

IMPACT OF BANK MERGERS ON THE EFFICIENCY OF BANKS: A STUDY OF MERGER OF INDIAN BANK WITH ALLAHABAD BANK

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Abstract

After the implementation of reform measures, there has been large changes in the philosophy, perceptions, and functioning of commercial banks and banks are expected to manage the large inflows and outflows of financial resources. Therefore, a strong banking system through consolidation is required. Under such situations, it is necessary to study the impact of merger on different profitability and efficiency parameters of the banks. In the paper the attempt is made to compare the pre-merger and post-merger performance of Indian Bank and Allahabad Bank by comparing different efficiency parameters like operating profit, NPA, ROA, ROE, EPS, cost on income, ROCE and CASAs etc. The study concluded that after merger there is improvement in all the parameters of the banks.

Keywords: Merger and acquisition, Bank merger, Ratio Analysis, Pre and post merger analysis , Operating profit , NPA, ROA, ROE, EPS, ROCE, CASA.

1. Introduction

For a nation, banks are one of the most important catalysts and occupy a cardinal place in developing the economy of any country. The soundness of the banking structure makes the country's economic development discernible. Economic reforms, liberalization of the market, financial market deregulation have dramatically changed the banking sector, leading to the sophistication of technology and unprecedented competition. Since then, each bank has been relentless in becoming financially strong, well streamlined in operations, and dependable. Banks in our country have made strong headway as financial intermediaries amid the financial crisis that the world is facing. It is pretty clear from the trends in their NPA, profitability, and annual credit production. Enterprise growth can be achieved in two different manners. Some organizations look inward and use their profits to expand in the coming years, which are one of the paths to expand and generally take more diligence and time. However, the more popular path to expand rapidly is to look outward at other organizations. When the enterprise grows by acquiring or merging with another enterprise, inorganic growth occurs. The key aim behind the merger or an acquisition is creating synergy. Organizations get the advantages of cost-effectiveness and higher market share through merging or taking over other entities. Banks

have utilized acquisitions or even mergers to achieve higher market portions, larger size, rapid expansion, and harmony to become more contentious economies of scale.

India's banking system began in the year 1770 and started with the Bank of Hindustan formation. Later, the Bank of Bombay and the Bank of Calcutta were created by the British-East-India-Company in 1840. In the year 1843 Bank of Madras was created. In 1921, these banks were integrated to form a new entity called the Imperial Bank of India. To develop access to banking facilities into the nation's rural parts, on 1st July 1955, this bank was partially nationalized and called the State Bank of India (SBI) and its eight affiliate banks (currently seven). State1248 Pre- and Post-Merger Financial Analysis of Banks Bank of Bikaner and Jaipur was formed from the consolidation of State Bank of Bikaner and Jaipur. In our country, banking can be classified into two phases; the phase before liberalization happened and the phase after it.9thIndia's government nationalized fourteen banks on 19thofJuly 1969 and later added six banks in the phase before liberalization. The new bank of India and Punjab National Bank united in the year 1993 that decreased the count of nationalized banks by one to nineteen. To expand the Banking Sector of our country, the government laid the foundation for liberalization and started issuing licenses ton on-public banks. Mergers were suggested for strong public and even for private sector banks by the secondNarasimham Committee. There were 46 mergers between1961 and 1968 and 13 mergers between 1969 and 1992. There were 21 mergers during the period after the reforms from 1993 to the year 2006. Among these 21 mergers, forcedmergersaccountedfor13, voluntarymergersaccounted for 5, 2 happened due to the firm's confluence into a bank, and the last one happened due to legal obligations. In our country, the banking sector is in much better shape to handle crises such as 2008-09. Thegovernmenthasimplementedseveralmeasurestoreinforcethefinancialstructure.Backedbyvariousmonetary policy changes taken by our RBI, the economic recovery has gained momentum.

2. Overview of Indian bank and Allahabad bank:

Indian Bank is an Indian public sector bank, established in 1907 and headquartered in Chennai. It serves over 100 million customers with 40,187 employees, 5,856 branches with 4,937 ATMs and Cash deposit machines. Total business of the bank has touched ₹1,221,773 crore (US\$140 billion) as of 31 March 2024.

The bank's information systems and security processes are certified to meet ISO27001:2013 standard. It has overseas branches in Colombo and Singapore including foreign currency banking units in Colombo and Jaffna. It has 227 overseas correspondent banks in 75 countries.

Since 1969, the Government of India has owned the bank. On 30 August, Finance Minister Nirmala Sitharaman announced that Allahabad Bank would be merged with Indian bank. The proposed merger would create the seventh largest public sector bank in the country with assets of ₹8.08 lakh crore (US\$93 billion). The Union Cabinet approved the merger on 4 March 2020. Indian Bank assumed control of Allahabad Bank on 1 April, 2020.

3. Literature Review:

No.	Author	Year	Investigation	Result
1	Kuriakose Sony et. Al.	2009	focused on the valuation practices and the adequacy of Swap ratio fixed in the voluntary amalgamation in the Indian Banking sector and used swap ratio for the valuation of banks,	In most of the cases the final swap ratio is not justified to their financials.
2	Schiereck dirk et al	2009	Explained the relationship between bank reputation after M&A and its effect on shareholder's wealth. This study considered 285 European M&A transactions announced between 1997 &2002.	finds that on average wealth was not significantly affected by M&A.
3	R Srivassan et al,	2009	gave the views on financial implications and problems occurring in M&A highlighted the case for consolidation and discussed the synergy based merger	Emphasised that merger is for making large size of firm but no guarantee to maximise profitability on a sustained business and there is always a risk of improving performance after merger.
4	Anand Manoj &	2008	Studied the impact of	The announcement of merger

	Singh Jagandeep		merger announcements of five banks in Indian banking system on the shareholder's wealth.	of banks had positive and significant effect on the shareholder's wealth.
5	Altunba et al	2008	Examined the impact of European Union Bank's strategic similarities on post-merger performance.	The study found that on average, bank mergers have resulted in improved performance. The study also found that for domestic deals, it can be quite costly to integrate institutions which are dissimilar in terms of their loans, earning costs, deposits and size.
6	Cornett et al	2006	examined the operating performance around commercial bank mergers	Found that industry adjusted operating performance of merged banks increases significantly after the merger. Large bank merger produce greater performance gains than small bank mergers.
7	Ismail & Davidson	2005	Studied merger in European banking and its effect on shareholder's value.	The study found that abnormal returns are higher in bank to bank rather than cross product deals, suggesting that there is scope for exploiting economies of scale and market power within the banking sector.
8	Lakshminarayan	2003	his article highlight the	According to him It is time that

P.		importance of consolidation in Indian banking	the Indian banks should think in terms of expanding globally by proper restructuring exercise at the earliest.
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5. Research Methodology:

This work has been collected from the acquisitions and consolidations/mergers in our country's banking sector. Financial and accounting data were collected from the website Money control in addition to the yearly financial reports of banks. Eight parameters, such as OPM, NPM, ROA, ROE, and Cost on income ratio, EPS, ROCE, and CASA ratio were selected to assess the bank's performance before and after the merger. Data was collected for five years before the merger and for five years after the merger. Paired t-test was utilized to examine the financial position of the concerned institute before and after the consolidation. Paired/Dependent sample t-test is a statistical method used to decide if the mean change between two sets of observations is zero. This test is a powerful tool to check the change in observations before and after the consolidation. SPSS Statistics was used to perform the paired t-test (significance level, $\alpha = 0.05$). This methodology is quite similar to the previous works. However, the set of parameters chosen is what makes this work unique.

- **Objectives of the study**
 1. **To observe and analysed financial parameters for the study**
 2. **To provide valuable suggestions regarding the research**

- **Hypothesis for the study**

H0 (Null Hypothesis): There is no major discernible change in the financial parameter before and after the bank's consolidation.

H1 (Alternative Hypothesis): There is a major discernible change in the financial parameter before and after the bank's consolidation.

6. Sample designing: here, researcher has selected systematic sampling as there was merger with Allahabad bank.

7. Data collection: researcher have collected data from various sources as from online digital data as well as data from the annual reports, RBI data etc. in which researcher has used following different parameters: Operating Profit Ratio, Net Profit Ratio, return on Assets, Return on Equity Cost on income Ratio, Earnings per share, ROCE (%) Ratio, CASA Ratio

6. Results and Analysis:

Table 1: Financial performance of Indian Bank for five years pre and post-merger

Parameters	Pre-merger Years					Post-merger Years				
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Operating Profit Ratio	-2.26	-6.61	-5.04	-6.74	-8.18	-11.99	-9.01	-8.84	-5.49	-0.81
Net Profit Ratio	6.39	4.39	8.8	7.37	1.67	3.54	7.71	10.21	11.84	14.6
Return on Assets	0.54	0.36	0.66	0.51	0.13	0.27	0.5	0.61	0.78	1.05
Return on Equity	8.22	5.48	9.86	8.14	2.28	4.35	9.34	10.63	12.83	15.51
Cost on income Ratio	27.99	30.62	32.62	37.97	40.74	41.13	48.57	47.03	45.32	46.88
Earnings per share	22.55	15.64	30.25	27.29	7.91	16.38	27.88	33.99	44.74	66.03
ROCE (%) Ratio	1.61	1.53	1.88	2.02	1.78	2.13	1.89	1.94	2.21	2.19
CASA Ratio	28.77	31.27	37.08	36.95	34.71	34.65	42.3	41.76	41.98	40.77

Table2: Outcome of Indian bank

Parameters	Merger	Mean	t- value	p- value
Operating profit margin	Pre	-5.766	0.51679	0.632562
	Post	-7.228		
Net profit margin	Pre	5.724	-1.48995	0.210484
	Post	9.58		
Return on assets	Pre	0.44	-1.00357	0.37237
	Post	0.642		
Return on equity	Pre	6.796	-1.33043	0.254158
	Post	10.532		
Cost on income ratio	Pre	33.988	-5.32251	0.005995
	Post	45.786		
Earnings per share	Pre	20.728	-1.55033	0.195999
	Post	37.804		
ROCE (%) ratio	Pre	1.764	-3.77014	0.019602
	Post	2.072		
CASA Ratio	Pre	33.756	-5.67109	0.004769
	Post	40.292		

Table 2 shows the outcome of the paired t-test that was utilized to assess the bank's performance. Operating profit margin means decreased from -5.766 to -7.228 The change was not significant, as shown by a t-value of 0.51679, P Value of 0.632562 Hence null hypothesis H₀ was not rejected. PA increased from 5.724 to 9.58, t value of -1.48995 and p- value of 0.210484. ROA plummeted to 0.44 from 0.642, but the change was not significant. As indicated by a t-value of -1.00357 and P value 0.37237, null hypothesis H₀ was rejected. Return on equity also increased, as shown by mean 6.796 to 10.532 a t-value of -1.33043 and a p- value of 0.254158. Cost on income ratio also increased from 33.988 to 45.786 as indicated by a t-value of -5.32251 and a p- value of 0.005995. Similarly, EPS increased from 20.728 to 37.804, shown by the t-value of -1.55033 and p- value of 0.195999. ROCE also increased from 1.764 to 2.072, t value of -3.77014 and p-value of 0.019602. CASA ratio increased from 33.756 to 40.292, t value of -5.67109 and p-value of 0.004769.

Conclusion: As a result, null hypothesis fails to reject so, researcher can conclude that there is major discernible change in the financial parameter before and after the bank's consolidation. So, it is to be said that by performing merger there would be change in the parameters there would be vast impact on the banking structure and on economy. It may be positive and may not be.

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