e-ISJN: A4372-3114
p-ISJN: A4372-3115

ISSN: 2321-7782 (Online)
ISSN: 2347-1778 (Print)
Impact Factor: 7.529

Volume 11, Issue 3, March 2023
International Journal of Advance Research in Computer Science and Management Studies
Research Article / Survey Paper / Case Study
Available online at: www.ijarcsms.com

Increasing Trend of Merger of Banks and it's Consequences

Dr. Pushp Deep Dagar
Assistant Professor of Commerce,
Govt. P. G .College for Women,
Rohtak, India.

Abstract: State or nationalized banks, which are banks that are owned by the government in some fashion that is growing less clear-cut, make up 83 percent of the banking activity in India. This percentage is determined by looking at the share of deposits held by each institution. In addition to the more general prudential restrictions, non-nationalized banks are also subject to extensive regulations regarding the borrowers to whom they are permitted to extend credit. Lenin and Gerschenkron are just two examples of historical figures that advocated for government control over banking institutions. Even though there are those who have emphasized the political significance of public control over banking, the majority of the arguments for nationalizing banks are based on the premise that profit-maximizing lenders do not necessarily deliver credit where the social returns are the highest. This is one of the premises on which the argument for nationalizing banks is based. When the Indian government nationalized all of the main Indian banks in 1969, it made the argument that banking was "motivated by a greater societal purpose" and that it needed to "sub serve national priorities and objectives," such as the rapid growth of agriculture, small industry, and exports. This study focuses on the many different aspects of banking reform in India and presents them.

Keywords: Banking, Reform, Merger, Bank.

I. INTRODUCTION

The concept of mergers and acquisitions has been increasingly popular in the modern day, particularly in light of the liberalization that has been going on in India ever since 1991. The ever-increasing level of competitiveness is what initially sparked the growing trend for mergers and acquisitions (M&A's) all across the world. There has been an increase in the number of mergers and acquisitions in the corporate sector as well as the banking sector in order to eliminate financial, operational, and managerial weaknesses, to augment growth and expansion, to create shareholder value, and to stimulate the health of the organization in order to meet the challenges that come with operating in a globalised environment where competition is fierce. The fierce competition that exists between companies operating in the same sector, which places an emphasis on economies of scale, cost efficiency, and profitability, is the primary factor that motivates merger activity. The "too large to fail" criterion, which is adhered to by the regulatory agencies, is the other driving force behind bank mergers. There is a desire to broaden the company's reach into new areas, as well as a need to cut expenses, grow to a global scale, and reap the benefits of economies of scale. In addition, there is a need to boost investments in technology for the purpose of achieving strategic gains. Mergers and acquisitions are nothing new to the Indian economy. Companies have employed mergers and acquisitions (M&A's) as a growth strategy in the past, and they continue to do so now. However, today, Indian corporate businesses are redirecting their efforts along the lines of core competency, market share, global competitiveness, and consolidation. Because of the reforms process that was started by the government in 1991, the operation and governance of Indian firms have been altered, which has resulted in varied growth and expansion strategies being used by the corporate enterprises. Mergers and acquisitions, abbreviated as M&A, are the predominant corporate strategies pursued by companies that are interested in increasing the value they create.

© IJARCSMS (www.ijarcsms.com), All Rights Reserved

Of the past, the goal of regulators who pushed for the merger of one bank with another was to safeguard the interests of shareholders in financially weak banks. There has been a significant increase in the number of weak and tiny banks that have been merged with other banks, mostly for the purpose of protecting the interests of depositors. These can be considered compelled mergers or acquisitions. Under the provisions of Section 45(1) of the Banking Regulation Act, 1949, the RBI is authorized to place a moratorium on the business operations of a bank for a predetermined amount of time if that bank demonstrates severe signs of illness, such as large non-performing assets (NPAs), a decrease in its net worth, or a significant drop in its capital adequacy ratio. During this period of moratorium, the RBI will select a robust financial institution and then request that the institution devise a plan for a merger. At the present time, market-driven consolidations are gaining steam. The increasing level of competition, liberalization, globalization, and integration of national and international markets are all factors that have contributed to the growing importance of mergers and acquisitions activity. Consolidating through the process of mergers and acquisitions, in the case of Indian financial sector businesses, is one of the techniques that could be utilized to combat the fierce rivalry that exists in the market. The phrase "larger the bank, higher its competitiveness and better prospects of survival" appears to be the key to success in India, which is transitioning from a system characterized by a "large number of small banks" to one characterized by a "small number of large banks." This transition is occurring in a slow but steady manner.

The Indian government initiated policy initiatives that were aimed at deregulation and encouraging mergers in order to increase the size, profitability, and financial strength of Indian banks, thereby increasing their capacity to compete on a global scale. The goal of these policy initiatives was to increase the capability of Indian banks to compete internationally. An increase in the number of merger negotiations between Indian companies was spurred on by the climate of loosened restrictions regarding mergers. The economic reforms brought about a comprehensive change in the competitive landscape of the Indian Banking System. As a result of this change, many of the incumbent banks were forced to accept mergers and acquisitions with the goal of restructuring themselves in order to increase their effectiveness, profitability, and competitive strength.

There is only a limited amount of published empirical material on the effect mergers and acquisitions have on banks in India. This study is an initial attempt to close this gap in the existing body of research. As a result, the purpose of this study is to conduct an in-depth analysis and evaluation of the impact that the merger of Oriental Bank of Commerce and Punjab National Bank will have on the operating performance of both banks in terms of a variety of various financial criteria. The findings were discovered by conducting an analysis of the data for a period of five years, both before and after the merger took place. The research also made an effort to analyze and evaluate the hypothesis of whether or not there are any major variances in the results attained by the banks following the merger.

II. Objective

1. To do research on the current state of Indian banking and the consolidation of Indian banks.
2. To educate oneself on the Indian Financial System.

III. Review of Literature

Lehto Eero and Bockerman Petri (2008) conducted an investigation of the effects of mergers and acquisitions on target employment by making use of data collected at the establishment level in Finland between the years of 1989 and 2003. They concentrated on international mergers and acquisitions as well as domestic mergers and acquisitions, and they investigated the impact on employment caused by a variety of mergers and acquisitions. They found that cross-border mergers and acquisitions led to a reduction in manufacturing employment. However, the effects of cross-border mergers and acquisitions on employment in non-manufacturing industries were found to be much less significant. Additionally, they discovered that changes in ownership associated with domestic mergers and acquisitions as well as internal restructuring typically result in employment losses.

In order to look at the effects of cross-border mergers and acquisitions (M&As), Hijzen Alexander et al., (2008) studied the impact of cross-border mergers and acquisitions (M&As), analysed the role of trade cost, and explained the increased in the number of cross-border mergers and acquisitions (M&As). They used industry data from 23 countries over the course of a period of time spanning from 1990 to 2001. According to the findings, aggregate trade costs have a negative effect on the activity of cross-border mergers; however, the significance of this effect varies significantly between horizontal and non-horizontal mergers. They also suggested that the tariff jumping agreement was compatible with the less negative effects on horizontal merger, which was put forward in the literature on the determinant of horizontal FDI.

Using both pre and post financial ratios, Mantravadi Pramod and Reddy A Vidyadhar (2007) examined the effects of mergers on the operating performance of acquiring firms across a variety of different industries. They did this by comparing the firms' financial situations before and after the merger. They looked at all mergers that took place between public limited companies and traded firms in India between the years 1991 and 2003, and the results revealed that there was not much of a difference in the influence that the mergers had on the operating performance of the companies. The banking and finance industry in India, in particular, had a marginally positive impact on the operational performance of the pharmaceutical, textile, and electrical equipments sectors. However, the industry had a slight positive impact on the profitability of the pharmaceutical, textile, and electrical equipments sectors. After the merger, several of the industries experienced a considerable drop, not only in terms of profitability, but also in terms of return on investment and assets.

It is simply because after the strict control regulations had led to a wave of merger and Acquisitions in the Banking industry and states many reason for merger in the Indian Banking sector. Mehta Jay & Kakani Ram Kumar (2006) stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector. This information still contains to capture the interest of a research. Coming down on the various motives for Merger and Acquisitions, they stated that there were multiple reasons for Merger and Acquisitions in the Indian Banking Sector. Although a fragmented banking structure in India might be advantageous to customers as a result of increased competition among banks, this structure is not at the same level as that of the global banking industry. As a result, the Indian government has come to the conclusion that merger and acquisition are necessary in order to establish a small number of large banks.

R. Srivassan et al., (2009) presented their perspectives on the financial implications and problems that arise during mergers and acquisitions (M&A's). They highlighted the cases for consolidation and discussed the synergy-based merger. The authors emphasized that mergers are for increasing the size of a company, but there is no guarantee that they will maximize profitability on a sustained business. Additionally, there is always the risk of improving performance after a merger.

After the period of a few years of Merger and Acquisitions (M&As), it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Sinha Pankaj and Gupta Sushant (2011) studied a pre and post analysis of firms and came to the conclusion that it had a positive effect as their profitability, in most of the cases deteriorated liquidity. The research presented a contrast between the prior and post analyses of the companies. In addition to this, it highlighted the favourable benefits based on a number of other financial parameters, such as earnings before interest and tax (EBIT), return on shareholder funds, profit margin, interest coverage, current ratio, cost efficiency, and so on.

Aharon David Y et al., (2010), analyzed the stock market bubble effect on Merger and Acquisitions. This was followed by the reduction of pre-bubble levels, and then the bursting of the bubble seems to have led to further consciousness on the part of investors. Additionally, the authors provide evidence that suggests investors take more risks during the euphoric bubble period. The primary force of change that has taken place in the Indian banking sector is the consolidation of banks, which has led to the merger of banks.

IV. The Banking Industry within India

The Reserve Bank of India serves as the country's primary financial institution and is located at the apex of the Indian banking hierarchy. Since 1935, the Reserve Bank of India has had overall responsibility for the Indian banking system. Commercial banks in India can be broken down into three categories: public sector banks, private sector banks, and foreign banks. Each and every one of these financial institutions is classified as a scheduled commercial bank by the Reserve Bank of India (SCBs). As a result of being included in the second schedule of the Reserve Bank of India Act of 1934, the public sector, private sectors, and foreign banks all fall under this category. Prior to the implementation of the reforms, the government of India held complete ownership of the public sector. The PSBs are the most important players in the Indian banking system, and they are responsible for a whopping 70 percent of the assets held by India's scheduled commercial banks.

One of the sectors that is experiencing fast expansion in India is the banking business. This industry is seeing remarkable growth, and as a result, it has become one of the most attractive banking destinations for international investors. Following the implementation of economic reforms in 1991, there was a paradigm shift in the financial sectors of India. Mergers and acquisitions have helped speed the development of a relatively new component inside the Indian banking industry. According to the findings of the study, the finance and banking industries were responsible for the highest number of mergers and acquisitions (deals during the study period from 2008 to 2014 were also found to be the same), and the study also found that the trends of consolidation in the Indian banking industry are currently limited to the merger of small and weak banks with large and public sector banks. In light of this context, the current research investigated the "Impact of Mergers on Performance of Selected Commercial Banks in India." The effect that mergers have had on the performance of banks has been analysed from three different points of view: I the physical performance of combined banks; ii) the financial performance of merged banks; and iii) the performance of the share price of merged banks.

The results of the analysis of the physical performance of the amalgamated banks highlight the fact that there has been a large increase in the number of deposits, advances, businesses, and employees at all of the selected institutions. This result suggests that mergers may be able to assist commercial banks in achieving their desired levels of physical performance. Despite the fact that the analysis of the financial performance of merged banks yields mixed results, the results indicate that there was a significant improvement in the Assets Quality, Management Efficiency, Earnings quality, and liquidity of the selected banks. However, the Capital Adequacy of Public sector banks did not indicate improvements; this may be due to the policy matters of public sectors banks; however, on average, the overall financial performance of merged banks increased after the merger. Therefore, Merger might be seen as a good strategy to improve the financial performance of commercial banks by achieving scale economies of scale, competitiveness, and enhanced efficiency and Market share. This could be achieved. There is no consistent pattern of abnormal returns among the selected combined banks, according to the findings of the analysis of the share price performance of merged banks. The market only positively reacted in the cases of ICICI Bank and Federal Bank. In the remaining instances, the market responded negatively to the announcement of the merger. As a result of this finding, it is possible to draw the conclusion that merger is not an effective strategy for increasing the wealth of shareholders in banks in the short run.

V. Merger of Banks in India

A merger is a means of combining the operations of two different players into those of a single entity. A merger is the process of uniting two separate commercial enterprises into one that is owned by the same entity. According to the Oxford Dictionary, the term "merger" refers to the process of combining two separate business organizations into a single entity. A bank merger occurs when two or more formerly independent financial institutions combine their operations to form a single financial organization.

A merger takes place when a previously independent bank is acquired by an already established financial institution, resulting in the establishment of a single headquarters and a consolidated branch network.

The active (bidder) bank's assets and liabilities are added to the balance sheet of the target (passive) bank, and the target bank acquires the active (bidder) bank's name through a series of legal and administrative processes. This is what is meant by the term "merger." The suggestions of the Narasimham committee II have been used to kick off the process of mergers and acquisitions in the Indian banking sector. The committee made the recommendation that "merger of powerful banks / financial institutions would make for stronger economic and commercial sense." This would be a scenario where the whole is greater than the sum of its parts and would have a "force multiplier effect."

To encourage a greater volume of business transactions between India's financial institutions, it is recommended that the government of India and the Reserve Bank of India relax the rules that govern mergers and acquisitions. In conclusion, mergers are a good strategy. Through mergers, banks can extend their operations, service a wider client base, boost their profitability, liquidity, and efficiency; but, mergers cannot cure the overall growth or financial ailment of a bank.

VI. Indian Banking Developments and Mergers of Indian Bank

According to the history of Indian banking, the banking system in India was initiated in the 18th century, when efforts were made to define the General Bank of India and the Bank of Hindustan in 1786 and 1790 respectively. This demonstrates that the banking industry in India was first established in the 18th century. In subsequent years, a number of additional financial institutions, such as the Bank of Bombay (1840), the Bank of Madras (1843), and the Bank of Calcutta (1840), were founded under the charter of the British East India Company. In 1921, these banks came together to form a new financial institution that was eventually given the name Imperial Bank of India (IBI). On July 1, 1955, the Imperial Bank of India was partially nationalised and renamed the State Bank of India. This was done to facilitate the expansion of banking services into rural regions. The State Bank of India currently has eight affiliate banks (at present 7). The State Bank of Bikaner and the State Bank of Jaipur eventually joined together to form the current State Bank of Bikaner and Jaipur. The years 1906 to 1911 saw the founding of numerous financial institutions in India, including the Bank of India, the Bank of Baroda, the Canara Bank, the Corporation Bank, the Indian Bank, and the Central Bank of India; all of these financial institutions are still operational today.

There are two distinct eras that may be distinguished within the Indian banking industry: the pre-liberalization era and the post-liberalization era. On July 19, 1969, the government of India took over 14 banks in preparation for the eventual implementation of liberal economic reforms. Six years later, on April 15, 1980, it took over another 6 commercial banks. The New Bank of India and the Punjab National Bank were merged by the government in 1993; this was the sole merger between nationalized banks at the time; after this, the number of nationalized banks dropped from 20 to 19. Following the implementation of the liberalization regime, the government began implementing the policy of liberalization and granted licence to private banks, both of which contributed to the expansion of the Indian banking sector. A select group of private banks, including Axis Bank (formerly known as UTI Bank), ICICI Bank, and HDFC Bank, were among those to receive licences. Global Trust Bank, which eventually merged with Oriental Bank of Commerce, was one of those private banks. This development had contributed to the acceleration of the expansion of Indian banking in tandem with the rapid expansion of the Indian economy. This expansion was then followed by expansion that featured significant contributions from all three categories of banks—namely, government banks, private banks, and foreign banks. After the financial crisis that hit the world in 2008-2009, the Indian banking industry is beginning to show signs of a comeback, with improvements in both performance and efficiency. The situation of the Indian banking industry is currently in a much more favorable state than it was during the financial crisis. The government has embarked on a number of different courses of action to improve the country's financial system. The Reserve Bank of India took a number of different steps in the realm of monetary policy, which contributed to the strengthening of the economic recovery.

VII. Conclusion

The practice of merger is a valuable instrument for achieving growth and expansion in the Indian banking sector. Merging into larger banks can be beneficial for failing financial institutions' chances of surviving. The influence that mergers have had on the financial performance of the Indian banking sector is examined in this study. In order to accomplish this, a comparison was made between the performance of the company before and after the merger, looking at factors such as the gross profit margin, the net profit margin, the operating profit margin, the return on capital employed, the return on equity, and the debt equity ratio. In the present case study, the return on equity, the debt-equity ratio, and the Gross Profit margin have all shown an improvement after the merger. For the purpose and objective of the study, the investigators applied a t-test to compare the pre-merger and post-merger performance of banks, and the results suggested that the financial performance of the banks has increased since the merger. The ability to earn a larger net profit after the merger is the single most crucial factor in the management team's ability to defend their choice to join the two companies in front of the shareholders.

References

1. Aharon David Y, Gavious Ilanit & Yosefa Rami (2010), “Stock Market Bubble Effects on Mergers and Acquisitions”, The Quarterly Review Of Economics and Finance, vol.50, 456–470.
2. Anand Manoj & Singh Jagandeep (2008), Impact of merger announcement on shareholders wealth:Evidence from Indian Private sector banks, Vikalpa: Journal for Decision maker,vol.33(1), pp.35-54.
3. Bakker, HJC and Helmink,JWA(2004),Successfully Integrating Two Businesses,Gowar Publishing, Humpshire.
4. Bruner,R.F(2004),Applied mergers and acquisitions,John Wiley and Sons Inc,New Jersey.
5. Panwar, S. (2011), Mergers & Acquisitions in Banking Industry – The Need of Hour,International Journal of Contemporary Practices, vol.1(2), p. 75-82.
6. Shanmugam, B. & Nair, M. (2004), Mergers & Acquisitions of Banks in Malaysia, Managerial Finance,vol. (4) p. 1-18.
7. DeLong, G.L. (2003). Does Long Term Performance of Mergers Match Market Expectations? Evidence from the US Banking Industry, Financial Management, p. 5-25.
8. DePamphilis,D.M(2005),Mergers, Acquisitions and other restructuring activities, 4th Edition, Elsevier.Inc. London.
9. Devos, E., Kadapakkam, P.R., & Krishnamurthy, S. (2008), How Do Mergers Create Value? A Comparison of Taxes, Market Power, and Efficiency Improvements and Explanations for Synergies. The Review of Financial Studies,vol. 22(3), March 27, 2008.
10. Kuriakose Sony ,M.S Senam Raju, N.V.Narasimham(2009), Voluntary Amalgamations in Indian Banking Sector: Valuation Practices and Adequacy of Swap ratios,Electronic copy available at: http// issn.com/abastract=1653698.
11. Berger and Humphery (1997). Mergers and Performance of the Acquiring Firm”, Academy of Management Review, Vol. 8, No. 2, April, pp. 218-225.
12. Anand Manoj & Singh Jagandeep (2008). Does Corporate Performance Improve After Mergers?‟ , Journal of Financial Economics, Vol. 31, pp. 135-175.
13. Lehto Eero & Bockerman Petri (2008). “Does operating performance really improve following corporate acquisitions?” Journal of Corporate Finance 7, pp. 151-178.
14. Hijzen Alexander et. al. (2008). Tests of the Efficiency Performance of Conglomerate Firms‟ , Journal of Finance, September, pp. 919-936.