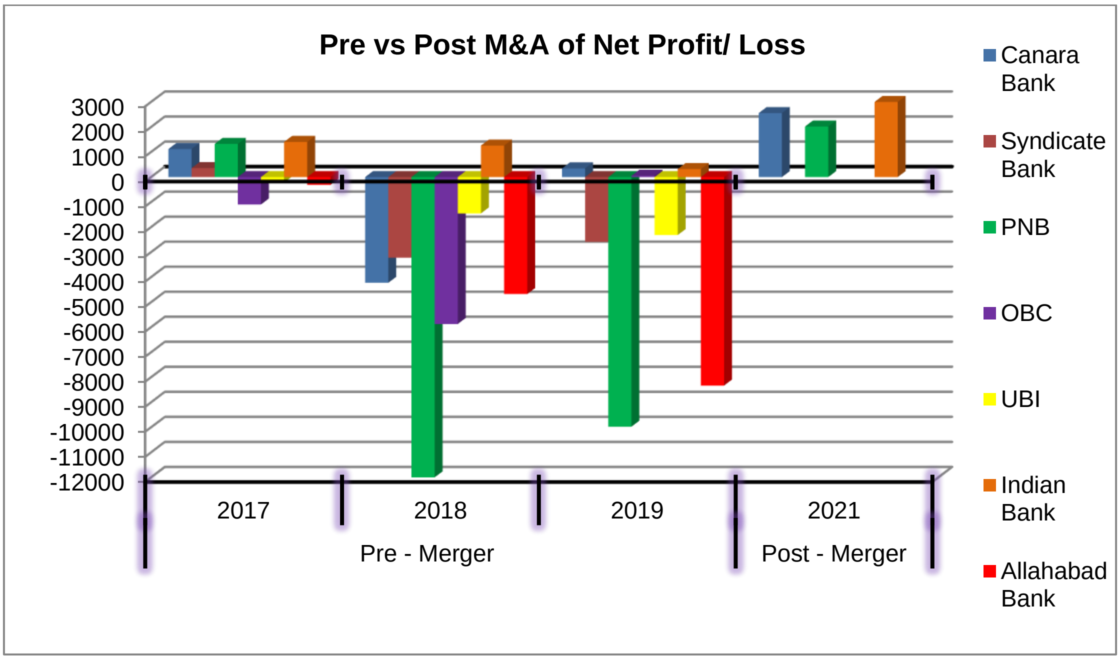
Source: Compiled from annual report of banks.

The Table 6 gives a comparative picture of net profit in the pre and post M&A of the selected banks. The first set of sample banks taken for such analysis is Canara Bank and Syndicate Bank. Before acquiring Syndicate Bank, Canara Bank recorded net profit of Rs. 1,121 crores in the year 2017, reported a net loss of Rs. 4,222 crores in the year 2018 and thereafter earned a net profit of Rs.347 crores in the year 2019. The Syndicate Bank earned a net profit of Rs. 358 crores in the year 2017 and incurred losses amounting to Rs. 3,222 crores and Rs. 2,588 crores in the year 2018 and 2019 respectively. It is quite evident from the above table that Canara Bank has earned net profit of Rs. 2,557 crores in the year 2021 after the absorption of Syndicate Bank.

The second set of banks taken for the comparative analysis of net profit before and after M&A is PNB, OBC and UBI. The net profit of PNB before absorption of OBC and UBI amounted to Rs.1, 324 crores in the year 2017 but bank suffered a loss in the year 2018 and 2019 which amounted to Rs. 12,282 crores and Rs.9,755 crores respectively. The OBC before merging with PNB recorded the net losses in the year 2017 and 2018 which amounted to Rs.1,094 crores and Rs.5,871 crores respectively and thereafter in the year 2019 the bank has earned a net profit which amounted Rs. 54 crores. The net loss of UBI before merging with PNB was amounted to Rs. 219 crores, Rs.1,454 crores and Rs. 2,315 crores in the year 2017, 2018 and 2019 respectively. It can be clearly seen that from the table that PNB has earned a net profit after the absorption of UBI and OBC which amounted Rs. 2,021 crores in the year 2021.

The third set of banks taken for the comparative analysis of net profit before and after M&A of Indian Bank and Allahabad Bank. The net profit of Indian Bank stood at Rs. 1,405 crores; 1,258 crores and 321 crores in the year 2017, 2018 and 2019 respectively before acquiring Allahabad Bank. On the other hand, the net loss position of Allahabad Bank before its merger amounted to Rs. 313 crores in the year 2017 which excessively increased to Rs 4,674 crores in the year 2018 and outsized to Rs. 8,333 crores in the year 2019. It is evident from the Table 6 that after acquiring Allahabad Bank, Indian bank has earned a net profit of Rs. 3,004 crores in the year 2021.

Chart 6: Analysis of Net Profit in Pre and Post M&A of the Sample Banks



The data in the Table 6 in relation to the Pre and Post M&A net profit analysis has been represented graphically in Chart 6. The net profit of several banks has been shown by different coloured bars. The blue coloured bar represents the net profit of Canara Bank, brown coloured bar represents the net profit of Syndicate Bank, Green coloured bar represents the net profit of PNB, purple coloured bar the net profit of represents the net profit of OBC, yellow coloured bar represents the net profit of UBI, orange coloured bar represents Indian Bank and red coloured bar represent Allahabad Bank. The line of origin represents the break-even line which clearly indicates that at this line banks neither earn profit nor incur loss. On the contrary, any point above the line of origin highlights the profit of the sample banks whereas any point line below the line of origin signals net loss incurred by the banks. The chart clearly shows that before M&A, banks were earning lower profits and even incurred heavy losses in some years which may raise a question mark on the operating efficiency of the sample banks. On the contrary, a dramatical change has been observed in the profitability position of the sample banks after M&A. Thus, it can be concluded that due to the enhanced employees' productivity, reduced the cost of funds, improved of asset quality and minimised risk of credit etc. the Mega Merger of 2020 has brought a significant improvement in overall financial position of the selected banks.

Findings and Suggestions of Study

On the basis of above analysis, the major findings of study along with relevant suggestions are as follows:

Findings

- **Capital:** The capital of Canara Bank, PNB and Indian Bank after M&A has been reduced by 49%, 79% and 56% respectively in comparison to the combined capital of Canara Bank and Syndicate Bank which amounted to Rs.3,240 crores; combined capital of PNB , OBC and UBI which was Rs. 9,717 crores and combined capital of Indian Bank and Allahabad Bank which was Rs. 2,576 crores in the year 2019. It is so because the acquiring banks may have utilised the amount of capital to purchase the assets and to pay-off the liabilities of the acquired banks. Besides the banks may also have incurred heavy expenditure in integrating new technologies for smooth running of banks' business after M&A.
- **Deposits:** The deposits of Canara Bank, PNB and Indian Bank after M&A has been increased by 17.69%, 6% and 42.70% respectively in comparison to the combined deposits of Canara Bank and Syndicate Bank which amounted to Rs. 8,58,929 crores; combined deposits of PNB , OBC and UBI which was Rs. 10,43,658 crores and combined deposits of Indian Bank and Allahabad Bank which was Rs. 4,56,409 crores in the year 2019. The obvious reasons for such an increment in deposits may be improved service quality, financial inclusion initiatives, diversified product portfolio financial innovation, attractive interest rate of deposits as after M&A the financial system structure of banks became stronger.
- **Advances:** The advances of Canara Bank and Indian Bank after M&A was raised up by 1.85% and 12.53% respectively in comparison to the combined advances of Canara Bank and Syndicate Bank which was Rs. 6,27,396 crores; combined advances of Indian Bank and Allahabad Bank which was Rs. 3,23,473 crores in the year 2019. The substantial increase in advances of both the banks may be due to the improving cash recovery and credit rating, infusion of funds through investing various profitable portfolios by bank, better fund management, improving operational efficiency and exponential growth of interest income. On the other hand, the advances of PNB after M&A in the year 2021 was 1.27% less than the combined advances of PNB, UBI and OBC which was Rs. 6,82,910 crores in the year 2019, that may be due to rise in defaulter rate which makes it necessary on the part of the PNB to reduce the amount of the lending.
- **Business:** The business of Canara Bank, PNB and Indian Bank after M&A have been perked up to 11%, 3.13% and 15.66% respectively in the year 2021 in comparison to the combined business of Canara Bank and Syndicate Bank which was Rs.14,86,326 crores; combined business of PNB, OBC and UBI which was Rs. 17,26,568 crores and combined business of Indian Bank and Allahabad Bank which was Rs. 7,79,883 crores in the year 2019. The driving forces behind such a hike in the business of the banks is successful leveraging of synergy benefits such as increased scale of operation by establishing new franchise either through new geographies or by growing market share, wider spectrum of product portfolios, improving credit rating, asset quality and revamping organisational structure.
- **Net Profit:** The acquiring banks viz. Syndicate bank, UBI and Allahabad bank prior to M&A reported net losses amounted to Rs. (2588) Crores, Rs. (2316) crores and Rs.(8333) Crores respectively except OBC which reported a nominal net profit of Rs. 53 crores. On the other hand, the pre M&A net profit of Canara bank and Indian Bank for the year 2019 is Rs. 347 crores and Rs. 321 crores respectively whereas PNB reported a net loss of Rs. (9975) crores.

The post M&A profitability position of the acquired banks stood as follows: for Canara Bank it was Rs.2,557 crores; for PNB it was Rs. 2,021 crores and for that of Indian Bank it amounted to Rs. 3,004 crores in the year 2021. The mainspring behind this substantial transformation in the profitability positions of the banks are improved managerial efficiency, lower credit and liquidity risk, diversified business risk, reduced cost of funds, expansion in market share and financial innovation etc.

Suggestions

The following are the suggestions of study which are as follows:

- The sensitivity analysis of the employees is to be addressed while considering M&A of banks as the whole system of acquiring and acquired banks completely change which significantly influence the working culture the employees.
- Before taking any strategic decision regarding merger, the Government should consider the pros and cons of M&A as these challenges may severely impact the normal functioning of the banks after M&A.
- After M&A of banks, the staff of acquired banks should be provided with the proper training, enabling them to work efficiently and effectively.
- The strong banks should not be merged with the weak banks as they will create the hostile position of strong bank after M&A. The strong bank may face problems such as booming out operating cost, higher defaulter rate and poor fund management, etc.
- RBI should provide roadmap to acquiring bank regarding improvement in financial performance in global financial market and to face challenges of technology integration after M&A of banks.

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