MEGA MERGER DRIVE IN INDIAN BANKING SECTOR PROVING SUCCESSFUL: AN ANALYSIS

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ABSTRACT:
Globalization has increased the competition manifolds for the banks in India. Banks need to fund several huge infrastructural projects in the country which must lead to investment in the economy so that the economic development of the country can match up to the global standards. We need large and fundamentally strong banks to face this global competitive environment. As a result, mergers, alliance, consolidation etc have become a common occurrence throughout the Indian banking sector. These M&A become important catalysts in improving the profitability and operational effectiveness of banks and reducing the cost of lending thus resulting in better management of banking capital. In the recent past, the India’s government has announced various mergers of banks by making their Mega Merger drive successful. The purpose of this review paper was to know the beneficial impacts of mergers/acquisitions and consolidation in Indian banking sector and further to understand the modalities and results of these mergers. This review paper was based on the research papers and secondary data related to mergers of Indian banks dating from the year 2000 to the year 2020. Around 30 research papers were reviewed for the purpose. The objective was to find out whether the mergers lead to the desired results as expected and further to summarize the current scenario of mergers and acquisitions in the Indian banking. For achieving the research objectives, advantages of mergers/acquisitions were analyzed on the basis of performance of the banks after considering both the financial and non financial elements. The study concluded that the mergers/acquisitions in the banking industry in India resulted in tremendous increase in the value of resulting banks, an increase in number of branches, number of deposits, revenue, effective management, synergy through economies of scale, develop in technology which further reduces cost and makes it possible for banks to face competitive global environment. This research paper provides suggestions about how can this process be made more efficient and effective and particularly so for the existing employees. Apart from the economic impact of these mergers and acquisitions, this research also reviews the impact of these changes on the existing employees like possible loss of jobs, new working environment, transfers, promotional issues etc. and further detailed research can also be conducted in this direction.

KEY WORDS: mergers, acquisition, Indian banking industry, global competition, synergy, mega merger drive

1. INTRODUCTION

The Industrial policy 1991 brings the era of Privatization, Liberalization and globalization. This leads to the increase in level of cut throat competition day by day and thus the time demands to use the tool like Merger and amalgamation in order to become big market players. In every economy the banking industry holds a significant position and is one of the fastest expanding industries. In the previous several years, India's banking sector has seen a slew of massive acquisitions and these Bank mergers/acquisitions turn the clock back to India's history, when a number of local banks were merged or acquired by a larger bank. In 1921, the three presidency banks viz. The Bank of Calcutta, The Bank of Bombay, and The Bank of Madras was merged to form a new Bank named as Imperial

Bank of India. The Imperial Bank later changed its name to the State Bank of India on July 1, 1955. The Indian banking industry has seen a number of mergers since then. The involvement of the central government in the entire process must also be examined, since they play a critical part in the policy development essential for the expansion of Indian banking. In 1998, the Narasimham – II Committee proposed that large Indian banks consolidate in order to strengthen them, among other things. Then, in response to the committee's recommendations, a slew of Indian bank mergers occurred. Mergers / acquisitions are being pursued by a big number of multinational and domestic banks all around the world. The plethora of Merger took place in Indian Banking sector after the year 2000 are.

1.

Year of Merger
2000: HDFC BANK MERGED WITH TIMES BANK LIMITED.
2000: ICICI BANK MERGED WITH BANK OF MADURA LIMITED.
2002: BANK OF BARODA WITH BANARAS STATE BANK LIMITED.
2002: ICICI BANK WITH ICICI LIMITED.
2003: PUNJAB NATIONAL BANK WITH NEDUNGADI BANK LIMITED.
2004: ORIENTAL BANK OF COMMERCE WITH GLOBAL TRUST BANK.
2005: BANK OF PUNJAB WITH CENTURION BANK.
2006: IDBI WITH UNITED WESTERN BANK.
2007: INDIAN OVERSEAS BANK WITH BHARAT OVERSEAS BANK.
2008: HDFC BANK WITH CENTURION BANK OF PUNJAB
2010: ICICI WITH BANK OF RAJASTHAN LIMITED.
2014: KOTAK MAHINDRA BANK WITH ING VYASA BANK.
2017: STATE BANK OF INDIA WITH STATE BANK OF TRAVANCORE ,STATE BANK OF BIKANER AND JAIPUR ,STATE BANK OF HYDERABAD,STATE BANK OF MYSORE, STATE BANK OF PATIALA ,BHARATIYA MAHILA BANK
2019: BANK OF BARODA WITH VIJAYA BANK AND DENA BANK.
2020: INDAIN BANK WITH ALLAHABAD BANK
2020: UNION BANK WITH ANDHRA BANK AND COPERATION BANK
2020: CANARA BANK WITH SYNDICATE BANK
2020: PUNJAB NATIONAL BANK WITH ORIENTAL BANK OF COMMERCE AND UNITED BANK OF INDIA

As Mergers and acquisitions benefits the merged entities in various ways some of them are Profitability, synergies, increase market share, higher level of competition, diversification of risk, enhanced shareholder wealth etc. Thus Merger and acquisition are “paragons of virtue”, as evidenced after reviewing the various studies.

2. PROFITABILTY:

The profitability is the indispensable parameter to know the success of the merger and acquisition after analyzing the impact of m&a deals on bank performance. The ratio analysis is the most widely used financial parameter to know the combined banks' total profitability record (before and post merger).The tool t-test is used on the ground of pre and post merger for the ratio analysis, which includes the following ratios:

i. Gross profit Margin: This ratio is a measure of profitability. Improvement of this ratio indicates the success of management in generating revenue and reducing cost. Merger/ acquisition transaction in India’s leads to the incremental changes in this ratio for the resulting banks. Review of various research papers on Merger and acquisition of banks gives authenticity to this conclusion. Devarajappa (September 2012), V Radha Naga Sai1 and Dr. Syed Tabassum Sultana(April 2013), Madan Mohan Dutta and Dr. Suman Kumar Dawn(January 2012), Khubalkar Rupesh and Karmore Rajvilas(September 2020).

Sometime Merger does not have positive impact on Gross profit margin and thus shows no or declining changes. This may be due to less time of pre and post merger comparison is taken and profit may be seen in near future. Azeem Ahmed Khan(March 2012); Girnara Monaben Reshembai.(Dec 2016).

ii. Net profit margin: The net profit margin is meant to be a metric for determining a company's overall success.The study of merger shows the increase in this ratio thus leads to statistically significant. Azeem Ahmed Khan(March 2012); Girnara Monaben Reshembai.(Dec 2016); Madan Mohan Dutta and Dr. Suman Kumar Dawn(January 2012); Sonia SINGH 1; Subhankar DAS 2(March 2018), Khubalkar Rupesh and Karmore Rajvilas September 2020.

In some cases merger indicates no change in the parameters of merged banks like in the case of net profit margin. Devarajappa (September 2012). V Radha Naga Sai1 and Dr. Syed Tabassum Sultana(April 2013).

iii. Operating profit margin: It is a company’s total earnings from its core business operation before interest and tax. The review of various studies shows that this ratio increased after merger and was statistically significant. Girnara Monaben Reshembai.(Dec 2016), V Radha Naga Sai1 and Dr. Syed Tabassum Sultana(April 2013). Gopal C. Mondal, Dr M.K.Pal, Dr S. Ray, 2017, Khubalkar Rupesh and Karmore Rajvilas September 2020.

After analyzing few studies this ratio shows no change. Devarajappa (September 2012) and in some cases the ratio declined. Azeem Ahmed Khan(March 2012) .

iv. Return on capital employed (ROCE): ROCE is a key return ratio to analyze profitability ratio and performance in terms of capital. The study of some merger and acquisition shows improvement in this ratio which corroborates the enhanced efficiency in terms of capital. Azeem Ahmed Khan(March 2012), Sonia SINGH 1; Subhankar DAS 2(March 2018)

In some cases ROCE shows no change after Merger. Devarajappa (September 2012).

Whereas some studies shows that ROCE declined after merger. V R. Naga Sai1 and Dr. S. T. Sultana(April 2013).

v. Return on equity (ROE): This ratio defines the return on the investment, which received from the shareholder. The performance of those banks, which merged, is evaluated in the grounds of this ratio as the investors generally prefer firms with higher ROEs. In most of the studies of Merger and acquisition, the merged bank shows improvement in this ratio. Azeem Ahmed Khan(March 2012), Devarajappa (September 2012), V R. N. Sai1 and Dr. S. Tabassum Sultana(April 2013).

3. SYNERGY:

It means when the combination of two or more entities provides higher results than the sum of their separate effects. Thus Merger and acquisition of banks creates synergies and rewards in the form of :

i. Global existence - It means when company operate in several countries and recognized internationally. One of the biggest lead is when SBI comes in 45th position of large banks ranking globally, after the Merger of SBI with its associates. Bharat Khurana(may 2017).

ii. Efficiency enhancement - It has been witnessed that merger and acquisition strengthen the efficiency of merged banks by increasing the profitability, reducing the NPA's. This leads to the strong existence of merged entity in National parlance too. The Merger of Allahabad bank with the Indian bank leveraged the strength of both banks and improves its performance and become the seventh largest government owned bank of India. Sri Ayan Chakraborty(june 2020). Vijaya Bank and Dena Bank merged with Bank of Baroda in a similar way and makes the resulting bank as the third largest bank of the Nation. Khubalkar Rupesh and Karmore Rajvilas September 2020.Further the study on Merger of Syndicate bank and Canara bank reveals that the Merged bank shows increase EPS, DPS, P/E ratio and the average sustainable earning which are indicators of enhanced efficiency. Dr. Aditya Sharma and Gopi Nath Modi(2014)

iii. Comprehensive development- In the pursuit of study of merger of five banks , it has been witnessed that the Merger and acquisition able to give the required expected benefit like economies of scale, reducing cost by diversification, increased access of market power etc. resulting in the overall development of Merged entity. This has been analyzed on the parameters of total assets, growth of profitability, revenue and growth of deposits of merged banks by using the tool of t-test and statistical mean and the studies shows significant growth on all the variables. Madan Mohan Dutta and Dr. Suman Kumar Dawn(January 2012). The review of merger of SBI and HDFC banks also reveals the same conclusion and overall, both banks' performance in key criteria, as well as productivity ratios, has improved. Dr. (Mrs.) Prashanta Athma, and A. Bhavani(march 2016).Bharat Khurana (may 2017). Duggal, and Neha, (2015). The review study of Bank of Baroda reveals that merger shows augmentation on overall performance of bank i.e liquidity and financial ratio, further rise in number of branches, ATMs, Deposits and borrowings, Investments and loans and advances. Khubalkar Rupesh and Karmore Rajvilas September 2020. The merger of the Oriental Bank of Commerce and the United Bank of India into the Punjab National Bank creates a scenario that is indistinguishable. Dr.Anshu Choudhary, Dr.Neha Vashistha(jan 2020)

4. Shareholders Wealth:

It is the wealth or the value which is delivered to the shareholders due to the ability of the management to increase overall profitability and performance. It has been analyzed that the Merger's announcement has a beneficial influence on the value of stock shares. The review of merger of Bank of Baroda,PNB ,SBI, OBC, HDFC Bank ltd.and ICICI Bank Ltd reveals that merger announcement expected to increase the future cash flows after merger. Sonia SINGH 1; Subhankar DAS 2(March 2018). Further with the sample size of merger of five banks, employing a two-factor model and a single-factor model, finds out the average cumulative abnormal return and the study reveals that the CAR for both the banks i.e. Acquirer and acquiree bank is positive. Thus the study concluded that the mergers and acquisition of Indian banking sector have positive and increased impact on the wealth of the shareholder. Manoj Anand and Jagandeep Singh(March 2008).

5. Employees Satisfaction:

Employee's satisfaction means how much employees are satisfied with their job and the factors which affect this term may include workload, flexibility, compensation, management's perception, teamwork etc. Thus policies framed for merger must also consider this significant non financial parameter for immense success of merger. It has been corroborated from studies that where the employees were well informed about the policies and illuminated with the effects of Merger, which resulted in transparency and the involvement of employees in the process, gives them the confidence and thus the employees seems to be happy and satisfied with the process of Merger. Sonia Singh, Subhankar Das (March 2018).

On the other hand, where the systematic framing were lacking, the upshot of the Merger was that the employees were in stress and personal trauma which further specify that Individuals and businesses, whether banks or semi financial corporations, are involved in psychological, behavior, health, performance, and survival difficulties. Dr. K.A. Goyal and Vijay joshi(March 2012), Yogashree C (2020).

6. CONCLUSION:

As in recent times Merger and acquisition becomes the benison for Indian Banking sector. As witnessed from the review of various case studies above, the Merger and acquisition proved to be a successful tool of expansion and produced the desired results as expected in the way of increased profits, improved efficiency, expansion of branches and ATMs and most importantly reach to the global markets.Smriti Nagaria, R. Lavanya Kumari(January 2020).In recent times the government started its mega merger drive with an objective of creating a strategy to ensure that weak banks are not harmed, having increased NPAs, might be carried out as a result of liquidation's consequences, and secondly the merger produced world size banks to face the global competition. Dr.Mahesh Chandra and Patil jayalakshmi reddy(march 2020).

In few studies declined performance of merged bank is also evidenced but it was not ascribed to merger alone. Ishwarya J.(sep 2019). Further In few instance mergers of weak banks with strong banks wipe off the profits leading to reduction in profits after merger and thus stability of new bank is in risk. Apart from financial issues, the merger has its setback on non financial front as well like dissatisfaction of employees and costomers due to difficulty in cope up with the new change after merger.

This brings us end to the conclusion that the Merger and acquisition is an amulet in the hands of government and management to reap the overall advantages discussed above and keep the merged entity stand strong in the global economy. Dr. Anjali Sharma (March 2020).But simultaneously a preeminent care and rumination of all possible factors is to be done while framing the policy of merger so that it should not hamper the interest of the customer, employees and shareholders. The conclusion of the study further opens the new area of research related to the policy framework and how the post merger integration process and timely action can be taken to achieve win -win situation.

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