# STUDY OF MERGERS AND ACQUISITIONS OF BANKS IN INDIA

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**ABSTRACT**
The importance of mergers and acquisitions has significantly increased in the current business environment. The many sectors of the Indian economy have experienced a variety of immediate repercussions from the merger and acquisition. Up until recently, it wasn't very typical for Indian businesspeople to buy overseas companies. In the earlier period there has been a major change in circumstances. The most contemporary trend in the Indian commercial sector has been the acquisition of overseas firms by Indian corporations. Favorable government regulations, a strong economy, in the commercial sector, and the spirited methods of Indian industrialists are among the many elements that enabled merger and acquisition in India. These are the major drivers of the merger and acquisition market's shifting slants. This method is frequently employed to restructure corporate associations. A few reputable monetary institutions have took the initiative to reorganize India's commercial segment by implement merger and acquisitions strategies.
As a result, this study makes an effort to assess the routine of merged banks base on a comparison of key financial position indicators before and after the merger period of five years. This will help gauge the merits of Merger & Acquisition's denials regarding the acquiring bank's financial standing in the transaction. This study will substantially advance knowledge, society, and business enterprises.
**Keywords:** M&A, Indian Banking Sector, liquidity, profitability.

## Introduction

In general, merger and acquisitions have emerged as a prominent method of commercial restructuring. Severe competition between businesses operating in the same sector, which emphasises economies of scale, cost effectiveness, and profitability, is the primary driving factor behind mergers. A amalgamation is likely to promote greater performance if the change in account-based performance is superior to the changes in the performance of comparable banks that weren't participating in merger activity. A merger is considered to add value if the combined value of the company and target banks increases after the merger is announced and the succeeding stock prices reflect the implicit net present value of the acquiring bank.

## A Brief outline of Indian Banking Sector

The growth of a country is certainly influenced by a modern and well-structured banking system that can mobilize savings and allocate them to profitable investments. The Bank of Hindustan and General Bank of India were found in the 18th century, and they were followed by other financial institutions like the Bank of Madras, the Bank of Bengal and the Bank of Bombay, which were eventually combined into the Imperial Bank of India in 1921.

In the post-liberalization period, the Indian banking sector underwent significant changes with the introduction of private banks such as Axis Bank , Global Trust Bank, , HDFC Bank and ICICI Bank, The growth of the Indian economy also led to a, private banks, Government banks and international banks all made significant contributions.

One strategy adopt by the banking sector to stay competitive in the worldwide field is through mergers and acquisitions. The government merged New Bank of India with Punjab National Bank in 1993, reducing the number of nationalized banks from 20 to 19. This move was followed by several other mergers and acquisitions, including the current amalgamation of Bank of Baroda, Dena Bank. and Vijaya Bank

Overall, banking sector has evolve significantly in excess of the years and has contributed to the expansion of the Indian economy. The adoption of modern technologies and the implementation of sound policies will continue to cooperate a important role in driving the growth of the sector in the future.

## Concept of Mergers and Acquisition

Being conceived Merger & Acquisition refers to the part of a company's financial strategy and operation that deals with combining and purchasing other businesses. In most cases, mergers take place in a cordial setting where the directors of the respective companies work diligently to make sure a winning union of all channels. In other occasions, getting hold of may be made by capturing the maturity of past-due shares by hostile preemption.

  

**Mergers**
A merger is a strategy for two businesses to merge and run independently under legal authority. The businesses accepting combinations are all of the same size and scope of operation. Combinations are used by businesses to expand access to a larger customer and request base, eliminate rivalry, and generate economies of scale. The assets, liabilities, shareholders' interests, and business of the incorporating companies are entirely combined during a merger. When one firm buys another without providing the shareholders of the acquired company equal authority, this is an essential form of merger. There are two ways that a merger or admixture might occur: (1) Merger by amalgamation, and (2) Merger through consolidation. Merger by immersion can be notify when a company transfer all means, rights and scores to another company, in return for compensation in the type of shares in the acquiring company whereas connection happens when two or further companies combine to come one. After the merger, being loans would be shifted to the merged bank after the accession, and borrowers would endure paying the same EMIs. Products and services would be available in further branches.

**Acquisition**
The word acquisitions means to acquire of efficient functioning control by one company over another. When more than 50% of the stock or other assets of a target firm are purchased, the acquirer is free to express comments regarding the newly acquired assets without seeking approval from the other shareholders. The authority may be obtained in one of two ways: by purchasing shares that have matured and have vote rights that can be exercise at a general meeting, or by influencing the make-up of the other company's board of directors. Purchases are usually completed with the assistance of an investment bank because they are complicated agreements with duty and legal repercussions. Combinations and takeovers are closely related to acquisitions. The benefit of acquisitions is that they allow a business to take control of another business for a lot less money than a merger would require.

There are various different kinds of combinations that might occur, including:
1. Vertical Mergers
2. Horizontal Mergers
3.Circular mergers
4. Empire Fusions
5, Reverse Mergers

**Literature Review**
Agnihotri (2013) examines and dissects the three factors that influence acquisitions in India and finds that the affiliation of large corporate groups and the unpredictable nature of income have a important impact on acquisition by Indian firm. The study also focuses more on the increase in revenue as a result of acquisitions.

Soni (2016) examined the economic analysis's consequences on the acquired company in his research. Shareholders may be interested in composition study as a short-term investment.

Erel, Liao, and Weisbach (2012) study shows that acquisitions occur when external gain in the shape of competitive advantage, demand power, and duty considerations are presented. In the study, the experimenter makes the argument that before an establishment chooses to pursue a transnational accession strategy, it should fairly profit from a cross-border accession.

Bedi (2010) examines the trend and advancements in Merger & Acquisitions in India. It also takes into account a number of factors that have aided in the growth and commission of M & As in India, which will result into comparative study between pre and post acquisitions period of any firm.

Juneja (2010) They established an advanced average sanguinity score that was linked to success at the junction. (1992 Schweiger) Set up sanguinity had a significant impact on a person's performance in all facets of life.

Kumar (2009) discusses the revolution of Hindalco, an Indian aluminium buyer, with biggest aluminium producers worldwide. He makes the argument that, while businesses in the industrial world use mergers and acquisitions (M&A) for cost savings andsize solidarity, promising market businesses are driven by a plan to obtain capabilities, brands, know-how, & technology that could change them into worldwide leaders. As the urge for mergers and acquisitions isn't driven by the need to cut costs, downsize, etc., integration is easier and lower disturbing

McCann & Gilkey (1988) offers a helpful framework for thinking about the delicate issues with mortal resources that could come up in any junction or accession. Optimism has an impact on all of the deals, including the first five in the initial stage & final two in the post-junction offered deals ( Seligman, 2002). Seligman suggested using a 48-question survey to gauge sanguinity position ( Seligman, 2002)

Kar & Amit Soni emphasizes state combinations as a plan to raise enterprise value. To analyze the effects of Combinations, experimenters divided time into pre-liberalization and post-liberalization periods.

Patel (2014) to analyze pre and post acquisition he looked at the finances and stock returns of specific institutions. He came to the conclusion that several public sector banks were more profitable than private sector banks.

Patel(2014) examined finance and stock return of named banks to know the effect after junction and concluded that junction and accession has appreciatively impacted on Indian banks and told that some public sector banks is more profitable rather than private sector bank.

Pandya(2017) attempts to process the Indian combinations and accessions market from 1991 to 2010 use of time-series data and the primary current global development in his study. It also makes an effort to categories trend in mechanized and non-manufacturing industries in order to provide precise justification for the rigorous gets seen as well as the underlying direction of future mergers and acquisitions efforts in India.

**Objective of the Study**
The main objective of the study is to study the before and after merger functioning and economic performance of the banks who endure Merger &Acquisitions deals in India in the post reforms period, from is up to 2021.

**These banks are used as a sample for the study because they participated in merger and acquisition.**
**Lists of amalgamated Banks in India in 2017-2021**

| Sr. No | Types of Deal | Date of Deal | Acquirer/Bidder Banks | Acquired / Merged / Target Organisations |
|---|---|---|---|---|
| 1 | Merger | 4th March ,2020 | Punjab National Bank | Union Bank of India & Oriental Banks of Commerce |
| 2 | | 1st April ,2019 | Bank of Baroda | Dena Bank & Vijaya Bank |
| 3 | | 1st April 2020 | Union Bank | Corporation Bank & Andhra Bank |
| 4 | | 15th February 2020 | Allahabad Bank | Indian Bank |
| 5 | | 1st April, 2020 | Canara Bank | Syndicate Bank |

Table 1: Lists of Merged Bank s in India 2017-2021

The foundation of this study is accounting methods, and financial indicators were utilized to measure success. Financial ratios can be used to evaluate the monetary performance of the bidder/acquirer banks using a sample of 5 banks. Ratios are computed for the couple of years prior to the M&A of bidding banks and the two years following the M&A. So, it only takes two years for the benefits of M&A to manifest. The relationship of monetary ratios between Before and After Merger &Acquisition is done for various financial ratios to examine the economic performance.

**Methodology of the Study**
In this learning experiment, bank presentations are examined after structural changes with a different bank have been assumed. It has been ongoing to compare the banks that have completed M&A transactions in the years after the reform. To ascertain how well mergers and acquisitions contributed to corporate restructuring, their performance throughout the before- and after -acquisition periods have analysed. The study looks at how bank mergers between 2017 and 2021 will affect India. In the Indian banking industry, there were around ten PSU mergers in 2021. Five of those banks were picked as samples, accounting for 33% of the total population.

**Data Collection**
Based on the collected data, the current paper is fully formed. Throughout the study, several Ratios were calculated using the "A summary of Banks" and "Statistical Tables pertaining to Banks in India" publications from the RBI.

1. **PNB+ORIENTAL BANK OF COMMERCE +UNION BANK OF INDIA**

| Particulars | PNB | OBC | United Bank of India | Amalagamated Bank |
|---|---|---|---|---|
| Total Business(in crores) | 11,82,234 | 404194 | 208106 | 1794526 |

| | | | | |
|---|---|---|---|---|
| Gross Advance (Rs in crores) | 506194 | 171549 | 73123 | 750867 |
| Deposists(Rs in crores) | 676030 | 232645 | 134983 | 1043659 |
| Current and Savings account ratio. | 42.16% | 29.40% | 51.45% | 40.52% |
| Capital to Risk Assets Ratio | 9.83% | 12.83% | 12.00% | 10.78% |
| Net Non performing asset Ratio | 6.67% | 5.95% | 8.69% | 6.62% |
| Employees | 65126 | 22729 | 13704 | 100549 |

Table 2: Ratio’s Of Pnb+Oriental Bank Of Commerce +Union Bank Of India

UBI and OBC will be replaced by PNB as the anchor institution. This will overtake State Bank of India, which has a business size of more than Rs 53 lakh crore, to become the second-largest bank in the country with a business size of Rs 17.94 lakh crore. Punjab National Bank (PNB) has launched a new logo in advance of its merger with United Bank of India and OBC, which will happen on April 1. The new logo will prominently display the distinctive sign ages of the three public sector lenders.

**2. CANARA BANK + SYNDICATE BANK**

| **Particulars** | **Canara** | **Syndicate Bank** | **Amalagamated Bank** |
|---|---|---|---|
| Total Business(in crores) | 1044249 | 477146 | 1521295 |
| Gross Advance (Rs in crores) | 444116 | 217249 | 661265 |
| Deposists(Rs in crores) | 599133 | 259297 | 854930 |
| CASA Ratio | 29.28% | 32.28% | 30.31% |
| Domestic Branches | 6410 | 4042 | 10442 |
| PCR | 41.58% | 48.93% | 44.42% |
| Common Equity Tier -I Ratio | 8.21% | 9.21% | 8.82% |
| Capital to Risk Asset Ratio | 11.70% | 14.53% | 12.83% |
| Net Non Performing Asset Ratio | 5.47% | 6.26% | 5.72% |
| Employees | 58450 | 31635 | 89885 |

Table3. Ratio’s Of Canara Bank + Syndicate Bank

Both the banks will rank as the 4th-largest public sector bank in the nation. The merged business will have a value of Rs 15.21 lakh crore after the merger. The government will provide Canara Bank with capital of roughly Rs 6,500 crore.

**3. UNION BANK OF INDIA+ ANDHRA BANK+ CORPORATION BANK**

| **Particulars** | **Union Bank** | **Andhra Bank** | **Corporation Bank** | **Amalgamated Bank** |
|---|---|---|---|---|
| Total Business (in crores) | 741207 | 398611 | 318616 | 1452434 |
| Gross Advance (Rs in crores) | 325492 | 178680 | 136048 | 638130 |
| Deposists(Rs in crores) | 415815 | 219721 | 184668 | 820404 |
| CASA Ratio | 36.20% | 32.39% | 32.69% | 34.72% |
| Domestic Branches | 4292 | 3885 | 2532 | 9709 |
| PCR | 57.27% | 68.52% | 67.60% | 64.07% |
| Common Equity Tier -I Ratio | 8.12% | 8.53% | 10.49% | 8.73% |
| Capital to Risk Asset Ratio | 11.88% | 13.79% | 12.40% | 12.49% |
| Net Non Performing Asset Ratio | 6.95% | 5.83% | 5.81% | 6.340% |
| Employees | 37262 | 20346 | 17776 | 75384 |

Table 4. Ratio’s of Union Bank Of India+ Andhra Bank+ Corporation Bank

Andhra Bank and Corporation Bank will be acquired by Union Bank of India. It will rank as the fifth-largest PSB after the merger. The amalgamated bank will have a combined revenue base of Rs 14.59 lakh crore. The Net NPA ratio for Union Bank is very high at 6.85%.

  

**4. INDIAN BANK + ALLAHABAD BANK**

| **Particulars** | **Indian Bank** | **Allahabad Bank** | **Amalagamated Bank** |
|---|---|---|---|
| Total Business(in crores) | 429872 | 377877 | 807959 |
| Gross Advance (Rs in crores) | 187996 | 163652 | 352448 |
| Deposists(Rs in crores) | 242086 | 2143845 | 456421 |
| CASA Ratio | 34.72% | 49.48% | 41.66% |
| Domestic Branches | 2975 | 3329 | 6114 |
| PCR | 49.23% | 74.25% | 66.31% |
| Common Equity Tier -I Ratio | 10.86% | 9.75% | 10.46% |
| Capital to Risk Asset Ratio | 13.31% | 12.61% | 12.99% |
| Net Non Performing Asset Ratio | 3.85% | 5.32% | 4.49% |
| Employees | 19704 | 23310 | 42914 |

Table 5. Ratio's Of Indian Bank + Allahabad Bank

8.07 lakh crore will be the combined annual income of Allahabad Bank. and Indian Bank After the merger, it will be the seventh-largest PSB. For Indian Bank, the net NPA ratio was 3.85%.

**5. BANK OF BARODA + VIJAYA BANK +DENA BANK**

| **Particulars** | **Bank of Baroda** | **Vijaya Bank** | **Dena Bank** | **Amalgamated Bank** |
|---|---|---|---|---|
| Total Business (in crores) | 1029910 | 279585 | 172930 | 14,82, 225 |
| Deposists(Rs in crores) | 581385 | 157225 | 103120 | 841840 |
| Gross Advance (Rs in crores) | 448430 | 122360 | 69930 | 640700 |
| employees | 56260 | 15975 | 13540 | 85775 |
| Domestic branches | 5502 | 2130 | 1858 | 9490 |
| Deposits/branch | 106 | 74 | 55 | 89 |
| Advances/branch | 81 | 57 | 38 | 68 |
| ROA(%) | 029 | 0.32 | -2.43 | -0.02 |
| CET-1 CAPITAL RATIO (%) | 9.17 | 10.25 | 8.25 | 9.22 |
| Capital to Risk Asset Ratio | 12.23 | 13.81 | 10 | 12.35 |
| Net Non Performing Asset Ratio | 5.4 | 4.1 | 11.04 | 5.71 |
| CASA Ratio | 35.62 | 24.81 | 39.8 | 34.66 |

Table 6. Ratio's of BANK OF BARODA + VIJAYA BANK +DENA BANK

The total revenue of the merged Bank of Baroda, Vijaya Bank, and Dena Bank will be Rs 14.82 lakh crore. The largest of the three is Bank of Baroda, with a total business of Rs 10.29 lakh crore, followed by Vijaya Bank at Rs 2.79 lakh crore, and Dena Bank at Rs 1.72 lakh crore.

**Results and Discussions**

**Various Ratios of Profitability**

Any business's goal is to make a profit and endure over time. Accepting the possibility of different rates of profitability aids both the establishment and the government in determining whether to pursue a junction strategy or not

| **Name of the bank** | **Pre-merger Average** | **Post-merger Average** | **Growth Rate %** |
|---|---|---|---|
| Punjab National bank | 11,82,224 | 17,94,526 | 51.80 |
| Indian Bank | 429972 | 8,07,859 | 87.89 |

  

| | | | |
|---|---|---|---|
| Canara Bank | 1043249 | 15,20,295 | 45.73 |
| Union Bank of India | 741307 | 14,59,434 | 96.87 |
| Bank of Baroda | 1029810 | 14,82, 325 | 43.94 |

Table 7: Change in Growth of Total Assets (in Rs. Crores)

Table illustrates that the regular total means of the mixed banks considered for this study were greater during the post-merger period than they were during the pre-merger period. The data also makes it obvious which bank in the sample had the highest growth rates, with Union Bank of India coming in first place with a 96.87 percent increase, followed by Punjab National Bank, Indian Bank, Canara Bank, and Bank of Baroda.

| **Name of the bank** | **Pre-merger Average %** | **Post-merger Average %** |
|---|---|---|
| Punjab National bank | 42.16 | 40.52 |
| Indian Bank | 34.71 | 41.65 |
| Canara Bank | 29.18 | 30.21 |
| Union Bank of India | 36.10 | 33.82 |
| Bank of Baroda | 35.52 | 34.06 |

Table 8: CURRENT ACCOUNT SAVING ACCOUNT RATIO –( CASA RATIO )

As per the table, the CASA Ratio by merged banks on an average shows decrease in post merger period except Canara Bank which increased from 29.18% to 30.21% .

**CRAR Ratio**

The capital adequacy ratio, also known as the capital-to-risk weighted assets ratio (CRAR), is use to care for depositors and promote the effectiveness and constancy of the global financial systems. Banks are necessary to consistently sustain a (CRAR) of at least 9%.

| **Name of the bank** | **Pre-merger Average %** | **Post-merger Average %** |
|---|---|---|
| Punjab National bank | 9.73 | 10.77 |
| Indian Bank | 13.21 | 12.89 |
| Canara Bank | 11.90 | 12.63 |
| Union Bank of India | 11.78 | 12.39 |
| Bank of Baroda | 12.13 | 12.25 |

Table 9: Capital to Risk Weighted Asset Ratio (CRAR RATIO)

Table 9 shows minimum capital to be maintained by every bank in case of any risk occurred as compare to this table Indian Bank is maintaining higher balance for this purpose. Rest all other banks are fulfilling their standard percentage to be maintained .all banks in post merger shows increase in ratio except Indian Bank in pre merger it was 13.21% where as post merger it maintain 12.89% which is more than the standard ratio required.

**NET Non Performing Asset Ratio**

Net NPA(NNPA) is the quantum remaining after abating doubtful and overdue debts from the GNPA. It's the factual loss suffered by the bank.( Substandard Doubtful Loss)assets. The ideal value of net NPA is 0 and for practical purpose a standard is taken as 1 per cent.

| **Name of the bank** | **Pre-merger Average** | **Post-merger Average** |
|---|---|---|
| PNB | 6.55 | 6.61 |

| | | |
|---|---|---|
| Indian Bank | 3.75 | 4.39 |
| Canara Bank | 5.37 | 5.62 |
| Union Bank of India | 7.85 | 6.30 |
| Bank of Baroda | 5.40 | 5.71 |

Table 10: NET NPA RATIO

All banks shows higher than the standard ratio required..Normally as per RBI it should be 1 % but comparatively here all banks shows higher percent this can be the reason for merging of banks Punjab National Bank shows higher i.e 6.61% they need to get it from their customers .

**Common Equity Tier -1 CAPITAL RATIO (%)**

It **compares a bank's capital against its assets**. Additional Tier 1 capital is composed of instruments that are not common equity.

| **Name of the bank** | **Pre-merger Average %** | **Post-merger Average %** |
|---|---|---|
| Punjab National bank | - | - |
| Indian Bank | 10.96 | 10.36 |
| Canara Bank | 8.31 | 8.62 |
| Union Bank of India | 8.02 | 8.63 |
| Bank of Baroda | 9.27 | 9.32 |

Table 11: Common Equity Tier -1 CAPITAL RATIO (%)

The minimum common tier equity capital ratio should be 4.5% whereas all 4 banks except Punjab National Bank has np CET –I Capital Ratio .in Post merger period banks shows higher percent than pre merger period **.** Indian Bank has the highest Ratio of 10.36% it shows bank could withstand a negative shock to its balance sheet.

**Conclusion**

In the case of a connection dispute, a difficult analysis of banks' financial performance must be ready. The consequences of the various rates, on the whole, highlight a significant divergence in the fiscal rates of banks in post-merger circumstances. Junction and accession programmes in Indian banks cannot be regarded as a mistake if they have the support of all relevant parties.

The act of held in reserve sector banks is therefore planned to be bettered in the pre-period associated to their contribution in the after acquirement time, based on or after the complete above conclusion about fiscal performance together with accession conditioning of public and private sector banks. It is true that the community sector banks' liquidity position has changed significantly as a result of their growth, but there has also been a major decline in the conditioning of those institutions' ability to produce a profit.

It is common knowledge that deals concerning the acquisition of private sector banks have a significant adverse impact on both their liquidity situation and overall fiscal performance. It is also true that public sector banks' ability to generate income from their investments in fixed assets is considerably and severely impacted, while ability to generate income from their net earnings is clearly indicated by merger and acquisition activity. As there are so many other industries in the related domain that are open to exploration, this literacy is just limited to the Indian banking industry. Only rate analysis has been developed for the study's analysis, but future research might be conducted using different cover styles to evaluate M&A.

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