

Impact of Mergers and Acquisitions of Public Sector banks in Indian Banking Sector

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Abstract- In order to understand the resulting synergies and the long-term implications of the merger, this research paper looks at mergers and acquisitions (M&As) that have taken place in the Indian banking sector over the past 20 years. These challenges include low recovery rates, rising non-performing assets (NPA), and liquidity. The impact of mergers and acquisitions has been examined after the trends in M&A in Indian banking are discussed. The paper discusses the location of M&A performance evaluations in the Indian banking industry. This study uses a number of economic factors to compare the performance of combined banks before and after. The outcomes demonstrated the success of M&A in the Indian banking industry. Due to the potential negative effects on the assets of the stronger banks, the GoI and policy makers must no longer promote mergers between strong and troubled banks as a means of selling the interest of the depositors of the troubled banks.

Keywords: Indian Banking sector, Mergers, Acquisitions.

I.INTRODUCTION

A merger is an arrangement that joins two pre-existing organizations into a single new organization. These are some of the various kinds of mergers, along with some of the causes of business mergers. M&A is usually carried out to grow an organization's reach, penetrate new or existing markets, boost profits, and improve benefits. The purpose of these measures is to increase investor esteem. In order to avoid acquisitions or mergers by other companies, businesses often implement a no shop policy during a merger. A merger is the intentional unification of two businesses engaged in essentially identical activities into a new legal entity. Because the organizations that agree to join are usually comparable in terms of size, clients, scope of activity, and other characteristics, the phrase

"merger of equals" is used. The following are the primary reasons for bank mergers in India.

- a) To create fewer, better, larger international lenders in an attempt to promote economic growth.
- b) To lessen unfair competition and unjust conduct among public sector banks.
- c) The measure will support the objective of turning India's economy into a \$5 trillion one.
- d) With Rs. 14.82 lakhs crore, the new bank, known as BOB (new bank), will be the third largest public sector bank in the nation following the merger of Vijaya Bank and Dena Bank with Bank of Baroda.
- e) After the syndicate bank and Canara bank merge, the new Canara bank will have Rs. 15.2 lakh crore, making it the fourth-largest public sector bank.
- f) Union Bank of India will merge with Andhra Bank and Corporation Bank to form the UBI (new bank), which will be the fifth-largest public sector bank with a business worth Rs. 14.6 lakh crore.
- g) Following the merger of Allahabad Bank and Indian Bank, the new Indian bank will have operations worth Rs. 8.08 lakh crore, making it the seventh largest public sector bank.
- h) They are better able to concentrate on defaulters. Numerous funding options were available to a large number of people. They can live under fewer roofs after merging, which promotes healing.

II.OBJECTIVES OF THE STUDY

The main goal of this study is to analyze the circumstances following the merger of these banks in terms of their improved performance, decline in non-performing assets (NPA), generation of value, and contribution to the country's financial stability and economic growth. The suggested study is essential to solving the following issues.

- a. To assess banks' post-merger performance and how it affects the Indian economy.
- b. To investigate bank non-performing assets (NPA) following mergers and their effects on the Indian economy.
- c. To investigate how banks create value after mergers and how this affects economic expansion.
- d. To evaluate the banks' performance before and after the merger

III.REVIEW OF LITERATURE

In order to present a comprehensive picture of the industry surrounding mergers and acquisitions, the researcher evaluated numerous articles and research papers. It is evident from reading the many helpful papers on mergers and acquisitions that are easily accessible that some of the research was done on how these transactions affected the components of different organizations. Both internal and external developments are possible for a business. While external growth can be accomplished by mergers, acquisitions, joint ventures, amalgamations, and other comparable activities, internal growth can be attained through the expansion of current branches or the consolidation of new ones. Simply look at how mergers and acquisitions would show how the convergence of nationalized banks and large banks will affect the Indian economy.

CMA In their paper "A research on the analysis of merger of SBI with its 5 associated banks and bharatiya mahila bank," Jai Bansal and Dr. Gurudatt Kakkar (2018) [4] employed a number of strategic considerations and concluded that the merger had positive implications on their profitability. The report examines mergers and acquisitions in the Indian banking industry in greater detail. The road to "international banks" remained lengthy despite a few mergers in the Indian banking sector.

In her study "The economic impact of merger and acquisitions on profitability of SBI," Kotnal Jaya Shree (2016) listed numerous explanations for mergers in the Indian banking industry. The financial performance of merging institutions was analyzed both before and after the merger using financial metrics such gross profit margin, net profit margin, operational profit margin, return on equity, and debt equity ratio. Lastly, it says that although banks have

benefited, mergers and acquisitions cannot improve their overall financial development and health.

S. Devarajappa (2012) [5]: The study's goal was to pinpoint the different causes of mergers and acquisitions in India. Additionally, it examined bank performance before and after mergers from the perspectives of ROI, ROCE, and ROE.

Khan, Azeem Ahmed (2011) [1]: The goal of this study was to shed light on the various factors that influence mergers and acquisitions in India. The analysis concluded that mergers and acquisitions made it easier to distribute dividends to equity stockholders. The study by Bhatnagar, R. G. (2001) [3] examined the detrimental effects on public sector banks, which were burdened by excessive bureaucratic interventions and NPA-tainted balance sheets. In the fiercely competitive market, well-run, popular, and creative sector banks are challenging the PSBs. As a solution, the author proposes a merger and more effective operations.

IV.RESEARCH GAP

The majority of the work has been done on new patterns, rules, strategies, and their specifics, as well as human perspectives that need to be assessed; nevertheless, the financial analysis and profitability of the mergers have received less attention. The current analysis offers a thorough investigation of the merger and procurement that took place between Vijaya Bank, Dena Bank, and Bank of Baroda. the investigation and discussion of nationalized banks' execution both before and after mergers. Based on the execution of nationalized banks, an attempt is made to predict the ultimate outcome of the current merger and securing.

4.1 The necessity of the research

Since the early 1990s, the structure of the banking system has changed significantly due to deregulation, liberalization, the entry of foreign banks, and the merger of major Indian and international institutions. During the post-reform period, there were about 25 bank mergers in India. These mergers have a major impact on the financial system's efficiency and profitability. Therefore, it is critical to comprehend the impact of these mergers on the efficiency levels of banks and their temporal behavior in order to understand how the banking industry has been responding to these new challenges and which banks

are performing better than others in terms of managerial and policy interests.

4.2 Impacts of merger

Positive impacts

- **Financial stability:** By combining weaker banks with stronger ones, the banking system as a whole is better equipped to absorb shocks to the economy.
- **Enhanced efficiency:** Through streamlined operations and consolidated branches, mergers result in economies of scale that lower operating expenses.
- **Better risk management:** Bigger banks are better able to control their overall risk exposure and Non-Performing Assets (NPAs).
- **Increased lending capacity:** Because they have stronger balance sheets and more capital, merged banks are better able to finance major infrastructure projects.
- **Increased global competitiveness:** Indian banks are able to compete more successfully on a worldwide level thanks to the consolidation, which makes them bigger and stronger.
- **Financial inclusion:** By extending banking services to underserved and rural areas, mergers can enhance financial inclusion.
- **Technology upgrades:** In order to enhance customer service and operational effectiveness, merged banks frequently have the chance to modernize their systems and technology.

Possible adverse effects.

Potential negative impacts

- **Integration issues:** Mergers may result in short-term difficulties merging various workers, systems, and cultures, which may cause early disruptions.
- **Human resource issues:** Workers may experience difficulties with job security, shifting workplace cultures, and possible position overlap.
- **Weakness risk:** If a weak or undercapitalized bank merges with a stronger one, the combined company may become weaker if the merger is not managed properly.

V.CONCLUSION

Consolidation has been sought in accordance with government objectives as a way to create world-size banks, notwithstanding the challenges that have been faced. When it was initially incorporated as a

provision in the Banking Regulation Act of 1949, the main goal was to create a framework that would shield weak banks from the detrimental effects of liquidation and dissolution. In order to reduce losses and liabilities, the RBI was granted the power to forcefully combine the weak banks with the strong ones. The financial sector as a whole would collapse if just one bank failed. The case studies show that there are several other reasons why M&A is sought in banking. Although consolidation is unquestionably an effective strategy for preserving liquidity, guaranteeing corporate transparency, and guaranteeing effective administration, it also exposes a single bank to unpredictable and unstable system risk. The conclusion is that the merger will result in a lower net profit for the new institutions, and financial stability is uncertain. In order to increase their revenue and stability, the new banks must take care of these qualities, which eventually leads to an increase in share value.

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