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Mergers and Acquisitions (M&AS) In the Indian Banking Sector

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Abstract - After considering these factors, the topic "Impact of Mergers and Acquisition on Financial Performance of Indian Commercial Banks" was selected. Mergers and acquisitions are essential to a company's development and growth in today's competitive global market. The purpose of banking is to access money via various ways, such as a cheque or electronic transfer, and to return borrowed or invested funds when required (such as a draught). The Grand Bank of India and the Bank of Hindustan were the first Indian banks to open for business in 1786. Unfortunately, the two banks that were cited before no longer operate. Kolkata is home to one of India's first banks, the Bank of Calcutta, it has been in existence since 1806 and was once called the State Bank of India. The Bank of Bengal (BOM), the Bank of Bombay (BOM), and the Bank of Madras (BOM) were all founded by the East India Company between 1809 and 1840, 1843, respectively (BOM). Increased cross-border M&A activity is having a noticeable impact on the size of banking sector transactions. Notwithstanding the current economic situation, the quest of a strategic advantage is still motivating certain acquisitions. Dealmakers for SPACs are under pressure to emphasize revenue growth above cost savings in order to justify high values for their acquired assets in an environment where SPACs are expected to compete with corporate and private equity bidders for the most acceptable assets.

Keywords - Mergers and Acquisition, CAMEL, Banks Social Sciences, Economics and Business, Management

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INTRODUCTION

Consolidation, takeovers, and mergers have long been standard operating procedure in the commercial world. In today's ever-changing business climate, increasing profits for shareholders is of paramount importance. A corporation may gain a competitive edge and boost shareholder value via mergers and acquisitions. While to an outsider these phrases may appear interchangeable, there are important distinctions between them in legal and business jargon. "A merger entails a mix of two firms, rather than simply legal enjoinment or absorption of one company into another," write Greenwood et al. (1994). According to Kithinji and Waweru (2007)12, a merger is the process through which two firms combine into one. According to Kishore (2009)13, "a merger is a transaction in which two or more firms swap securities and only one of the original companies continues to operate."

Simply put, a merger is the agreement between two organizations to merge into one. The companies involved in the merger might be of equal or unequal size and scope. An acquisition or takeover is the purchase of a smaller firm by a much bigger one, whereas a merger or amalgamation might be considered as a choice taken by two "equals." It is not required that both parties agree to the merger-like advantages of this "unequal" combination.

In the banking industry, most mergers include a purchase. When a company or organization acquires another, it becomes an integral part of that entity. As a result of the confusion caused by this phrase, numerous studies have been conducted on mergers, and the terms merger and acquisition have been used interchangeably. This provides a more comprehensive and nuanced picture of the mergers market.

When two or more businesses merge to form a new company, both of the original firms' identities are dissolved in the process. There is no new expenditure in this procedure. When two corporations engage in such a transaction, an exchange of shares takes place. The acquired business continues operations under its original name, whereas the sold business is often dissolved.

Bank mergers were an important part of the early phases of the reforms to the financial system that began in the early 1990s. The merger process picked up steam when the Narsimha Committee -1 (1991) proposed the banking industry's overarching structure. Committees on Wider Capital Account Convertibility (2006), Financial Sector Assessment (2009), and the S.H. Khan Committee (1997) all went through the same consolidation procedure (2009). Each of these groups came to the conclusion that the Indian banking system has to be reorganized, and that this reorganization should be led by market forces based on profitability and viability concerns discovered via merger and acquisition activity.

LITERATURE REVIEW

Professors K. Yasmin and S. (2021) India's banking industry, which is dominated by private banks, saw the repercussions of the global financial crisis during this time. Twenty banks were nationalized between 1969 and 1980, which is progress. The necessity for banking services prompted big banks to build branches in unusual areas. The 20 banks (now down to 19) have done a remarkable job over the last 40 years. Yet, the government's monopoly on banking put constraints on the sector. The problem was solved by the slow but steady reintroduction of private banks to the financial system, which began in 1991. There has been a great deal of change in the banking industry since the 1990s. New private banks have emerged, new products and distribution channels have been established, marketing efforts have been consolidated across the industry, and cutting-edge technologies have been adopted on a massive scale. In light of increasing nonperforming assets (NPAs), periodic re-capitalization in Public Sector Banks, lackluster profitability, limited international banking competition, and subpar customer service at state institutions, the Central Government has stepped back to analyze the situation. The government mandated the merger of many Public Sector Banks in an effort to reduce red tape in the banking industry.

Ishwarya j (2019) The purpose of this research is to examine the pros and cons of mergers and acquisitions in India's banking industry. Financial institution best practices and proposals for future developments are also highlighted. This article provides a brief overview of recent events before diving into an examination of how M&As have influenced the Indian banking industry. The purpose of this study is to evaluate the results of bank mergers and acquisitions in India over the study period. The financial performance of the merged institutions is evaluated before and after the merger using a wide variety of financial metrics. The data shows that bank mergers and acquisitions in India have been successful. As a merger of strong and weak banks would dramatically worsen the asset quality of the stronger banks, the government and policymakers should not support such a merger in order to aid the depositors of the failing banks. Both the corporations and their workers are included in this article's assessment of the merger between State Bank of India and its Affiliates.

Naveen Kumar (2022), The phenomenon of mergers and acquisitions (M&A) has been crucial to the expansion and improvement of the modern global economy. The narrative is both harrowing and inspiring due to the various trials through which the protagonist must pass. The effects of industry consolidation are investigated in this study of the banking sector in India. We did this by comparing the ratios of return on assets, return on equity, net interest margin, and return on capital, all of which are specific to banks, both before and after the merger. Common statistical techniques include calculating the mean and using regression analysis. The purchases did not improve upon most financial indicators, as seen by the outcomes.

Dr. Meenakshi Kumari (2022) To sum up, we may say that the Indian Banking System is essential to the development of the Indian economy. In India, the financial services industry is one of the most dynamic. The expansion of the Indian banking sector is impossible without mergers and acquisitions, which improve the financial performance of banks both before and after the merger. Nonetheless, financial institutions should consider the benefits and drawbacks of these options before making any commitments. The overarching goal of this research is to shed light on how the merger between Union Bank of India and Andhra Bank, Corporation Bank has affected the former and the latter's performance, the former's client satisfaction, the state of the Indian economy as a whole, the decisions made by the merged banks' top brass, the likelihood of future mergers and acquisitions, and the latter two. The greatest banking sector merger in history took place on August 30, 2019, When the Punjab National Bank was formed from the merger of the Oriental Bank of Commerce and the United Bank of India.

Currently, Maria Susan Mathew (2020) Mergers, acquisitions, takeovers, demergers, and other similarly large business transactions often grab all the attention. In the world of corporate finance, mergers and acquisitions play a key role. When two or more businesses combine, it's called a merger. They facilitate the expansion, contraction, and reorganization of businesses. The Bank's output may also suffer significantly. The proposed merger of State Bank of India with State Bank of Travancore is the subject of this article, which examines many key problems.

RESEARCH METHODOLOGY

Data and Data Collection Method

Primary data from the research is evaluated to draw conclusions about the research questions. The city of Bangalore serves as a representative case study. The researcher wants to use a systematic approach to sampling to acquire primary data. The suggested study is based on secondary sources of information. Using secondary sources, we compared the research goals to the actual situation. The researcher plans to utilize non-probability sampling in the study (judgmental sampling). There were 98 major M&As in the Indian banking industry between 1961 and August of 2021. There were 39 M&As analyzed between 1991 and 2021. There are three distinct trends in mergers and acquisitions: (1) public-sector bank mergers, (2) private-sector bank acquisitions, and (3) private-sector bank consolidation.

Sample

Throughout the process, a sample is selected by a sampler. Eight M&A deals from the Indian banking industry will serve as the basis for the research. There were mergers and acquisitions (M&As) in the Indian banking industry from 2010 to 2021. There were individuals working in banks throughout the aforementioned time period, and there were also managers and acquisitions.

Statistical analysis

Since liberalization, M&A activity in India's banking industry has been evaluated and researched. The impact of M&A on both the combined bank and the acquiring institution was evaluated by quickly scanning data from annual reports detailing bank finances and activities. The data shown here has been compiled from a wide range of financial and other organizations.

DATA ANALYSIS

The initial part of the first chapter is devoted to displaying the data collected through the questionnaire. The data is analyzed in the context of the study's questions. Both primary and secondary sources of information are included in the following section before being analyzed using the appropriate software.

How the bank service affected after the merger

Data from responses on the bank's services after an M&A are shown in Table 1. Over 62.5% of corporate clients of both public and private sector banks expressed satisfaction with the bank's services after the M&A.

Table 1: How the bank service be affected after the merger

	Respondents	Respondents' % age
Very good	0	00
Good	40	62.5
Good nor bad	08	12.5
Bad	08	12.5
Very Bad	08	12.5
Total	64	100

Table 1 shows that following the merger and acquisition, the majority of corporate clients (62.5% positive) perceive the service quality as excellent. Just 12% of those who responded to the survey think the services are either good or excellent. According to the data, the purchased bank is well-liked by its customers.

Which combination do you think is good:

Which of the following combinations do you believe is best for banks, given that the experience of corporate customers is regarded a crucial variable influencing the opinion of the performance of banks after a merger? Mergers and Acquisitions Data Table 2.

Table 2: Which of the following combination do you think is good

Particulars	Respondents	Respondents %
Public sector bank with public sector bank(s)	0	00.00
Public sector bank with private sector bank(s)	24	37.50
Private sector bank with private sector bank(s)	16	25.00
Banks mergers should not take place at all.	24	37.50
Total	64	100

Both public and private sector bank customers in India (as shown in Table 2 and Diagram No. 4.03) believe that mergers and acquisitions (M&A) between banks should be limited to the public sector, with the private sector accounting for 37.5% of respondents. In India, just 25% of respondents say that private sector banks should merge with one another.

Demographic profiles of the Old Bank Employees

Age: Table 3 provides a snapshot of the age distribution of the responding former bank workers.

Table 3: Age group of old bank employees

Age	Number of Employees	In %
18-29	40	58.82
30-44	20	29.42
45 and above	08	11.76
Total	68	100

As can be seen from Table 3, above, 58.82 percent of the bank's veteran workforce falls between the ages of 18 and 29. In addition, 29.42% fall between the ages of 30 and 44, while the remaining 11.76% are age 45 and over. The data show that the average age of a bank worker is between 18 and 29.

Qualifications: Table 4 displays information about the respondents' educational backgrounds.

Table 4: Educational qualification of old bank employees

Educational qualifications	Number of Employees	In %
Less than 10 +	08	11.76
Graduate	40	58.82
Postgraduate	20	29.42
Professional degree holder	00	00.00
Total	68	100

According to Table 4, 58.82% of bank veterans in both public and private institutions have bachelor's degrees, while 29.42% have master's degrees or above. In fact, just 11.76 percent of workers are considered to be young. According to the data, the majority of staff at both public and private banks have bachelor's degrees or above.

Yearly income: Table 5 displays information about the respondents' annual salaries.

Table 5: Yearly Income old bank employees

Yearly Income	Number of employees	Respondents % age
Less than 1.5 lakh	00	00.00
1.5 lakh to 2.5 lakh	16	23.52
2.5 lakh to 5 lakh	40	58.82
More than 5 lakhs	12	17.66
Total	68	100

The salary distribution of the sample of long-serving bank workers from both public and private institutions is shown in Table 5. The majority of retired bank workers (58.82%) earn between 2.5 and 5 million rupees per year, as shown in Table. Another 23.52 percent of workers have an annual salary of between Rs. 1.5 and Rs. 2.5 million. In contrast, the majority of respondents who dealt with private and public sector banks (17.66%) had annual incomes of more than 5 lakh. It has been noted that many long-time workers of the new or combined institutions are approaching retirement age.

Location of the bank: From locations including Bangalore city, 68 participants were randomly chosen. Table 6 displays information on the respondents' former banks and their locations as bank workers.

Table 6: Location of the bank old bank employees

Location of the bank	Number of employees	Respondents % age
Bengaluru	68	100
Total	68	100

As can be seen in Table 6, all of the amalgamated bank's personnel are based out of Bengaluru. According to the data, majority of the retiree bank workers who participated in the survey are located in Bengaluru. 4.3.05. If you are a former bank employee, please rate how much you agree or disagree with the following assertions concerning the level of service provided by the consolidated banking organization after mergers and acquisitions.

Quality of services offered by the bank post-merger bank: Table 7 displays the distribution of former bank workers, providing insight into the quality of services offered by the amalgamated bank.

Table 7: Quality of the services provided by the merged bank

	Respondents	Respondents % age
Very good	18	26
Good	50	74
Good nor Bad	00	00
Bad	00	00
Very Bad	00	00
Total	68	100

According to Table 7, a majority of former bank personnel in both the public and private sectors are content with M&A. In the banking industry, just 26% of respondents are satisfied with M&A. However, the data shows that the majority of people are pleased with the M&A agreement that has been finalized.

Which of the following combination do you think is good for M&A in Indian Banks:

Table 8 presents useful information on banking mergers and acquisitions in India.

Table 8: Which combination do you think is good for M&A in Indian Banks

Particulars	Respondents	%
Public sector bank with public sector bank(s)	12	17.65
Public sector bank with private sector bank(s)	22	32.35
Private sector bank with private sector bank(s)	22	32.35
Banks mergers should not take place at all.	12	17.65
Total	34	100

The majority of bank workers in India (32.35%) believe that bank mergers between public and private sector and private the private sector should occur, as seen in Table 8 above. Just 17.65% of bank workers think public sector banks should combine with other public sector banks, while some% think there should be no merger at all.

Benefit-Cost analyses or synergy analysis

The decision-maker will consult the benefit-cost analyst for insight into the project's viability. Appraising, in this speculative meaning, refers to the decision to distribute resources. Before advocating for or opposing a bank merger and acquisition, the analyst's duty is to do an impartial cost-benefit analysis.

Bank of Rajasthan Ltd. and ICICI BANK.

Financial data from Table 9 analyzed. The State Bank of India and ICICI Bank Ltd.

Table 9: Financial Synergy of bank of Rajasthan and ICICI BANK.

SL. No	Variable under study	Pre-merger Bank of Rajasthan Average Result	Pre-Merger ICICI BANK Average Result	Post-merger ICICI BANK Average Result	Synergy	No Synergy
01	Net Profit to net worth	-2.69000	0.01500	0.01210	Yes	
02	Operating profit to net worth	2.37391	0.00020	0.00024		Yes
03	Liquid assets to Deposits	0.45000	0.31000	0.31000		Yes
04	Advances to total Assets	0.00470	0.05500	0.05300	Yes	
05	Return on Assets ratio	0.00005	0.01000	0.01000	Yes	
06	Advances to fixed Assets	0.02000	56.25000	54.35000	Yes	
07	Total equity to total assets	0.09000	0.00400	0.00200		Yes
08	Total deposits to advances ratio	0.13000	1.07000	1.02000	Yes	
09	Advances to Total deposits	5.34000	0.94000	0.98000		Yes
10	Total interest Income to Total assets	0.09000	0.10000	0.09800	Yes	
11	Net NPAs to Advances	0.00040	0.02200	0.01000	Yes	
12	Total investment to Total asset	0.02600	0.29000	0.33000	Yes	
13	NPAs to Total asset	0.00260	0.01000	0.00500	Yes	
		Total synergy or no synergy			9	4

Table 9 shows that study of the 13 factors used to gauge the merger's effect shows that 9 ratios suggest synergy and 4 ratios indicate no synergy. This indicates a 69.23% rate of success. The merger between ICICI Bank Ltd. and Bank of Rajasthan Ltd. was a financial success.

Table 10 Financial Analysis of t-TEST for Rajasthan Bank and ICICI BANK

Sl.No	Parameters	Pre-merger ratio	Post-merger ratio	Mean difference	SD	t-value	p-value	Remarks
1	Net Profit to net worth	-2.69000	0.01210	-2.71	3.08	6.31	0.30	In-Significant
2	Operating profit to net worth	2.37391	0.00024	2.37	7.96	6.31	0.43	In-Significant
3	Liquid assets to deposits	0.45000	0.31000	0.13	0.08	2.92	0.01	significant
4	Advances to total assets	0.00470	0.05300	-0.53	0.29	2.92	6.31	In-Significant
5	Return on Assets ratio	0.00005	0.01000	-0.01	0.01	2.35	0.00	significant
6	Advances to fixed Assets	0.02000	54.35000	-54.33	30.35	2.92	0.00	significant
7	Total equity to total assets	0.09000	0.00200	0.09	0.05	2.35	3.51	In-Significant
8	Total deposits to advances ratio	0.13000	1.02000	-0.89	0.49	2.92	0.00	significant
9	Total interest Income to Total assets	5.34000	0.98000	4.36	2.39	2.92	0.00	significant
10	Net NPAs to Advances	0.09000	0.09800	0.0019	0.0037	2.92	0.28	In-Significant
11	Total investment to Total asset	0.00040	0.01000	-0.0083	0.0048	2.92	0.01	significant
12	NPAs to Total asset	0.02600	0.33000	-0.06	0.04	2.92	0.00	significant
13	Total interest Income to Total assets	0.00260	0.00500	-0.0026	0.0019	2.92	0.10	In-Significant

Based on the data in Table 10, it has been noted that the proportion of significant ratios has increased from 06 to 7. Significant at the 0.05 level after the merger compared to the years before it. The ratio of liquid assets to deposits is high, as are the ratios of advances to fixed assets to total assets, total deposits to advances, total interest income to total assets, total investments to total assets, and nonperforming assets to total assets.

Ho: There is no significant difference between pre-and post-merger financial performance of ICICI BANK after acquiring Rajasthan Bank.

Table 11: Hypothesis Testing of Financial performance of ICICI BANK and Rajasthan Bank.

Particulars	Pre-merger	Post-merger
Mean	4.544323	4.398488
Variance	241.4853	225.3862
Observations	13	13
Pearson Correlation	0.999999	
Hypothesized Mean difference	0	
df	12	
t Stat	0.99676	
P(T<=t) one-tail	0.169278	

H0 is acceptable since the t-significance test's value (with one tail) is greater than 0.05. Based on the 13 variables with 12 degrees of freedom and a 95% confidence interval, it is deduced that the pre- and post-merger financial performance of ICICI BANK are not significantly different.

One tail t-Test: Paired two Samples for Means with a 5% level of significant

Ho: There is no significant difference between pre-and post-merger operational performance of ICICI BANK Ltd. after acquiring Rajasthan.

Table 12: Hypothesis Testing of Operational performance ICICI BANK and Rajasthan

Particulars	Pre-merger	Post-merger
Mean	1625253	323623.9
Variance	40591371431502.40	318452899373.31
Observations	21	21
Pearson Correlation	-0.13107	
Hypothesized Mean difference	0	
df	20	
t Stat	0.922013	
P(T<=t) one-tail	0.183756	
t Critical one-tail	1.724718	

H0 is rejected since the significance value of the t-one-tail test's is greater than 0.05. Twenty variables with 38 degrees of freedom were used to infer that there was no change in the operational performance of ICICI BANK Ltd. before and after the merger.

CONCLUSION

The banking sector has benefited greatly from mergers and acquisitions, with many institutions now serving a larger client base and offering a broader range of goods and services via a larger number of branches and automated teller machines.

bank account balances and loan amounts nationally. There are several challenges to overcome, such as the disparity between interest and deposit rates, the management of non-performing assets, and the administration of varying pay plans for staff. Shares in the merged bank went up after a study of its financial and operational performance indicated an increase in net interest revenue, profitability, customers, and liquidity after the merger.

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