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"IMPACT OF MERGER AND ACQUISITION ON THE PERFORMANCE AND GROWTH OF BANKS IN INDIA''

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ABSTRACT :

Finding out how bank mergers and acquisitions in India impacted their bottom lines was the main goal of this investigation. After a short overview of M&A activity in India's banking sector, the report delves into an analysis of thse knock-on impacts felt by three major Indian banks. This study aims to examine the effects of mergers and acquisitions (M&As) in India's banking sector both before and after a six-year period of M&A activity. This article analysed the financial performance of the combined institutions after the merger using a variety of metrics, such as operational profit margin, net profit margin, return on equity, earnings per share, capital adequacy ratio, dividend per share, and return on capital used. The results show that the policies and initiatives implemented after a merger or acquisition were heavily influenced by physical, procedural, and socio-cultural factors. The qualitative benefits of post-M&A operations, such as accounting report preparation, market valuation, and critical informant description, are substantial and crucial to the enhancement of the Bank's performance and capabilities. According to the report, in order to improve internal and external operations, management should reevaluate strategies and policies including the credit policy. In addition to bolstering the logistical framework, they should promote the bank's current and future products using an integrated marketing communications mix. This will lead to an increase in their market share.

Keywords: Accounting reports, post-merger, mergers, acquisitions, financial factors, market valuation, credit policies, and banks.

INTRODUCTION:

The banking sector is the engine that drives every economy. The banking sector is the principal engine that propels economic activity since it supplies the bulk of the capital that keeps things running smoothly. Banks should be subject to more scrutiny than any other part of the economy due to the crucial role they play in any nation's economy. The banking sector is a vital part of India's economy, contributing 7.4 percent of GDP in 2019. When it comes to India's economy, banks are the engine that keeps the wheels turning. Public sector, private, foreign, and cooperative/regional/rural banks are the four main categories in India's banking industry. Many different types of financial resources are expected to be handled by Indian banks. In order to manage the circulation of money, a strong financial system must be established through restructuring. Many people believe that the banking industry is the fastest-growing in India, and that the stability of the financial system has been essential to the country's economic progress. One way the bank might adjust to the new circumstances is by merging with other companies or going through a consolidation. Everything about the banking and financial industries in India has changed since 1991, when the country's economy opened up and welcomed globalisation, privatisation, and liberalisation. As a result, academics in India and elsewhere dug deep into the topic of mergers and acquisitions. In case you were wondering, the Indian government and the Reserve Bank of India have begun a wave of mergers and acquisitions inside the banking sector with the goal of achieving economies of scale and making the banks more formidable competitors on the international stage.The banking industry is currently seeing rapid expansion, which is unparalleled by most other sectors in India. It is today a booming industry, yet it was once a sluggish firm. Banks in this sector are seeing unprecedented levels of investment interest as a result of the industry's meteoric rise in value. Mergers and acquisitions have given the Indian banking business a fresh perspective. Banks will be able to flourish into first-rate organisations and benefit those with a vested interest in their prosperity.

BACKGROUND OF THE STUDY

When looking to expand into new markets, introduce ground-breaking products, or broaden your distribution network, mergers and acquisitions (M&As) are a great choice. In 2017, Sharma asserted this. A growing number of service industries, including India's banking sector, have turned to mergers and acquisitions (M&As) to reorganise their operations. There has been an abundance of mergers and acquisitions (M&As) in India's public and private banking industries. As an example, consider Bharitya Mahila Bank (BMB), which on April 1, 2017, amalgamated with SBI and five of its member banks. Additionally, ICICI and Bank of Rajasthan merged in 2008, and Centurion Bank of Punjab and HDFC Bank merged in 2010. The two biggest banks in the private sector are these two. In the 1960s, mergers and acquisitions were the main drivers of expansion in India's banking sector.Fourteen major commercial banks in India were nationalised in 1968 by an ordinance passed by the government. At the time, 85% of India's bank deposits were owned by 114 institutions. The Indian government took direct control of 91% of the banking sector in 1980 after nationalising six additional banks. Instead of nationalising banks, the Indian government began to encourage mergers in 1993. The merger of New Bank of India with Punjab National Bank (PNB) was unprecedented among nationalised banks. The Indian government has formed a committee to investigate and supervise potential mergers of the country's state-run banks, as reported by IBPSExamAdda (2015).

OBJECTIVE

- The comparison of key financial performance metrics between the pre- and post-merger and acquisition periods of banks is of special interest to us.
- We aim to measure how mergers and acquisitions affect banks' market share and competitive standing.
- This study aims to assess how operational efficiency and cost-effectiveness have been affected by banking sector mergers and acquisitions.
- Learn how the banking sector's consolidation in India has impacted bank stability.
- I intend to educate myself thoroughly on the subject of bank mergers and acquisitions in India.
- Make recommendations to Indian lawmakers, regulators, and financial institutions on how to improve future merger and acquisition strategies based on the results.
- The purpose of this research is to determine the financial impact of several bank mergers and acquisitions in India.
- The purpose of post-merger studies is to assess the effects of bank mergers and acquisitions by analysing certain traits.

LITERATURE REVIEW

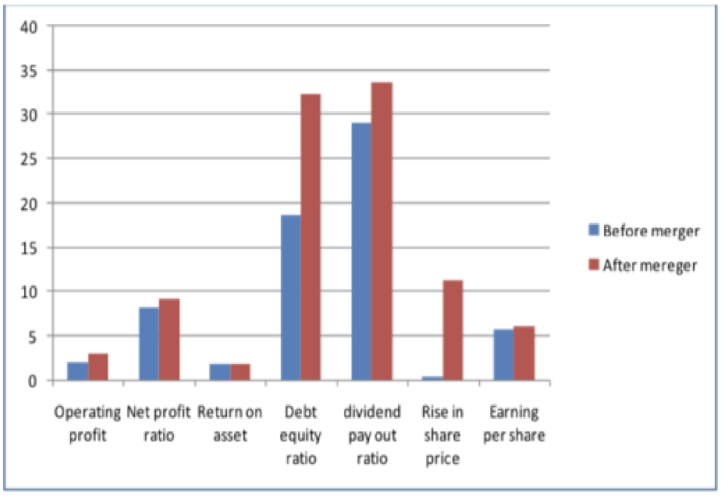
This study conducted a comprehensive literature review to have a better understanding of the procedures involved in M&As. Mergers and acquisitions in the banking industry have been the subject of multiple sector-specific research. There have been a lot of research looking at the various elements that could cause this shift in thinking. Using the CAMEL paradigm, Anderibom et al. (2015) investigates whether UBA Plc, a Nigerian commercial bank, was successful or unsuccessful after merging with other institutions. The analysis relies on secondary data culled from banks' annual reports. The author performs a paired sample t-test using data collected before and after the merger. Commercial banks in Nigeria saw an uptick in performance following mergers and acquisitions, the study found. In 2010, Brahma Chaudhari examined ICICI and SBI under the CAMEL framework. The numbers show that SBI and ICICI have been doing quite well and meeting all requirements. Management at ICIC Bank has been more efficient, even if SBI's bottom line has been appearing healthy. According to research published in 2017 by Dr. (Mrs.) Prashanta Athma and A. Bhavani, "Trends in Mergers in Banking Sector in India: An Analysis," most mergers in the country's banking industry have involved public sector banks, and these institutions are distinct from one another. Research on the effects of mergers on liquidity, operational performance, and profitability was conducted by Kalaichelvan K. (2011). The results showed that public sector banks performed better after the merger, whereas private sector banks performed better before the merger. The reasons behind bank mergers in India were investigated by Devarajappa S. (2012). It also compared the two companies' financial performance before and after the merger based on metrics including return on equity, debt equity ratio, operational profit margin, net profit margin, and gross profit margin. The findings of the study show that the banks will benefit. From 1990–1991, the year following deregulation, until 2007–2008, Kaur & Kaur (2010) studied the effect of bank mergers on cost efficiency. We used parametric and non-parametric methods to compare public and private sector efficiency. Across all studies, public sector banks were found to be cost-efficient to the tune of 73.4%, whereas private sector banks achieved 76.3%. The Indian banking sector was able to successfully complete the merger. Because it would hurt the asset quality of the healthier banks, some think the government shouldn't let struggling banks merge with healthy ones so that depositors of the former can get their money back.

Makkar (2013) looked at a study that compared the financial results of Indian commercial banks. The research covered the years 2006–2007 through 2010–2011 and used data from 37 different banks, including 15 private and 22 public organisations. Based on the results of the poll, IDBI Bank is the best bank in India, followed by ICICI Bank and Kotak Mahindra Bank. The three banks with the poorest performance were Karnataka Bank Ltd., Dhanalaxmi, and J&K Bank. No statistically significant differences were detected between the two groups of banks with regard to liquidity, market risk sensitivity, or management, according to the t-test. Public sector banks in India still have room to grow and establish themselves in the fiercely competitive market, even if the study didn't discover a statistically significant difference in the average financial performance of the two types of banks.

RESEARCH & METHODOLOGY

This research aims to examine the impact of mergers and acquisitions on India's banking sector. The purpose of this descriptive study was to shed light

S.L. NO	PARTICULARS	POSTMERGER VALUE	CHANGE (%)	T value	Significance
1	Current ratio	0.43	26.47	1.7	4.30
2	Quick ratio	0.21	-30	1.94	2.44
3	Debt Equity ratio	32.26	7.5	2.13	2.77
4	Total debt ratio	33.00	16.57	0.98	2.12
5	Proprietary ratio	0.14	-0.049	-34.80	2.63
6	Interest coverage ratio	2.98	0.37	4.30	1.92
7	Gross profit ratio	0.00	-0.6287%	3.02	1.66
8	Operating profit ratio	2.39	17.02	2.69	-1.90
9	Net profit ratio	9.2	10.42	4.33	-1.73
10	Operating ratio	0.7842	0.54	0.99	1.68
11	ROA	1.75	0.004	0.51	0.01
12	ROC	13.83	-0.011	0.74	0.14
13	ROE	12.73	0.000786	0.76	0.53
14	Return on investment	0.39	3.15	13	4.32
15	Current assets turnover ratio	28.13	0.233	0.250	0.718
16	Fixed asset turnover ratio	119.34	0.013	0.22	0.88
17	Operating cost to asset	2.91	-0.034	0.79	0.33



on the disparity between pre- and post-merger accounting ratios. You may find the study's methodology, sample size, demographics, data collection, hypothesis testing, and analytical model down below.

DATA ANALYSIS AND NTERPRETATION

An Examination of Financial Statements A company's success is directly related to its profitability and overall financial well-being. We can learn a lot about a company's financial health and success from the financial statements that they release on a regular basis. A company's two most fundamental financial statements are the income statement and the balance sheet.

TABLE NO -1 POST-MERGER ANA LYSIS OF KOTAK MAHINDRABANK (RUPEES IN THOUSAND OF INDIAN CURRENCY) .

Based on the numbers given, it is clear that all four ratios—current, total debt, operating profit, and net profit—are significantly better now. The ratios

Financial ratios	Pre merger	Post merger	T-value	Significant
Operating profit ratio	24.10	30.38	2.9	0.10
Net profit ratio	10.76	17.97	9.39	0.01
Return on asset	1.07	1.58	5.50	0.03
Return on equity	8.09	10.35	0.76	0.53
Earnings per share	36.14	70.17	3.67	0.07
Debt equity ratio	4.53	4.31	0.52	0.65
Dividend payout ratio	35.62	30.0	2.08	0.17
Share price	685	1245	-2.18	0.17

of proprietary income to gross profit have both decreased. Both operational cost and operational expenditure have been reduced. There were changes to operating profit (17.02 percent), net profit (10.42 percent), debt to equity (7.5% change), and dividend payout (7% increase). Return on assets (ROA) was also affected. No discernible shift has occurred in the other financial ratios.

TABLE NO-2 ANALYSIS OF FINANACIAL PERFORMANCE OF ICICI BANK AFTER

Above you can see a comparison of SBI's financial performance both before and after the merger with State Bank of Indore. Operating profit margins range from 22.49% to 22.70% on average. Return on Assets (ROA) fell from 0.98% to 0.81%, Net Profit Margin from 11.42% to 9.02%, and Return on Equity (ROE) from 15.64% to 13.76%. The rise in earnings per share in the period following the merger was 44.21%. There has been little change in the debt-to-equity and dividend-payout ratios. Shares' market value declined consistently in the period after the merger.

LIMITATIONS

Bank mergers and acquisitions may run into trouble with regulators due to stringent criteria for compliance and long approval procedures. Regulatory limitations on the size and timing of possible mergers might have a substantial effect on overall growth and success. Management philosophies, employee perspectives, and cultural norms are often causes of contention when two organisations merge. There can be less synergies and growth prospects for the combined company when the values and practices of two or more cultures are in conflict with each other. This can impair communication, collaboration, and the end output. Problems with integration: After a merger or acquisition, integrating all of the systems, procedures, and technology may be difficult and time-consuming. Performance and expansion could be affected if projected advantages are delayed due to technical difficulties, data transfer challenges, or incompatibilities with current systems. Employee morale and output could take a hit as a result of mergers and acquisitions-related layoffs, reassignments, and restructuring. Possible reasons of operational interruptions and unmet strategic objectives include staff turnover, inadequate skill sets, and resistance to change.

RECOMMENDATION

Financial institutions should thoroughly investigate the target bank before merging or acquiring it to determine its operational efficiency, cultural compatibility, and financial health. Some hazards may be mitigated and the integration process facilitated as a result. Prioritise the integration strategy: Careful preparation of the integration is required to guarantee a problem-free transition following the merger. Everything from the company's IT to its HR practices, organisational structure, and customer support falls under this category. It is vital for all parties concerned to keep the lines of communication open and constant while working towards shared objectives.

The preservation of institutional knowledge, the maintenance of strong customer ties, and the acceleration of future growth can all be achieved by investing in the growth and retention of key personnel from both organisations during and after the merger.There has to be an improvement in risk management standards: To better detect, track, and lessen the impact of merger and acquisition risks, better risk management frameworks are required. In this category you'll find operational, credit, and regulatory risks.

CONCLUSION

Mergers and acquisitions (M&A) are good for the economy and banks alike since they increase efficiency, which in turn increases resources and, ultimately, profits. Market survival and reduced competition necessitate this action, but it will only be advantageous if competition does not affect the economy. There are benefits and drawbacks to each of them when you add them all up.

While bank mergers and acquisitions may increase efficiency, it often comes at the cost of the institutions' unique identities. It helps with tax savings and strengthens the foundation of the new unit. Domestic mergers can help in a competitive industry, whereas international mergers can boost profitability and sales while attracting new clients. Therefore, priorities need to be established in order to achieve the objectives. It is acceptable for competing banks to merge if doing so would enable them to maintain current operations while sharing management. Regional operations and reaching a larger audience are both aided by this.

Mergers are great for businesses, but too many of them can be bad for society since they reduce consumer choice. It is the intention of CCI's Merger and Acquisition legislation that banks do not merge for the express goal of illegally enriching themselves at the cost of customers. Mergers and acquisitions (M&A) in the banking business have led to the emergence of several global corporations, indicating a time of significant consolidation in the financial services market. While a small number of banks performed adequately throughout the research period, the profitability ratio for a subset of Indian banks showed no change between the pre- and post-Mergers and Acquisitions eras.

The aforementioned article shows how different Indian banks have been affected by mergers and acquisitions after analysing seven situations. In the private banking sector, the aforementioned data demonstrates that the Ing-Vysya–Mahindra Kotak Bank merger was highly fruitful. Net operational profits, dividend payout ratio, return on assets, earnings per share, market price, and return on equity have all decreased at State Bank of Indore due to its heavy debt structure, while they have increased dramatically at Mahindra Kotak. While mergers between private banks tend to be successful, ICICI's experience with the Bank of Rajasthan has been anything but.

Financial parameters for IDBI Bank have narrowed as a result of the unfortunate merger with United Western Bank, and the bank is currently facing a loss scenario. Thanks to the merger, both HDFC and Centurion Bank were able to reduce their debt levels and become more profitable. In the end, mergers between financial institutions typically turn out to be a good thing. The PSBS in India might strengthen their position in the industry by merging with one another. Mergers could improve banks' profits as their share prices rise, which is good news for their plans to expand their presence in the secondary market.

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