

# A Study on Mergers and Acquisitions in Indian Banking Sector

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**Abstract**—Mergers and Acquisitions (M & A) are strategic consolidations that aims in increasing market share and also strengthens financial stability and provides growth for the consolidated bank. Mergers and Acquisitions (M & A) occurs when two business entities combine into one. A merger is a one in which two businesses form a new, third entity whereas acquisition, one company purchases or takeover the other into its operations and transfers ownership. The purpose of this paper is to study about the bank mergers and its benefits on the merged banks and also gives the major challenges of Mergers and Acquisitions and also the factors that affect Mergers and Acquisitions (M & A) in India.

**Index Terms**—Mergers and Acquisitions, Banking Sector.

## I. INTRODUCTION

In modern economy bank plays a major role. Banking Sector is one of the backbones of Indian economy and plays a vital role in the economic development of a country. Banking sector are a financial Institution in which various functions are performed such as accepting deposits, providing loans to agricultural and industrial concerns.

India's banking legacy dates back to 1947 Independence which roots to ancient civilization. Evolution over five centuries has taken place in nations financial framework, integral to economic development. The Indian banking system has transformed through various economic fluctuations, shifting financial demands and technological innovations.

There have been various milestones that has been faced by the Indian banking industry from traditional lending practices to modern digital finance. This evolution has been shaped by the interplay between

economic growth, consumer needs and technological advancements.

The Indian banking system has facilitated several modifications and exponential expansion which has lead to a number of fruitful Mergers and Acquisitions. Mergers and Acquisitions aims at strengthening the financial institutions and improving operational efficiency.

### Merger

A merger is an agreement that combines two existing companies into a new legal entity, typically to enhance market share, to reduce costs or to expand into new markets. Mergers are done to expand a company's reach, expand into new segments, or gain market share. The above are done to increase the shareholder's value by combining the strength of two or more banks.

### Acquisition

An Acquisition is a business transaction in which one company acquires the other company where the acquirer has more than 50% of the share than the target company. Acquisition is done to increase the market share, to acquire new technology or to enter new markets.

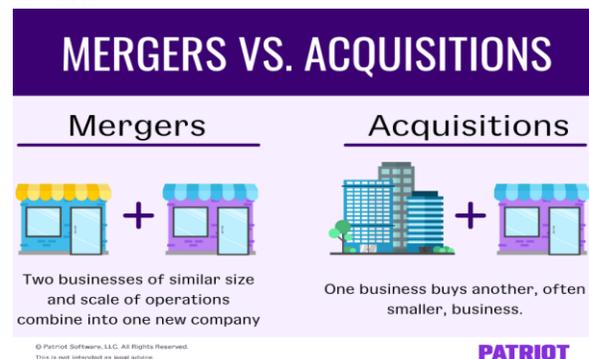


Fig :1 Difference between Mergers and Acquisitions

Source: patriotsoftware.com

## II. LITERATURE REVIEW

Sujatha N Sheeri, Sujaya H (2025), The paper addresses the regulatory environment, the role of government policy, and challenges faced during integration. The research contributes to understanding the effects of such consolidations on the banking sector's growth and sustainability. The findings provide valuable implications for policymakers, banking professionals, and future merger strategies in India's evolving financial sector.

Srishti Arora (2024), The paper aims to provide review of mergers and acquisitions (M&A) in the Indian banking sector, highlighting the evolution, strategic motivations, legal aspects, and ethical considerations of M&A activities.

Verma, P & Sharma, R. (2023), The study evaluates the post-merger performance of oriental bank of commerce and Punjab National Bank. The analysis shows improvements in operational efficiency but also mentions challenges with workforce integration and technological upgrades

Mr. Prannath Singh Yadav, Ms. Ayushi Agarwal, Dr. Vijay Kumar Ojha, Prof. Ajai Kumar Singhal (2023), The purpose of this paper is to study about the recent trends and reasons of mergers and acquisitions (M & As) in India.

Anukriti Agrawal, Prof. Krishna Kumar Agarwal (2023), The study also provides insights into various stimulators of mergers in the banking sector. The paper adds to the existing literature by focusing on the benefits, challenges and solutions to the challenges of amalgamation of banks.

P. Ghosh and G. Dutta (2018), The paper analyzed the post-merger financial performance of ICICI bank after acquiring the bank of Rajasthan in 2010.

Gupta and Kumar (2013), The paper is about analysing the merger of Kotak Mahindra Bank and IMG Vysya Bank, which focuses on shareholders' value. The study found that shareholder returns improved post-merger, driven by enhanced customer base and operational synergies.

Sinha Pankaj and Gupta Sushant (2011), The conclusion is that it had a positive impact since the majority of organisations saw a fall in profitability and an increase in liquidity. After a few years of mergers and acquisitions (M&A), organizations that couldn't control their liquidity may not have been able to take advantage of the synergies brought about by the M&A. A wide variety of financial measures, such as earnings before interest and taxes (EBIT), return on shareholders' funds (ROSF), profit margin (PM), interest coverage ratio (ICR), current ratio (CR), and cost efficiency, were all enhanced as a result of this (CE).

### Objectives

- To provide an overview of mergers in banking sectors that has taken place in recent years in the Indian banking Industry.
- To Elaborate the benefits and challenges of Mergers and Acquisitions faced by the banks.
- To intricate about the factors and reasons that affect Mergers and Acquisitions.

## III. RESEARCH DESIGN

The study is Descriptive in nature. Data has been collected from Secondary sources like journals, websites, magazines etc.

### Overview of Mergers in Banking Sectors:

Mergers and Acquisitions in Indian Banking sector have evolved from consolidating weak failing banks to strategic "mega – mergers" to create efficient entities

### 1. Key Phases of M&A s in Indian Banking

#### Early Phase (1960's -1990's)

Initial mergers were largely driven by RBI to rescue the weaker banks, where Punjab National Bank merged with New Bank of India 1993.

#### Post -Liberalization (2000's)

Consolidation aimed at strengthening private and public sector banks, for example ICICI bank's acquisition of bank of Madura (2001) and HDFC bank's acquisition of Centurion Bank of Punjab (2008).

**Mega -Mergers (2017 -2020):**

A strategic shift to reduce the number of public sector banks in order to improve the efficiency and capital leading to largest consolidations in Indian Banking history



Fig 2: List of 10 public sector banks (PSB) which merged into four

Source: AffairsCloud.com

**2. Types of Mergers**

Different Types of Mergers and Acquisitions play a major role in day today businesses. It also benefits both the target company and the target - seeking company and brings about synergetic growth .

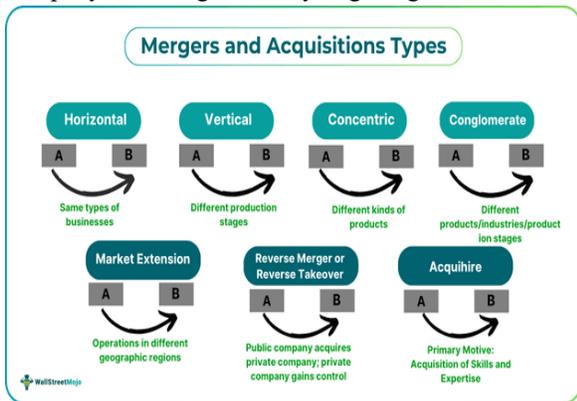


Fig: 3 Types of Mergers and Acquisitions

Source: wallstreetmojo.com

• **Horizontal Merger**

Horizontal Merger occurs when the target company and the target -seeking company are in the same industry and have the same or equivalent product or product lines and offer services to the customer. This helps to reduce competition and increase its market share and increase revenue or profit

• **Vertical Merger**

Vertical Merger is same as that of the horizontal Merger with an only small difference related to the production stage. M&A ‘s occurs between companies in the same value chain producing similar goods and services but vary in the stage of production.

• **Concentric M &A ‘s**

Concentric M&A ‘s when two companies are in the same industry and have same one customer bases but offer different products and services. The product cannot be identical but can be the replacement of other products

• **Conglomerate M&A**

Conglomerate M&A occurs when both the companies in Conglomerate M&A are different in terms of industry, product offering and production stage

• **Market Extension M&A ‘s**

M&A involves organisation that carry out operations in distinct geographic markets using similar offerings. This M&A helps to expand their customer base and improve their market reach

• **Reverse Merger (Reverse Acquisition)**

Growth prospective company takes over an inactive or dormant publicly traded organisation that has limited assets and little to no operations

• **Acquire**

M&A involves combination of acquisition and hiring. Acquiring the expertise and skills of the employees working in other organisation instead of taking over assets, services or products

**Benefits of Mergers and Acquisition in Indian banking sector**

- Mergers helps to reduce competition and increase market share and production
- If production increases it leads to higher economies of scale and further reduces the average cost of production
- Cost efficiency also increases through M&A’s as non – production activities are eliminated from production
- M&A’s helps to reduce the risk of doing business by diversifying the product line.

- M&A's helps to have similar production processes and business markets
- Cross – selling of bank products to customer base increases the sale.



Fig 4 Benefits of Mergers and Acquisitions

Source: swaritadvisors.com

### Challenges Of Mergers and Acquisitions in Indian Banking Sector

Mergers and Acquisition in Indian banking sector face a lot of significant challenges including the integration of different organisation cultures and IT systems, high non-performing assets (NPA ‘s) employee resistance and also shows lot of navigation in complex regulatory frameworks which disrupt customers

- **Integration Difficulties**

Technological integration is one of the major difficult parts in Mergers and Acquisitions. As integrating different IT platforms or banking software and digital infrastructure are costly and time consuming which in turn affects the customer service

- **Operational and Regulatory Obstacles**

There are different complex processes involved across multiple regulatory bodies, leading to potential delays

- **Managers overly focused on Acquisitions**

They can overly focus on integration problems and neglect the day – to – day activities like the customer base service.

- **Financial Risks and NPA Management**

When stronger banks merge with weaker banks the stronger banks are burdened with higher NPA ‘s of the weaker banks and thus the profitability of the stronger banks and the overall financial stability gets affected

- **Customer Service Disruptions**

When banks merge the two banks combine together and thus the customer base also gets merged which leads to confusion or loss in the clients of other branches.

- **Cultural and Human Resource Mismatches**

Merging of banks leads to change in culture from one bank to another whereas management style and operational style also varies. The bank unions and the employees fear the loss of jobs from the banks

### Reasons for Mergers and Acquisitions

Mergers and Acquisitions takes place due to various reasons some of them are to maximize the wealth of the banks, profitability and to reduce the weaker banks so as to help in the economic growth of the country

- **Economies of scale and cost reduction**

Merging of banks helps to increase the profitability of banks and also maximize the wealth. Reduces the cost by sharing the same infrastructure and shared resources

- **Market Presence and Expansion**

Financial Institutions perform mergers and acquisitions inorder to expand them in new geographical areas, increase market share and create new customer base.

- **Improve financial Strength and Risk Management**

Banks merge or acquire weaker banks inorder to improve their technological advancement and also to reduce the NPA ‘s of the weaker banks and basically strengthen their balance sheets

- **Competitive Advantage**

Banks merge to create a large - scale business and also helps to increase the sales which reduces the competition between the banks

### Factors that affect Mergers and Acquisitions

Factors affecting Mergers and Acquisition that affect the financial instutions to achieve the strategic goals like synergy, Market share, stakeholder share values, tax benefits and valuation improvements

- Synergy is one major factor that affect the Merger and Acquisition where when two companies

combined, they give a greater sum value than the actual combined value ( $1 + 1 = 3$ )

- In order to reduce Competition and to enter into new markets and also to increase the market power the financial institution or companies undergo Market expansion and share
- Diversifying risk in different areas or industries so as to avoid losses

#### IV. DISCUSSION

Mergers and Acquisition as a consolidation is to improve the weaker banks by combining it with the stronger banks, so that the NPA 's of weaker banks can be reduced. It also adds on to increased sales of the products to the customer base which leads to the increase in economic growth of the country

However, Mergers and Acquisitions have notable risks and challenges. As NPA 's of weaker banks gets reduced but the stronger banks are loaded with new NPA's along with their existing NPA's. So, Mergers can be a Boon or a Bane based on the thorough evaluation pre – merger. Mergers have their own benefits along with their risks involved. Not all mergers And Acquisitions are a success or failure but definitely it leads to changes in the companies either positively or negatively.

Mergers helps to reduce the competition among the existing businesses and also leads to the increase in sales as the technology when combined together gets advanced and reaches lot of customers. Integration has to be handled properly if not the customer service gets affected. As cultural difference also plays a major role in the Mergers steps has to be taken to make the employees to feel at ease while doin their work so as the work is being effective in nature

Mergers and Acquisiton takes place for financial growth which helps to increase the shareholders' value of shares and also helps in the wealth maximization of the companies Policies by policymakers has to be viewed properly pre – merger so as whether it maintains balanced benefits with maintaining Competition and protecting the jobs. Future, Merger and Acquisitions must look into the financial benefits, employees job protection and also the growth of the country through the merger.

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