Nanotechnology Perceptions
ISSN 1660-6795
www.nano-ntp.com

Impact of Merger on Financial Performance in Indian Banks: Analyzing Post-Merger Financial Metrics to Assess Value Creation

Ilma Naaz[1], Dr. Himanshu Gupta[2]

[1]*Research Scholar. IFTM University, Moradabad (U.P), India, khanilma114@gmail.com*
[2]*Professor, School of Business Management, IFTMU, Moradabad (U.P), India, himanshugupta@iftmuniversity.ac.in*

The Indian banking sector has been undergoing consolidation in recent years, with the government pushing for mergers amongst public sector banks. The COVID-19 pandemic has further necessitated large-scale reforms in the financial sector. Amalgamation of PSBs is a key part of the reform agenda to strengthen the health of public sector banks through consolidation. In line with this, three major bank mergers have taken effect post-COVID - the merger of Oriental Bank of Commerce (OBC) and United Bank with Punjab National Bank (PNB) in April 2020; the merger of Andhra Bank and Corporation Bank with Union Bank of India in April 2020.

1. Introduction

The Indian banking sector has been undergoing consolidation in recent years, with the government pushing for mergers amongst public sector banks. The COVID-19 pandemic has further necessitated large-scale reforms in the financial sector. Amalgamation of PSBs is a key part of the reform agenda to strengthen the health of public sector banks through consolidation. In line with this, three major bank mergers have taken effect post-COVID - the merger of Oriental Bank of Commerce (OBC) and United Bank with Punjab National Bank (PNB) in April 2020; the merger of Andhra Bank and Corporation Bank with Union Bank of India in April 2020.

Pre-merger profile of entities - PNB had a total business of Rs 17.9 lakh crore; UBI: Rs 2.9 lakh crore and OBC: 3.8 lakh crore. PNB had an advances portfolio largely concentrated in the wholesale sector while UBI and OBC had a higher proportion of Retail loans providing diversification benefits. All 3 banks had considerable overlap which could enable rationalisation and large-scale optimization. With increased scale and wider reach, the merger can augment the competitive position of PNB.

The merger of Andhra Bank and Corporation Bank with Union Bank of India came into effect from April 2020. The consolidated bank is now India's 5th largest public sector bank with Rs 14.6 lakh crore business. Union Bank prior to merger had robust finances but lagged peers in credit growth due to lack of capital headroom. Andhra Bank and Corp Bank were struggling with higher NPAs, negative RoEs, excessive concentration risks and capital inadequacy issues. The merger provided a win-win situation through capital infusion, geographical complementarity, business diversification and larger distribution network.

In order to assess value creation, post-merger financial indicators are the primary focus of this study, which looks at how mergers affect the financial performance of Indian banks. Recent years have seen a major consolidation of the Indian banking industry, primarily due to pressure from regulators, the need for increased operational efficiency, and the goal of building larger, more robust institutions. The purpose of this analysis is to shed light on the ways in which these mergers impact important financial metrics, such as Net Interest Margin (NIM), Return on Equity (ROE), Return on Assets (ROA), Cost-to-Income Ratio, and Non-Performing Assets (NPAs).

According to the research, profitable mergers frequently result in higher financial measures, which show increased profitability, improved operational effectiveness, and better asset quality management. For example, higher ROA and ROE after the merger imply that banks are making better use of their equity and assets, and higher NIM shows improved interest income management. Furthermore, a decline in the Cost-to-Income Ratio indicates effective cost synergies brought about by consolidation. Furthermore, declines in non-performing assets (NPAs) indicate the possibility of improved risk control and credit quality in combined companies.

Nevertheless, the research also takes into account a number of external factors, such as macroeconomic circumstances, regulatory modifications, and competitive dynamics within the banking industry, that may have an impact on financial performance. These elements need to be taken into account in a thorough assessment since they have the potential to affect merger success.

This analysis provides recommendations for future consolidations and advances our understanding of the dynamics of mergers in the Indian banking sector. It highlights how crucial careful due diligence and strategic planning are to maximizing value creation during the merger process. Overall, the study shows that although mergers can improve financial performance, a number of factors, including successful integration, operational effectiveness, and external market conditions, play a major role in their success.

Ultimately, this analysis highlights the need of employing a comprehensive methodology to evaluate the effects of mergers on financial performance, offering insightful information to investors, banking executives, and legislators. Subsequent investigations may delve deeper into qualitative elements like staff morale, client contentment, and brand equity to acquire a more all-encompassing comprehension of merger consequences within the banking sector.

2. Research study-

The main objective of the proposed study is to analyze the impact of value creation through mergers and acquisitions in India banking industry. The main objective is further divided into following sub-objectives:-

1. To identify what impact on banking industry of mergers and acquisitions.
2. To investigate how the value of bank increase or decrease after mergers and acquisitions.
3. This study is highly focused on impact of margers and acquisitions on banking industry.

3. Review of Literature-

Burki and Ahmad (2010) applied this accounting ratio approach to assess post-merger financial performance changes for three bank merger cases - HDFC Bank-Times Bank, ICICI Bank-Bank of Madura and HDFC Bank-Centurion Bank. Key ratios pertaining to interest margins, operating profits, return on assets, expenses management and asset quality were compared across the pre and post-merger periods.

Sinha and Gupta (2011) also analyzed financial ratios like business per employee, profit per employee, return on advances and business per branch to compare State Bank of India's pre and post-merger financials across its seven mergers from 1959-2008.

Gubbi et al., 2010; Amira & Muzere, 2011 Research indicates varied integration outcomes between domestic vis-à-vis cross-border bank mergers attributed to additional complexities around geographic distance, cultural assimilation and differences in market familiarity.

Bhaumik & Selarka, 2012- domestic M&A transactions deliver higher returns over longer term compared to cross-border deals, with 3-year buy and hold stock returns being significantly positive for the former.

Focarelli et al., 2002; Beccalli & Frantz, 2013- Harmonization of branch networks, product portfolios, risk management practices and HR policies also extend over interim phases requiring appropriate time horizon for synergy tracking.

Altunbas & Marqués Ibáñez, 2008- Research highlights 3-year post-M&A window offers reasonable basis to evaluate execution experiences covering business restructuring, capability enhancement and cultural realignment towards performance improvement.

Jayadev, 2007- Analyses of Indian bank mergers specifically also underline absence of compelling signs of value creation in short period of couple of quarters after mergers.

Kumar, 2008- Assessment of parameters like earnings volatility reduction, stability in return on assets, capital risk optimization and revenue diversification gains manifest more discernibly over 24-36 months horizon.

Chatterjee, 2009- empirical tests evince lack of significant correlation between short and long term performances demanding discrete analyses across both timeframes.

4. Research Methodology-

Data Collection Methods and Sources

The data for this study will be collected from secondary sources, such as financial reports, regulatory filings, and databases. The financial reports of the selected banks will provide information on key financial indicators, such as profitability, growth, and shareholder value metrics, both pre- and post-M&A. Regulatory filings and databases will be used to gather information on the M&A transactions, including deal size, acquisition premium, and financing structure.

Sample Selection and Description of the Sample Banks

The sample banks for this study will be selected based on specific criteria, such as their involvement in significant M&A transactions and availability of relevant data. A purposive sampling technique will be used to select banks that have undergone mergers or acquisitions in the past five years. The sample will include banks from different regions and sizes to ensure diversity and representativeness in the analysis.

Variables and Measurement

Trend Analysis Annual and quarterly trend analysis has been conducted across various financial metrics to understand performance trajectory post mergers. Key techniques used include:

Ratio Analysis: Financial ratios have been computed from raw data for comparable performance measurement across profitability, asset-liability indicators, operational efficiency, productivity and sustainability dimensions.

Statistical Techniques for Analysis

Statistical Tests Statistical testing supplements financial analysis to check if key ratio changes pre-post merger are significant enough to confirm value created from amalgamation.

Non-Parametric Wilcoxon Signed Rank Test: For non-normal ratios, non-parametric Wilcoxon signed rank test has been used to assess median variance across merger tenures.

5. Analysis and Results

Net Interest Income Growth (YoY %)

Bank	Pre-Merger (2 years)	Yr 1 Post-Merger	Yr 2 Post-Merger
PNB	6.2%	9.8%	14.7%
UBI	4.6%	18.3%	22.1%

PNB witnessed a robust 14.7% year-on-year growth in NII during the second year post the merger with Oriental Bank of Commerce (OBC) and United Bank of India (UBI). The CASA-rich deposit base of OBC and UBI's expertise in high-yielding retail/SME lending augmented PNB's treasury and lending capabilities.

Union Bank of India (UBI) registered the strongest growth at 22.1%, benefiting from the superior geographic reach and liability franchises of Andhra Bank and Corporation Bank. Their liability strengths aided NII expansion.

Operating Profit Growth (YoY %)

Bank	Pre-Merger (2 years)	Yr 1 Post-Merger	Yr 2 Post-Merger
PNB	-4.8%	16.2%	28.5%
UBI	2.1%	22.7%	31.9%

UBI demonstrated the most robust growth in operating profits, registering a 31.9% year-over-year increase in the second year post-merger. This performance can be attributed to the bank's success in optimizing its cost structure while capitalizing on the expanded revenue opportunities.

PNB, after witnessing a decline in the pre-merger period, rebounded strongly with a 28.5% surge in operating profits, indicating the positive impact of the merger synergies.

Return on Assets (RoA) Trends

Bank	Pre-Merger	Post-Merger Yr 1	Post-Merger Yr 2	Industry Median
PNB	0.32%	0.41%	0.49%	0.62%
UBI	0.28%	0.35%	0.44%	0.62%

Return on Equity (RoE) Trends

Bank	Pre-Merger	Post-Merger Yr 1	Post-Merger Yr 2	Industry Median
PNB	4.8%	6.2%	7.1%	9.5%
UBI	5.1%	6.4%	7.8%	9.5%

PNB and UBI continued to lag behind the industry benchmarks, with RoA ranging between 0.41% to 0.49% and RoE between 6.2% to 7.8% in the second year post-merger. This suggests the presence of untapped potential for enhancing asset productivity and equity efficiency through further synergy extraction.

6. Conclusion-

The goal of bank mergers should be to create a more efficient, innovative, and customer-centric banking system that can support the long-term growth and development of the Indian economy. This requires a collaborative effort from all stakeholders, including the government, the central bank, the merged entities, and the broader society, to ensure that the consolidation process is aligned with the principles of financial stability, inclusion, and sustainability.

References

1. Oriental Bank of Commerce. (2019). Annual Report 2018-19

2. Thakur, M. (2020). Covid-19 woes may hit Union Bank merger gains. The Asian Age.
3. Singh, J., & Chaudhary, S. (2021). Do Mergers Create Value? Evidence from Banking Sector in India. Parikalpana: KIIT Journal of Management, 17(1), 193–209.
4. Gupta, R., & Misra, D. (2021). Shareholders' Value Gain in Banking Mergers and Acquisitions. Global Journal of Enterprise Information System, 13(1), 96–104.
5. Shrimali, B.K. (2021). Firm Performance through Inorganic Growth Strategy: An Event Study Approach. Prabandhan: Indian Journal of Management, 14(9), 21-36.
6. Chakrabarti, R., & Mitra, A. K. (2021). Do Bank Mergers Enhance Profitability? Evidence from Indian Bank Mergers. Global Business Review, 22(6), 1753–1770.
7. Charan, H., & Kaur, P. (2021). An Analysis On The Financial Performance Of Indian Banks Through Mergers. Studies in Indian Place Names, 41(68), 1792–1803.
8. Garg, M. and Kukreja, G. (n.d). An Analytical Study: Relevance of Mergers and Acquisitions in Banking Industry. 21st Century Management, 14–23.