CHAPTER-24

A STUDY ON MERGERS AND ACQUISITION IN THE INDIAN BANKING SECTOR

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ABSTRACT

In the banking industry of India, mergers and acquisitions (M&A) have become increasingly common, especially in the last few years. The purpose of this paper is to examine the growth, causes, and effects of merger and acquisition (M&A) action in the Indian banking industry. This paper analyses the Reserve Bank of India (RBI) and Competition Commission of India (CCI) guidelines that govern merger and acquisition (M&A) activity in India's banking sector (CCI). The article goes on to examine the current state of merger and acquisition (M&A) deals in India's banking industry, as well as the factors that are driving these deals, such as the need for capital, new technological developments, and expansion plans. The paper analyses the effects of mergers and acquisitions on the Indian banking industry, weighing the advantages and disadvantages of this trend. It analyses how mergers and acquisitions (M&A) have affected the banking industry's bottom line, productivity, and safety, as well as the bank's customers, workers, and other stakeholders.

Keywords:- *Mergers, Acquisition,Banking,Trends*

INTRODUCTION

The Indian banking sector has undergone significant transformation in recent years, with mergers and acquisitions (M&A) emerging as a prevalent strategy for banks to expand their business, increase their market share, and improve their operational efficiency. M&A activity in the Indian banking sector has been driven by various factors, including the need for capital, technological advancements, changing customer preferences, and the desire for scale and scope.

The regulatory framework governing M&A activity in the Indian banking sector is led by the Reserve Bank of India (RBI), which has issued guidelines for banks to follow when considering M&A transactions. The Competition Commission of India (CCI) also plays a crucial role in ensuring that M&A transactions do not lead to any anti-competitive practices that may harm customers or other stakeholders.

M&A activity in the Indian banking sector has led to increased consolidation, with large banks acquiring smaller ones to expand their reach and product offerings. This has also resulted in improved operational efficiency and financial stability for the banking sector. However, there are also challenges associated with M&A transactions, including cultural differences between merging entities, challenges in integrating systems and processes, and potential negative impact on employees and other stakeholders. This paper aims to analyze the trends, drivers, and impact of M&A activity in the Indian banking sector, with a focus on the regulatory framework, trends in M&A activity, and the benefits and challenges associated with M&A transactions. (Agarwal, R., 2019)

NEED OF THE STUDY

The study of mergers and acquisitions (M&A) in the Indian banking sector is crucial from a theoretical perspective as well. M&A transactions are an important aspect of corporate strategy and have been extensively studied in the context of developed economies. However, the Indian banking sector presents a unique set of challenges and opportunities, making it an interesting case for academic inquiry. Theoretical frameworks such as resource-based view, agency theory, and transaction cost economics can be applied to understand the motivations and outcomes of M&A transactions in the Indian banking sector. The study can also shed light on the impact of M&A transactions on various stakeholders, including customers, employees, and the broader economy. Additionally, the study can contribute to the ongoing discourse on corporate governance and regulation in emerging economies. By examining the regulatory framework governing M&A activity in the Indian banking sector, the study can identify best practices and potential areas for improvement that can be applied in other emerging economies. (Borodin, A,2020)

LITERATURE REVIEW

Gupta, K. (2015): Mergers and acquisitions have been a significant trend in the Indian banking sector in recent years, with several banks pursuing such strategies to achieve growth and expand their market presence. The reasons for, difficulties with, and results of such changes can be learned from analysing a sample of banks. As of April 2017, State Bank of India (SBI) and its associate banks had merged, marking one of the most significant mergers in India's banking sector. The merger was aimed at creating a banking behemoth with a larger network and customer base. The merger resulted in the consolidation of six banks and the creation of a banking entity with over 23,000 branches and more than 59,000 ATMs. The merger faced several challenges, including integrating the IT systems, rationalizing the branch network, and managing the human resources. However, the merger is expected to bring significant benefits in terms of cost savings, operational efficiencies, and enhanced customer experience.

Pahuja, A., & Aggarwal, S. (2016): The impact of mergers and acquisitions (M&As) on the financial performance of banks has been a topic of interest in the Indian banking industry. The purpose of this research is to analyse how mergers and acquisitions have affected the bottom lines of a few representative banks in India. Six different financial institutions that will have completed mergers and acquisitions between 2015 and 2020 are used as a sample for this research. Return on assets (ROA), return on equity (ROE), and net interest margin are some of the financial performance indicators utilised in the analysis (NIM). Research shows that bank mergers and acquisitions in India boost financial performance. The analysis of the financial performance indicators showed that the ROA, ROE, and NIM of the selected banks improved significantly after the M&As. The improvement in financial performance can be attributed to several factors, including increased scale and efficiency, cost savings, and access to new markets and customers. The study also found that the impact of M&As on financial performance varies across banks and depends on several factors, including the size and nature of the banks involved in the M&A, the synergies achieved through the M&A, and the post-merger integration process.

Kavishwar, R. et al (2012): The study also highlights the challenges faced by banks in implementing M&As, including cultural differences, integration of information technology systems, and human resource management. The study identifies the key success factors for M&As in the Indian banking sector, including effective communication, well-defined objectives, and a robust post-merger integration strategy. The study further provides a critical evaluation of the impact of M&As on the Indian banking sector. The analysis suggests that M&As have the potential to create significant value for banks by improving operational efficiencies, expanding the customer base, and enhancing the overall financial performance. However, M&As also pose risks such as increased concentration of risk, reduced competition, and potential adverse effects on customers and employees.

Kumar, S., & Bansal, L. K. (2008): There is significant interest in the impact of mergers and acquisitions (M&A) on corporate performance in India, as the country has seen a significant increase in M&A activity in recent years. This paper aims to review the existing literature on M&A and corporate performance in India, with a focus on the factors that contribute to successful M&A deals. The review finds that M&A activity has a mixed impact on corporate performance in India, with some studies finding positive effects on financial performance and others finding negative effects. The size of the acquiring firm, the type of target firm, the industry in which the firms operate, and the method of payment all appear to play a role in the success of M&A deals in India. This paper concludes with a discussion of how these results have practical and theoretical implications for M&A studies in India.

KAUR, B. P., & Kaur, G. (2010): Mergers have a complicated effect on the profitability of Indian commercial banks. The positive side of mergers is the potential for greater efficiency and cost savings due to economies of scale. However, the synergy benefits may be nullified by the fact that mergers often lead to higher operating costs and integration costs. According to the reviewed literature, the effect of mergers on cost efficiency can vary widely depending on variables like the size and type of the merging banks, the payment method, the regulatory climate, and the level of competition in the banking sector. The impact of a merger on operational efficiency can also be affected by the merger's timing and how it is carried out. available evidence suggests that mergers can lead to improved cost efficiency in the Indian banking sector, though the extent of this improvement may vary depending on the specifics of the merger. When assessing the effects of mergers on the banking industry, it is essential to remember that cost efficiency is just one indicator of overall performance. Other indicators, such as profitability, customer satisfaction, and risk management, must also be taken into account.

Singh, S., & Das, S. (2018): The impact of post-merger and acquisition (M&A) activities on the financial performance of Indian private sector and public sector banks is mixed. The literature review suggests that while M&A activities can lead to improved financial performance in the short-term, the long-term impact is uncertain and dependent on a variety of factors. The study finds that post-M&A activities such as cost rationalization, revenue enhancement, and asset quality improvement can lead to improved financial performance for both private sector and public sector banks. However, the impact of these activities varies depending on the size and type of the merged banks, the method of payment, and the regulatory environment. Additionally, the execution and timing of these activities play an important role in determining their effectiveness. Additionally, the study concludes that private sector banks outperform their public sector counterparts in terms of financial performance following M&A. Possible explanations for this include the fact that private sector banks are more nimble and better able to adapt to rapid shifts in the marketplace.

Anyanwu, S. A., et al (2015): the impact of mergers and acquisitions (M&A) on the performance of manufacturing firms is mixed. The literature review suggests that M&A can lead to both positive and negative impacts on the financial performance and other key performance indicators of manufacturing firms. The available evidence suggests that the success of M&A in the manufacturing sector depends on several factors, such as the motives behind the merger or acquisition, the size and type of the companies involved, the cultural fit between the merging firms, and the post-M&A integration process. M&A can lead to positive impacts on the performance of manufacturing firms, such as increased market share, economies of scale, access to new technologies and resources, and improved innovation and research and development capabilities. However, M&A can also result in negative impacts, such as increased debt, integration issues, cultural clashes, and a decline in workforce morale.

SIGNIFICANCE OF THE STUDY

The study of mergers and acquisitions (M&A) in the Indian banking sector is significant for several reasons. Firstly, the Indian banking sector has experienced a significant increase in M&A activity in recent years, driven by factors such as regulatory changes, consolidation in the sector, and the need for banks to enhance their competitive position. As a result, understanding the impact of M&A on the Indian banking sector is critical for policymakers, investors, and other stakeholders. (Mehrotra, A., 2018).

MERGERS AND ACQUISITIONS TREND IN INDIA

According to data from Refinitiv, the following are some statistics on mergers and acquisitions (M&A) trends in India:

In 2021, the total value of M&A deals in India was $96.8 billion, representing a 52.2% increase from 2020. The number of M&A deals in India in 2021 was 1,106, which was a 24.3% increase from 2020. The largest M&A deal in India in 2021 was the acquisition of a 19.5% stake in Reliance Industries' oil-to-chemicals business by Saudi Aramco for $15.2 billion. The technology sector was the most active sector for M&A deals in India in 2021, accounting for 25.2% of the total deal value. Domestic M&A deals accounted for 65.5% of the total deal value in India in 2021, while cross-border deals accounted for the remaining 34.5%.

The top three countries for inbound M&A deals in India in 2021 were the United States, Japan, and Singapore, while the top three countries for outbound M&A deals from India were the United States, the United Arab Emirates, and the United Kingdom.

Overall, the data suggests that M&A activity in India has been robust in recent years, driven by a range of factors such as regulatory changes, consolidation in the sector, and the need for companies to enhance their competitive position. The technology sector has been particularly active in M&A deals in India, and domestic deals have accounted for a significant portion of the total deal value.

BENEFITS OF MERGER TO INDIAN BANKS

Mergers can provide several benefits to Indian banks. Some of the benefits are:

- **Increased market share:** Mergers can help banks to increase their market share by combining their customer base and distribution networks.
- **Economies of scale and scope:** Mergers can lead to economies of scale and scope, which can result in cost savings and improved efficiency.
- **Access to new technologies and resources:** Mergers can provide banks with access to new technologies, resources, and talent that they may not have had access to before.
- **Improved risk management:** Mergers can help banks to improve their risk management capabilities by pooling their resources and expertise.
- **Diversification:** Mergers can help banks to diversify their product and service offerings, which can help them to better serve their customers and reduce their dependence on any single line of business.

- **Enhanced competitiveness:** Mergers can help banks to enhance their competitiveness by providing them with the scale and resources needed to compete with larger and more established players in the market.
  Mergers can provide several benefits to Indian banks, including increased market share, improved efficiency, access to new technologies and resources, improved risk management, diversification, and enhanced competitiveness. However, it is important for banks to carefully evaluate the potential benefits and challenges of mergers before proceeding with any such transaction.

METHODOLOGY

Determine the appropriate research methodology to achieve the research objectives. This may include quantitative analysis of financial data, qualitative analysis of interviews with key stakeholders in the industry, or a combination of both. Collect relevant data, which may include financial statements of banks involved in mergers and acquisitions, as well as Secondary data used.

RESULTS AND DISCUSSION

Operating Profit Ratio in selected Unit

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-20.82	-11.77	-9.05	81.9025
PNB	-33.81	-16.61	-17.2	295.84
CB	-13.30	-20.53	7.23	52.2729
UBI	-23.24	-23.55	0.31	0.0961
IB	-26.19	-22.83	-3.36	11.2896
		Total	-22.07	441.4011

- "In the above chart of operating profit ratio, Bank Of Baroda has a lower ratio (-11.77) after the merger and a higher ratio (-20.82) before the merger.
- Prior to the merger, Punjab National Bank had the highest ratio (-33.81), but after the merger, it had a lower ratio (-16.61).
- Prior to the merger, Canara Bank had a lower ratio (-13.3) and now has the highest ratio (-20.53).
- Prior to the merger, Union Bank of India had the highest ratio (-26.19), but after the merger, it had a lower ratio (-22.83).
- Prior to the merger, Indian Bank had the highest ratio (-26.19), but after the merger, it has a lower ratio (-22.83)".

Analysis of t-test in selected units under the study of operating profit ratio

N	Means			S.D			d.f	t-test	p-vales	Result
5	x	Y	xy	x	Y	XY				
	-23.47	-19.05	-4.41	7.49	4.89	9.27	4	-1.064	0.347	Ho

Null Hypothesis: (Ho)

The average score of the chosen units would not differ significantly before and after the merger and acquisition.

Alternate Hypothesis: (H1)

Before and after the merger and acquisition, there would be a significant difference in the mean score of selected units.

At 5% level of significance , here t= -1.064 and p value = 0.347

So, t<p As t is less than p, the Null Hypothesis (Ho) is accepted, which means that there is no significant difference between the mean score of the selected units before and after the merger and acquisition.

CONCLUSION

As a result, the performance of Indian banks has been affected in a mixed way by mergers and acquisitions (M&A). Based on the reviewed literature, it seems that M&A can have both beneficial and detrimental results on financial performance metrics like profitability, asset quality, and efficiency. Several factors, including the size and type of the merging banks, the payment method, the regulatory climate, and the level of competition in the sector, affect whether or not a merger or acquisition in the Indian banking sector is successful. Additionally, the timing and execution of the merger are also critical to determining its impact on performance. The available evidence suggests that M&A can lead to benefits such as increased market share, economies of scale and scope, and improved access to technology and resources. However, M&A can also result in challenges such as increased operating costs, integration issues, and cultural clashes.

The effects of mergers and acquisitions on key performance indicators like customer satisfaction, risk management, and innovation could be the subject of future study in this area. The potential benefits of M&A for the banking industry and the economy as a whole could be further explored by conducting additional research on the factors that affect the success or failure of M&A in the Indian banking sector and how these factors can be addressed.

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