

**A STUDY ON IMPACTS OF MERGERS AND ACQUISITIONS OF PUBLIC  
SECTOR BANKS TOWARDS STRONGER / ANCHOR BANKS, A  
SPECIAL REFERENCE WITH INDIAN BANKS EMPLOYEES IN  
KALLAKURICHI**

Submitted in partial fulfillment of the requirements for the award of

**Master of Business Administration**

By

**Benazir Banu T  
39410032**



**SCHOOL OF BUSINESS ADMINISTRATION**

**SATHYABAMA**

**INSTITUTE OF SCIENCE AND TECHNOLOGY**

**(DEEMED TO BE UNIVERSITY)**

**Accredited with Grade “A” by NAAC | 12B Status by UGC | Approved by AICTE**

**Jeppiaar Nagar, RAJIV GANDHI SALAI, CHENNAI - 600 119**

**April-2021**



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**BONAFIDE CERTIFICATE**

This is to certify that this Project Report is the bonafide work of T. BENAZIR BANU (39410032) who carried out the project entitled “**A STUDY ON IMPACTS OF MERGERS AND ACQUISITIONS OF PUBLIC SECTOR BANKS TOWARDS STRONGER / ANCHOR BANKS WITH SPECIAL REFERENCE OF INDIAN BANKS EMPLOYEES IN KALLAKURICHI**” under our supervision from January 2020 to March 2020.

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**Submitted for Viva voce Examination held on \_\_\_\_\_.**

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## **DECLARATION**

**I BENAZIR BANU.T (39410032) hereby declare that the Project Report entitled. “A STUDY ON IMPACTS OF MERGERS AND ACQUISITIONS OF PUBLIC SECTOR BANKS TOWARDS STRONGER / ANCHOR BANKS WITH SPECIAL REFERENCE OF INDIAN BANKS EMPLOYEES IN KALLAKURICHI “done by me under the guidance of Dr. A. Palani, M.Com., M. Phil, M.B.A., Ph.D., Head of the Department, Dept. of Management Studies (Internal) and Mr. Ramji Kumar, Branch Manager in INDIAN BANK, Sulankurichi branch, Kallakurichi (External) is submitted in partial fulfillment of the requirements for the award of Master of Business Administration degree.**

**DATE:15.03.2021**

**PLACE: KALLAKURICHI**

**BENAZIR BANU.T**

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## TABLES OF CONTENTS

| CHAPTER  | TITLE                                            | PAGE NO      |
|----------|--------------------------------------------------|--------------|
|          | <b>Abstract</b>                                  | <b>vii</b>   |
|          | <b>List of Tables</b>                            | <b>viii</b>  |
|          | <b>List of charts</b>                            | <b>lx</b>    |
|          | <b>Abbreviation</b>                              | <b>x</b>     |
| <b>1</b> | <b>INTRODUCTION</b>                              | <b>1-63</b>  |
|          | 1.1 Introduction about the study                 | <b>2-3</b>   |
|          | 1.2 Overview of Indian banking sector            | <b>4-7</b>   |
|          | 1.3 Recent developments in Indian banking sector | <b>8-12</b>  |
|          | 1.4 Structure of banks                           | <b>13-15</b> |
|          | 1.5 Overview of public sector banks              | <b>16-17</b> |
|          | 1.6 All about Merger and Acquisitions            | <b>18-34</b> |
|          | 1.7 Mega merger                                  | <b>35-50</b> |
|          | 1.8 Short view of current list of PSB            | <b>51-58</b> |
|          | 1.9 Industry profile                             | <b>59-60</b> |
|          | 1.10 Company profile                             | <b>61-63</b> |
| <b>2</b> | <b>LITERATURE SURVEY</b>                         | <b>65-73</b> |
|          | 2.1 Review of literature                         | <b>66-73</b> |
|          | <b>RESEARCH METHODOLOGY</b>                      | <b>74-82</b> |
|          | 3.1 Need for study                               | <b>75</b>    |

|          |      |                                        |                |
|----------|------|----------------------------------------|----------------|
| <b>3</b> | 3.2  | scope & significance of study          | <b>76</b>      |
|          | 3.3  | objectives of the study                | <b>77</b>      |
|          | 3.4  | research design                        | <b>78</b>      |
|          | 3.5  | source of data                         | <b>78-79</b>   |
|          | 3.6  | methods of data collection             | <b>79</b>      |
|          | 3.7  | sample size                            | <b>79</b>      |
|          | 3.9  | period of study                        | <b>79</b>      |
|          | 3.10 | structure of questionnaire             | <b>79-80</b>   |
|          | 3.11 | scheme of analysis                     | <b>80-82</b>   |
|          |      | <b>DATA ANALYSIS AND INTEPRETATION</b> | <b>83-105</b>  |
| <b>4</b> | 4.1  | Percentage analysis                    | <b>84-99</b>   |
|          | 4.2  | Chi square independence test           | <b>100-103</b> |
|          | 4.3  | Findings                               | <b>104-105</b> |
|          |      | <b>CONCLUSIONS</b>                     | <b>106-109</b> |
|          |      |                                        |                |
| <b>5</b> | 5.1  | Suggestions                            | <b>107</b>     |
|          | 5.2  | Conclusion                             | <b>107-109</b> |
|          |      | <b>REFERENCES</b>                      | <b>110-111</b> |
|          |      | <b>APPENDIX 1– (QUESTIONNAIRE)</b>     | <b>112-115</b> |
|          |      | <b>APPENDIX 2- (ARTICLE)</b>           | <b>116-125</b> |

**ABSTRACT:**

Today, it is true that a lot of dramatic events like mergers, acquisitions, takeovers, demerger etc. occupy the news daily. Mergers and Acquisitions is one of the major aspects of corporate finance world. Mergers refer to the combination of 2 or more companies into one company. They allow enterprise to enterprise to grow, shrink and change the nature of the business. It can also lead to major issues on Bank's performance. This paper analyses some critical issues relating to merging of public sector banks. Descriptive research design was employed for the study. The main instrument used was a questionnaire to implore the opinions of employees of Indian bank and a sample size of 120 was used. Convenience sampling technique is used for this study to collect the sample. The analytical techniques were employed using statistical package for social sciences (SPSS). Frequency tables, pie charts and Chi-square test were used to discuss the responses to the questionnaire taking into consideration the objectives of the study. The findings indicated that strategies and policies in procedural, physical and socio-cultural contexts were very important factors in the post-merger and acquisition process of Indian bank. To predict the future of ongoing merger and acquisitions. In this research, we will study the likely impact of merger on the efficiency and profitability parameters of banks. We also analyze the prevailing issues relating on bank merging.

**KEY WORDS:** Mergers and Acquisitions, Takeovers, Public sector banks, impacts of merging, efficiency and profitability of post-merger.

## LIST OF TABLES:

| <b>TABLE NO</b> | <b>PARTICULARS</b>                                                                                              | <b>PAGE NO</b> |
|-----------------|-----------------------------------------------------------------------------------------------------------------|----------------|
| <b>4.1.1</b>    | Gender                                                                                                          | <b>84</b>      |
| <b>4.1.2</b>    | Age                                                                                                             | <b>85</b>      |
| <b>4.1.3</b>    | Education level                                                                                                 | <b>87</b>      |
| <b>4.1.4</b>    | Did you worked in the organization during the time of M&A?                                                      | <b>88</b>      |
| <b>4.1.5</b>    | After post-merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.          | <b>90</b>      |
| <b>4.1.6</b>    | Is there any disruption happened among both bank customer after post-merger?                                    | <b>91</b>      |
| <b>4.1.7</b>    | M&A leads to tax gain                                                                                           | <b>92</b>      |
| <b>4.1.8</b>    | M&A helps in greater financial leverage                                                                         | <b>94</b>      |
| <b>4.1.9</b>    | After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities             | <b>95</b>      |
| <b>4.1.10</b>   | After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill | <b>97</b>      |
| <b>4.1.11</b>   | After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill | <b>98</b>      |

**LIST OF CHARTS:**

| <b>CHART NO</b> | <b>PARTICULARS</b>                                                                                              | <b>PAGE NO</b> |
|-----------------|-----------------------------------------------------------------------------------------------------------------|----------------|
| <b>4.1.1</b>    | Gender                                                                                                          | <b>85</b>      |
| <b>4.1.2</b>    | Age                                                                                                             | <b>86</b>      |
| <b>4.1.3</b>    | Education level                                                                                                 | <b>87</b>      |
| <b>4.1.4</b>    | Did you worked in the organization during the time of M&A?                                                      | <b>89</b>      |
| <b>4.1.5</b>    | After post-merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.          | <b>91</b>      |
| <b>4.1.6</b>    | Is there any disruption happened among both bank customer after post-merger?                                    | <b>92</b>      |
| <b>4.1.7</b>    | M&A leads to tax gain                                                                                           | <b>93</b>      |
| <b>4.1.8</b>    | M&A helps in greater financial leverage                                                                         | <b>94</b>      |
| <b>4.1.9</b>    | After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities             | <b>96</b>      |
| <b>4.1.10</b>   | After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill | <b>98</b>      |
| <b>4.1.11</b>   | After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill | <b>99</b>      |

## **LIST OF ABBREVIATION:**

- PSB: Public sector banks
- FY2020: Financial year of 2020
- GDP: Gross domestic product
- UPI Payments: Unified payment interface
- YOY: Year over year
- GST: Goods and service tax
- PSA: Public securities association
- RRB: Regional rural bank
- BCCI: Bank of credit and commerce international
- JPC: Joint parliamentary committee
- NPA: Non performing asset
- FRA: Forward rate agreement

# **CHAPTER – I**

## **INTRODUCTION**

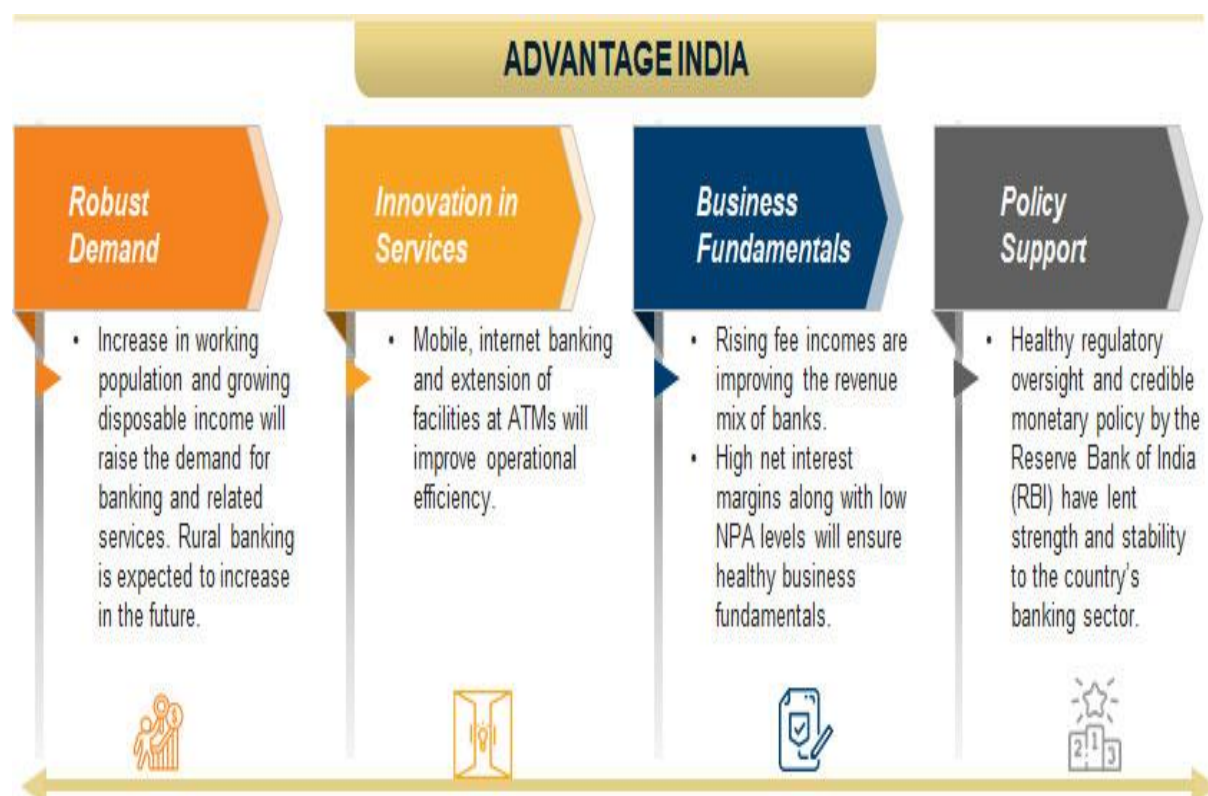
## **1.1 INTRODUCTION:**

The banking industry is one of the prominent indicators of the health of an economy. A bank's ability and freedom to borrow from other banks and lend to corporates has a great impact on the growth rate of the economy. Deregulation of US banks in the 1970s was followed by a drastic change in US banking – banks became larger and better diversified. Soon banks of other developed nations also began to operate in more competitive markets. Developing countries also followed suit in the last decade of the 20th century. Similar to the US, the Indian banking industry too has undergone several changes since the initiation of financial sector reforms in 1992. Deposits and credit have grown at a fast pace driven by the booming economy, increasing disposable income and increased corporate activity; credit penetration has increased significantly though it remains way below the numbers in developed markets; and foreign banks have set the trend in product and service innovation.

Growth is the norm in the present times of cut throat competition. A firm can achieve growth either internally by expanding its operations, establishing new units or externally through mergers and acquisitions (M&As), takeover, amalgamations, joint venture etc. With the level of competition getting intense day by day, Mergers and Acquisitions have emerged as the most preferred long-term strategy of corporate restructuring and strengthening in the present globalised world. The main rationale behind the Mergers and Acquisitions is to create synergy that is one plus one is more than two.

Banking sector plays a crucial role in the economic growth and development of a nation. Globalisation, deregulation of economies coupled with technological development has changed the banking landscape dramatically. With the fast-changing environment, the banking sector is resorting to the process of consolidation, corporate restructuring and strengthening to remain efficient and viable. For this, Mergers and Acquisitions have become the preferred strategy for growth in the size of banks which in turn play a significant role in entering the global financial market. Besides Mergers and Acquisitions are widely used for achieving higher market share, overall productivity and profitability, expanding branch networks, strengthen their capital base, cost rationalisation, economies of scale and manpower efficiency.

From the Public sector dominated scenario, Indian Banking has come a long way to the current scenario where private banks co-exist with their public bank counterparts who have adjusted to the changing times. While the Indian Banking system has done fairly well in adjusting to the changing market dynamics, greater challenges lie ahead. Consolidation in the Banking sector is very important in terms of mergers and acquisitions for the growing Indian Banking Industry. This can be achieved through Cost Reduction and Increasing Revenue. The important part over here is that why do we need consolidation in Indian Banking and what is the Challenges Ahead. The role of the Central government is also very necessary to be analysed in the entire process as they play a crucial role in the policy formation required for the growth of Indian Banking.



## **1.2 OVERVIEW OF INDIAN BANKING INDUSTRY:**

### **Introduction:**

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPPI).

### **Market Size:**

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As of September 2020, the total number of ATMs in India increased to 210,049 and is further expected to increase to 407,000 by 2021. Asset of public sector banks stood at Rs. 107.83 lakh crore (US\$ 1.52 trillion) in FY20.

During FY16-FY20, bank credit grew at a CAGR of 3.57%. As of FY20, total credit extended surged to US\$ 1,698.97 billion. During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US\$ 1.93 trillion by FY20. Credit to non-food industries stood at Rs. 103.46 trillion (US\$ 1.40 trillion) as of November 20, 2020.

India's GDP (at constant 2011-12 prices) was estimated at Rs. 33.14 trillion (US\$ 452.74 billion) for the second quarter of FY2020-21, against Rs. 35.84 trillion (US\$ 489.62 billion) in the second quarter of FY2019-20.

India is the fourth-largest unicorn base in the world with over 21 unicorns collectively valued at US\$ 73.2 billion, as per the Hurun Global Unicorn List. By 2025, India is expected to have ~100 unicorns by 2025 and will create ~1.1 million direct jobs according to the Nasscom - Zinnov report 'Indian Tech Start-up'. India needs to increase its rate of employment growth and create 90 million non-farm jobs between 2023 and 2030's, for productivity and economic growth according to McKinsey Global Institute. Net employment rate needs to grow by 1.5% per year from 2023 to 2030 to achieve 8-8.5% GDP growth between 2023 and 2030. India's foreign exchange reserves stood at US\$ 581.131 billion in the week up to December 18, 2020 according to data from RBI.

### **Investments/Developments:**

Key investments and developments in India's banking industry include:

- On November 6, 2020, WhatsApp started UPI payments service in India on receiving the National Payments Corporation of India (NPCI) approval to 'Go Live' on UPI in a graded manner.
- In October 2020, HDFC Bank and Apollo Hospitals partnered to launch the 'Healthy Life Programme', a holistic healthcare solution that makes healthy living accessible and affordable on Apollo's digital platform.
- In 2019, banking and financial services witnessed 32 M&A (merger and acquisition) activities worth US\$ 1.72 billion.
- In March 2020, State Bank of India (SBI), India's largest lender, raised US\$ 100 million in green bonds through private placement.

- In February 2020, the Cabinet Committee on Economic Affairs gave its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20 - till 2020-21 to those RRBs which are unable to maintain minimum Capital to Risk weighted Assets Ratio (CRAR) of 9% as per the regulatory norms prescribed by RBI.
- In October 2019, Department of Post launched the mobile banking facility for all post office savings account holders of CBS (core banking solutions) post office.
- Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) stood at Rs. 1.06 lakh crore (US\$ 15.17 billion).
- In October 2019, Government e-Marketplace (GEM) signed a memorandum of understanding (MoU) with Union Bank of India to facilitate a cashless, paperless and transparent payment system for an array of services.
- In August 2019, the Government announced major mergers of public sector banks, which included United Bank of India and Oriental Bank of Commerce to be merged with Punjab National Bank, Allahabad Bank to be amalgamated with Indian Bank and Andhra Bank and Corporation Bank to be consolidated with Union Bank of India.
- The NPAs (Non-Performing Assets) of commercial banks recorded a recovery of Rs. 400,000 crore (US\$ 57.23 billion) in the last four years including record recovery of Rs. 156,746 crore (US\$ 22.42 billion) in FY19.

- Allahabad Bank's board approved the merger with Indian bank for the consolidation of 10 state-run banks into the large-scale lenders.
- The total equity funding of microfinance sector grew at 42 y-o-y to Rs. 14,206 crore (US\$ 2.03 billion) in 2018-19.

### **Government Initiatives:**

- As per Union Budget 2019-20, the Government proposed fully automated GST refund module and an electronic invoice system that will eliminate the need for a separate e-way bill.
- Under the Budget 2019-20, Government proposed Rs. 70,000 crore (US\$ 10.2 billion) to the public sector banks.
- Government smoothly carried out consolidation, reducing the number of Public Sector Banks by eight.
- As of September 2018, the Government of India made Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme an open-ended scheme and added more incentives.
- The Government of India planned to inject Rs. 42,000 crore (US\$ 5.99 billion) in public sector banks by March.

### **Achievements:**

Following are the achievements of the Government:

- In November 2020, Unified Payments Interface (UPI) recorded 2.21 billion transactions worth Rs. 3.90 lakh crore (US\$ 53.06 billion).
- According to the RBI, India's foreign exchange reserve reached US\$ 574.82 billion as of November 27, 2020.
- To improve infrastructure in villages, 204,000 point of sale (POS) terminals have been sanctioned from the Financial Inclusion Fund by National Bank for Agriculture & Rural Development (NABARD).

### **1.3 RECENT DEVELOPMENTS IN BANKING SECTOR:**

With an improvement in the economic scenario, there have been investments across various sectors of the economy. In 2020, the total deal value in India stood at ~US\$ 80 billion across 1,268 transactions. Of this, M&A activity contributed ~50% to the total transaction value. Private Equity–Venture Capital (PE-VC) companies expanded from US\$ 36.3 billion (1,012 deals) in 2019 to US\$ 39.2 billion (across 814 deals) in 2020. Some of the important recent developments in Indian economy are as follows:

- India's overall exports from April 2020 to November 2020 were estimated at US\$ 304.25 billion, (a 14.03% decrease over the same period last year). Overall imports from April 2020 to November 2020 were estimated at US\$ 290.66 billion, (a 29.96% decrease over the same period last year).
- According to IHS Markit, Purchasing Managers' Index (PMI) for manufacturing stood at 56.4 in December 2020, against 56.3 in November 2020, indicating a higher growth for manufacturers speeding up production and boosting efforts to rebuild their inventories.
- Gross tax revenue stood at Rs. 7.21 trillion (US\$ 98.50 billion) in the first six months of FY21.
- FDI inflows in India stood at US\$ 39.93 billion between April 2020 and September 2020, 10% higher than the first six months of 2019-20 (US\$ 36.05 billion).
- India's Index of Industrial Production (IIP) for October 2020 stood at 128.5, against 123.2 for September 2020.
- Consumer Food Price Index (CFPI) – combined inflation was 9.43% in November 2020, against 11.07% in October 2020.
- Consumer Price Index (CPI) – combined inflation was 6.93% in November 2020, against 7.61% in October 2020.

#### **Government Initiatives:**

The first Union Budget of the third decade of 21st century was presented by Minister for Finance & Corporate Affairs, Ms Nirmala Sitharaman in the Parliament

on February 1, 2020. The budget aimed at energising the Indian economy through a combination of short-term, medium-term, and long-term measures.

In November 2020, the Government of India announced Rs. 2.65 lakh crore (US\$ 36 billion) stimulus package to generate job opportunities and provide liquidity support to various sectors such as tourism, aviation, construction and housing. Also, India's cabinet approved the production-linked incentives (PLI) scheme to provide ~Rs. 2 trillion (US\$ 27 billion) over five years to create jobs and boost production in the country.

Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India. Mr Narendra Modi, Prime Minister of India, launched Make in India initiative with an aim to boost country's manufacturing sector and increase purchasing power of an average Indian consumer, which would further drive demand and spur development, thus benefiting investors. The Government of India, under its Make in India initiative, is trying to boost the contribution made by the manufacturing sector with an aim to take it to 25% of the GDP from the current 17%. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy. Some of the recent initiatives and developments undertaken by the Government are listed below:

- On January 6, 2021, the Government of India and New Development Bank (NDB) signed two loan agreements for US\$ 646 million to upgrade the State Highway network and district road network in Andhra Pradesh.
- On January 5, 2021, the Citizen Assistance and Relief in Emergency Situations (PM CARES) Fund Trust of the Prime Minister allocated Rs. 201.58 crore (US\$ 27.56 million) to establish 162 additional dedicated pressure swing adsorption (PSA) medical oxygen generation plants within the country's public health facilities.

- On January 5, 2021, a US\$ 105 million project to develop the inland water transport system in Kolkata, West Bengal, was signed by the Government of India, Government of West Bengal and the World Bank.
- In December 2020, the Government of India and Asian Development Bank (ADB) signed a US\$ 231 million loan to boost electricity generation capacity in Assam through the establishment of a hydroelectric power plant of 120 megawatts (MW) that will strengthen household electricity availability.
- In December 2020, the Government of India and Asian Development Bank (ADB) signed a US\$ 100 million loan to modernise and upgrade the power distribution system to boost the quality and efficiency of electricity supply in Bengaluru, Karnataka.
- In December 2020, the Indian cabinet approved assistance of ~Rs. 3,500 crore (US\$ 478.60 million) for sugarcane farmers (Ganna Kisan).
- The Prime Minister of India, Shri. Narendra Modi announced various economic packages worth ~Rs. 30 trillion (US\$ 410 billion), which was ~15% of India's GDP.
- In December 2020, the Government of India and New Development Bank (NDB) signed a loan agreement to lend US\$ 1 billion via the Mahatma Gandhi National Rural Employment Guarantee Scheme to support the 'Aatmanirbhar Bharat' initiative.
- India is expected to attract investment of around US\$ 100 billion in developing the oil and gas infrastructure during 2019-23.
- The Government of India is going to increase public health spending to 2.5% of the GDP by 2025.
- For implementation of Agriculture Export Policy, Government approved an outlay Rs. 2.068 billion (US\$ 29.59 million) for 2019, aimed at doubling farmers income by 2022.

### **Road Ahead:**

India's GDP is expected to reach US\$ 5 trillion by FY25 and achieve upper-middle income status on the back of digitization, globalization, favorable demographics, and reforms. India is also focusing on renewable sources to generate

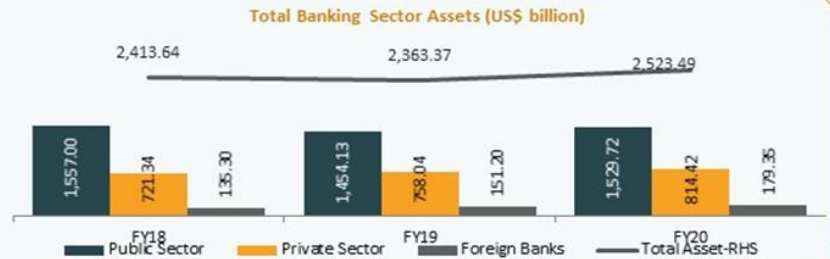
energy. It is planning to achieve 40% of its energy from non-fossil sources by 2030, which is currently 30%, and have plans to increase its renewable energy capacity from to 175 gigawatt (GW) by 2022.

India is expected to be the third largest consumer economy as its consumption may triple to US\$ 4 trillion by 2025, owing to shift in consumer behavior and expenditure pattern, according to a Boston Consulting Group (BCG) report. It is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by 2040 as per a report by PricewaterhouseCoopers.

# BANKING



## MARKET SIZE

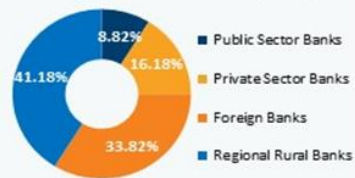


## SECTOR COMPOSITION

### Interest Income Growth (US\$ billion)



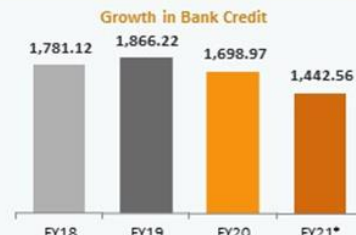
### Breakup of Banks in India (FY20)



Note: Figures given for the breakup are exclusive of 1,485 urban cooperative banks and 96,000 rural cooperative banks operational in India. \* till October 2020



## KEY TRENDS



Note: \* till December 18, 2020.



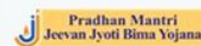
## GOVERNMENT INITIATIVES



Pradhan Mantri Jan Dhan Yojana



Atal Pension Plan



Pradhan Mantri Jeevan Jyoti Bima Yojana



## ADVANTAGE INDIA

- **Robust demand:** Increase in working population and growing disposable income will raise the demand for banking and related services. Rural banking is expected to increase in the future.
- **Innovation in Services:** Mobile, internet banking and extension of facilities at ATMs will improve operational efficiency.
- **Business Fundamentals:** Rising fee incomes are improving the revenue mix of banks. High net interest margins along with low NPA levels will ensure healthy business fundamentals.
- **Policy Support:** Healthy regulatory oversight and credible monetary policy by the Reserve Bank of India (RBI) have lent strength and stability to the country's banking sector.

## 1.4 STRUCTURE OF BANKS:

Reserve Bank of India is the central bank of the country and regulates the banking system of India. The structure of the banking system of India can be broadly divided into scheduled banks, non-scheduled banks and development banks. Banks that are included in the second schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled banks.

All scheduled banks enjoy the following facilities:

- Such a bank becomes eligible for debts/loans on bank rate from the RBI
- Such a bank automatically acquires the membership of a clearing house.

All banks which are not included in the second section of the Reserve Bank of India Act, 1934 are **Non-scheduled Banks**. They are not eligible to borrow from the RBI for normal banking purposes except for emergencies.

Scheduled banks are further divided into commercial and cooperative banks.

### COMMERCIAL BANKS:

The institutions that accept deposits from the general public and advance loans with the purpose of earning profits are known as **Commercial Banks**. Commercial banks can be broadly divided into public sector, private sector, foreign banks and RRBs.

- In **Public Sector Banks** the majority stake is held by the government. After the recent amalgamation of smaller banks with larger banks, there are 12 public sector banks in India as of now. An example of Public Sector Bank is State Bank of India.
- **Private Sector Banks** are banks where the major stakes in the equity are owned by private stakeholders or business houses. A few major private sector banks in India are HDFC Bank, Kotak Mahindra Bank, ICICI Bank etc.

- A **Foreign Bank** is a bank that has its headquarters outside the country but runs its offices as a private entity at any other location outside the country. Such banks are under an obligation to operate under the regulations provided by the central bank of the country as well as the rule prescribed by the parent organization located outside India. An example of Foreign Bank in India is Citi Bank.
- **Regional Rural Banks** were established under the Regional Rural Banks Ordinance, 1975 with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks. An example of RRB in India is Arunachal Pradesh Rural Bank.

#### **CO OPERATIVE BANKS:**

A **Cooperative Bank** is a financial entity that belongs to its members, who are also the owners as well as the customers of their bank. They provide their members with numerous banking and financial services. Cooperative banks are the primary supporters of agricultural activities, some small-scale industries and self-employed workers. An example of a Cooperative Bank in India is Mehsana Urban Co-operative Bank.

At the ground level, individuals come together to form a Credit Co-operative Society. The individuals in the society include an association of borrowers and non-borrowers residing in a particular locality and taking interest in the business affairs of one another. As membership is practically open to all inhabitants of a locality, people of different status are brought together into the common organization. All the societies in an area come together to form a Central Co-operative Banks.

Cooperative banks are further divided into two categories - urban and rural.

- Rural cooperative Banks are either short-term or long-term.

- Short-term cooperative banks can be subdivided into State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies.
- Long-term banks are either State Cooperative Agriculture and Rural Development Banks (SCARDBs) or Primary Cooperative Agriculture and Rural Development Banks (PCARDBs).
- Urban Co-operative Banks (UCBs) refer to primary cooperative banks located in urban and semi-urban area.

### **DEVELOPMENT BANKS:**

Financial institutions that provide long-term credit in order to support capital-intensive investments spread over a long period and yielding low rates of return with considerable social benefits are known as **Development Banks**. The major development banks in India are; Industrial Finance Corporation of India (IFCI Ltd), 1948, Industrial Development Bank of India' (IDBI) 1964, Export-Import Banks of India (EXIM) 1982, Small Industries Development Bank Of India (SIDBI) 1989, National Bank for Agriculture and Rural Development (NABARD) 1982.

The banking system of a country has the capability to heavily influence the development of a country's economy. It is also instrumental in the development of rural and suburban regions of a country as it provides capital for small businesses and helps them to grow their business. The organized financial system comprises Commercial Banks, Regional Rural Banks (RRBs), Urban Co-operative Banks (UCBs), Primary Agricultural Credit Societies (PACS) etc. caters to the financial service requirement of the people. The initiatives taken by the Reserve Bank and the Government of India in order to promote financial inclusion have considerably improved the access to the formal financial institutions. Thus, the banking system of a country is very significant not only for economic growth but also for promoting economic equality.

## 1.5 OVERVIEW OF PUBLIC SECTOR BANKS:

A Public Sector bank is one in which, the Government of India holds a majority stake. It is as good as the government running the bank. Since the public decide on who runs the government, these banks that are fully/partially owned by the government are called public sector banks. Public Sector bank means any Government Sector Bank/Institute that goes public... means that issues its share to general public. It also has a greater share of government (more than 50%) so that the main motto of social welfare other than Maximizing Profit remains. Whereas Private Sector Banks are those Banks where the management is controlled by Private individuals and Government does not have any say in the management of these banks. Maximizing profit is the basic motto.

The Banks play an important role in the economy of our country like any other country as most of the transactions take place through the banks. The **Reserve Bank of India** is India's central banking institution and the supreme monetary authority. There are 3 types of commercial banks, the Public/ Government bank, the Private sector bank and the foreign sector bank. It was not a surprise when the announcement of a series of mergers involving public sector banks by **Finance Minister Nirmala Sitharaman** was made on 30<sup>th</sup> August 2019.

### Government Banks in India 2021 (Public Sector Banks):

These banks in which the government stake is more than 50% and there is no difference between the **Nationalised Bank** and **Public Sector Bank**. Both have the same meaning.

The former list of Govt banks in India were

- Allahabad Bank
- Andhra Bank

- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank
- Central Bank of India
- Corporation Bank
- Dena Bank
- Indian Bank
- Indian Overseas Bank
- Oriental Bank of Commerce
- Punjab & Sind Bank
- Punjab National Bank
- Syndicate Bank
- UCO Bank
- Union Bank of India
- United Bank of India
- Vijaya Bank
- IDBI Bank(77.79% government stake)
- SBI+ and it's five associate Banks
- Bharatiya Mahila Bank

## **1.6 MERGER & ACQUISITIONS:**

Mergers & Acquisitions have become a common strategy to consolidate the business. The basic aim is to reduce cost, reap the benefits of economies of scale and, at the same time, expand market share. For many people, mergers simply mean sharing resources and costs to increase bottom lines. However, it is not as simple as it sounds. According to statistical reports, more than 64% of the time, the mergers fail to accomplish the promised results.

They suffer from a decline in the shareholders' wealth and conflicts in management. Therefore, the success of any merger initiative primarily depends upon the objective behind the need for a merger.

### **Merger:**

A merger is a fusion of two or more entities, and it is a process in which the identity of one or more entities is lost. It is the combination of one or more corporations and other business entities into a single business entity, the joining of two or more companies to achieve greater efficiencies of scale and productivity.

A merger takes place when; two or more organizations merge, and their operations are absorbed by a new organization.

A merger is a strategy through which two or more organizations agree to integrate their operations on a relatively co-equal basis because they have resources and capabilities that together may create a stronger competitive advantage.

In the business world, a merger is a combination of two or more companies. When combined, a new company is created. After having been merged, the companies lose their independent identities. The partnering-companies are dissolved. Their assets and liabilities are combined. New shares/stocks are issued for the new company created after the merger. Therefore, they can never operate a business with their previous names independently.

A merger can take place among organizations;

- within the same country or organizations across the national borders.
- organizations of different types; private company, a public company,

### **Acquisition:**

An acquisition occurs when one company purchases (or acquires) another company. It is a strategy through which one firm buys a controlling or 100 percent interest in another firm by making the acquired firm a subsidiary business within its portfolio.

The first company (acquirer), after purchasing the company, absorbs the operations of the second company (the acquired). The acquired company is merged with the first company. The acquired company's legal identity is lost. The acquirer company remains independent and operates its business as it is.

In many cases, it is very difficult to adopt a new venture strategy for diversification of business. Because it takes long years to develop knowledge resources, the scale of operation, and market reputation. To avoid the difficulties of implementing a new venture strategy, some companies diversify if business via the acquisition of an existing firm.

The 'to-be-acquired' firm may be either a reputed, well-established firm or a weak firm but has a high potential of profit if a company acquires an. Already established firm, it can move directly to build an upmarket position .The acquisition offers an effective way to hurdle such entry barriers as acquiring technological experience, establishing supplier relationships, becoming big enough to match rivals' efficiency and unit costs, having to spend large sums on introductory advertising and promotions to gain market visibility and brand recognition, and securing adequate distribution.

## **Business Acquisitions:**

There are two types of business acquisitions, friendly acquisition, and hostile acquisition. In a friendly acquisition, a company invites other companies to acquire its business. In a hostile acquisition, the company does not want to sell its business. However, the other company determined to acquire the business takes the aggressive route of buying the equity shares of the target company from its existing shareholders.

As the motive is to take over someone else's business, the acquiring company offers to buy the shares at a very high premium, that is, the gaining difference between the offer price and the market price of the share. This entices the shareholders, and they sell their stake to earn quick money. This way, the acquiring company gets the majority stake and takes over the ownership control of the target company.

Acquiring an existing business enables a company to speed up its expansion process because they do not have to start from the very scratch. The target company is already established and has all the processes in place. The acquiring company simply has to focus on merging the business with its own and move ahead with its growth strategies. However, in reality, it is not as simple as it seems. Most of the acquisitions fail miserably due to poor implementation attitudes and strategies.

The major reasons for acquisition are;

- increase market power,
- overcome entry barriers,
- reduce the cost of new product development,
- increase speedy access to market,
- reduce risk compared to developing new products,
- increase the diversification of businesses,
- providing improved capacity utilization,
- making better use of the existing sales force,
- gaining economies of scale, and
- avoid excessive competition.

## **TYPES OF MERGERS:**

Many types of mergers and acquisitions redefine the business world with new strategic alliances and improved corporate philosophies. From the business structure perspective, some of the most common and significant types of mergers are listed;

1. Horizontal Merger.
2. Vertical Merger.
3. Co-Generic Merger.
4. Conglomerate Merger.

These are explained below;

### **HORIZONTAL MERGER:**

This kind of merger exists between two companies that compete in the same industry segment. The two companies combine their operations and gain strength in terms of improved performance, increased capital, and enhanced profits.

This kind substantially reduces the number of competitors in the segment and gives a higher edge over the competition.

### **VERTICAL MERGER:**

A vertical merger is a kind in which two or more companies in the same industry but different fields combine in business. In this form, the companies in the merger decide to combine all the operations and productions under one shelter. It is like encompassing all the requirements and products of a single industry segment.

### **CO – GENERIC MERGER:**

Co-generic merger is a kind in which two or more companies in an association are some way or the other related to the production processes, business markets, or basic required technologies. It includes the extension of the product line or acquiring components that are all the way required in the daily operations. This kind

offers great opportunities to businesses as it opens a huge gateway to diversify around a common set of resources and strategic requirements.

### **CONGLOMERATE MERGER:**

Conglomerate merger is a kind of venture in which two or more companies belonging to different industrial sectors combine their operations. All the merged companies are no way related to their kind of business and product line; rather, their operations overlap that of each other. This is just a unification of businesses from different verticals under one flagship enterprise or firm.

Not all mergers and amalgamations are malignant, and in some cases, there may be a cost reduction in the production of goods and services, thus benefiting end consumers.

### **PROCESS OF MERGER AND ACQUISITIONS:**

The merger and acquisition process is the most challenging and most critical one when it comes to corporate restructuring. One wrong decision or one wrong move can unimaginably reverse the effects. It should certainly be followed in a way that a company can gain maximum benefits with the deal.

Following are some of the important steps in the M&A process:

#### **1. Business valuation**

A business valuation or assessment is the first process of merger and acquisition. This step includes examination and evaluation of both the present and future market value of the target company. Thorough research is done on the history of the company with regards to capital gains, organizational structure, market share, distribution channel, corporate culture, specific business strengths, and credibility in the market. Many other aspects should be considered to ensure if a proposed company is right or not for a successful merger.

## **2. Proposal phase:**

The proposal phase is a phase in which the company sends a proposal for a merger or an acquisition with complete details of the deal, including the strategies, amount, and commitments. Most of the time, this proposal is sent through a non-binding offer document.

## **3. Planning exit:**

When any company decides to sell its operations, it has to undergo the stage of exit planning. The company has to make firm decisions as to when and how to exit in an organized and profitable manner. In the process, the management has to evaluate all financial and other business issues like deciding on a full sale or partial sale along with evaluating various options of reinvestments.

## **4. Structuring business deal:**

After finalizing the merger and the exit plans, the new entity or the takeover company has to take initiatives for marketing and create innovative strategies to enhance business and its credibility. The entire phase emphasizes on the structuring of the business deal.

## **5. Stage of integration:**

This stage includes both the company coming together with their parameters. It includes the entire process of preparing the document, signing the agreement, and negotiating the deal. It also defines the parameters of the future relationship between the two.

## **6. Operating venture:**

After signing the agreement and entering into the venture, it is equally important to operate the venture. This operation is attributed to meet the said and pre-defined expectations of all the companies involved in the process. A transaction after the deal includes all the essential measures and activities that work to fulfill the requirements and desires of the companies involved.

## **STRATEGIES OF M&A:**

Strategies play an integral role when it comes to mergers and acquisitions. A sound strategic decision and procedure are very important to ensure success and fulfilling expected desires. Every company has different cultures and follows different strategies to define their merger.

Some take the experience from the past associations, some take lessons from the associations of their known businesses, and some hear their voice and move ahead without wise evaluation and examination.

Following are some of the essential strategies of merger and acquisition that can work wonders in the process:

- The first and foremost thing is to determine business plan drivers. It is very important to convert business strategies to a set of drivers or a source of motivation to help the merger succeed in all possible ways.
- There should be a strong understanding of the intended business market, market share, and the technological requirements and geographic location of the business.
- The company should also understand and evaluate all the risks involved and the relative impact on the business.
- Then there is an important need to assess the market by deciding the growth factors through future market opportunities, recent trends, and customer feedback.
- The integration process should be taken in line with the consent of the management from both the companies venturing into the merger.
- Restructuring plans and future parameters should be decided with the exchange of information and knowledge from both ends. This involves considering the work culture, employee selection, and the working environment as well.
- In the end, ensure that all those involved in the merger, including management of the merger companies, stakeholders, board members, and investors, agree

on the defined strategies. Once approved, the merger can be taken forward to finalizing a deal.

## **BENEFITS OF MERGER AND ACQUISITIONS:**

Merger and acquisition have become the most prominent process in the corporate world. The key factor contributing to the explosion of this innovative form of restructuring is the massive number of advantages it offers to the business world.

Following are some of the known advantages of merger and acquisition:

1. The very first advantage of M&A is a synergy that offers a surplus power that enables enhanced performance and cost-efficiency. When two or more companies get together and are supported by each other, the resulting business is sure to gain tremendous profit in terms of financial gains and work performance.
2. Cost efficiency is another beneficial aspect of merger and acquisition. This is because any kind of merger improves the purchasing power as there is more negotiation with bulk orders. Apart from that, staff reduction also helps a great deal in cutting costs and increasing profit margins of the company, apart from this increase in the volume of production results in reduced cost of production per unit that eventually leads to raised economies of scale.
3. With a merger, it is easy to maintain a competitive edge because many issues and strategies can be well understood and acquired by combining the resources and talents of two or more companies.
4. A combination of two companies or two businesses certainly enhances and strengthens the business network by improving market reach. This offers new sales opportunities and new areas to explore the possibility of their business.
5. With all these benefits, a merger and acquisition deal increases the market power of the company, which in turn limits the severity of the tough market competition. This enables the merged firm to take advantage of hi-tech technological advancement against obsolescence and price wars.

## **PROBLEMS OF MERGERS AND ACQUISITIONS:**

It's a well-known fact that a good number of mergers fail because of various factors, including cultural differences and flawed intentions. Most companies / organisations, when sign an agreement, often get a create a bigger picture of their expectations as they believe in a pure concept of higher capital gains when two are combining.

This belief is not always true as conditions in the market and economy often rule the operation and functioning of any company. The history of merger and acquisitions have revealed that almost two-thirds of the mergers taking place experience failure and feel disappointed on their terms and pre-defined parameters.

At times even the motivation driving the mergers can prove to be intangible. Many factors are contributing to the failure and elements that are problems of mergers and acquisitions. Many aspects should be understood and analysed before signing an agreement because even one small mistake in making a decision can completely dump both the companies with an irreversible impact.

Some of the prominent issues with regards to the failure of M&A are as follows:

1. A flawed intention in terms of unethical motivation or high expectations can eventually lead to failure of the merger. If any company desires high capital gain along with glory and fame irrespective of the corporate strategy defined to fulfill the requirements of the company, the merger fails.
2. Any kind of agreement based completely on the optimistic stock market condition can also lead to failure as the stock market is an uncertain entity. In such cases, more risks are involved with the prevailing merger.
3. Cultural difference is also a big problem in the case of a merger.
4. When two companies from different corporate cultures come together, it becomes a challenging task to integrate the cultures of both companies.
5. It is certainly difficult to maintain the difference and move ahead for success without any kind of integration.

## **DIFFERENCE BETWEEN MERGER AND ACQUISITIONS:**

1. Merger and acquisition are often known to be a single terminology defined as a process of combining two or more companies. The fact remains that the so-called single terminologies are different terms used under different situations. Though there is a thin line difference between the two but the impact of the kind of completely different in both the cases.

2. The merger is considered to be a process when two or more companies come together to expand their business operations. In such a case, the deal gets finalized on friendly terms, and both the companies share equal profits in the newly created entity.

3. When one company takes over the other and rules all its business operations, it is known as acquisitions.

4. In this process of restructuring, one company overpowers the other company, and the decision is mainly taken during downturns in the economy or during declining profit margins.

5. Among the two, the one that is financially stronger and bigger in all ways establishes its power. The combined operations then run under the name of the powerful entity who also takes over the existing stocks of the other company.

6. Another difference is, in an acquisition, usually, two companies of different sizes come together to combat the challenges of the downturn, and in a merger, two companies of the same size combine to increase their strength and financial gains along with breaking the trade barriers.

7. A deal in case of acquisition is often done in an unfriendly manner, and it is more or less a forceful or a helpless association where the power company either swallows the operation or a company in loss is forced to sell its entity.

## **Bank Failures and Mergers during the Post Financial Sector Reform period:**

The phenomenon of M&A among Indian banks is not restricted to the post-reform period of the Indian banking. It is important to note that many mergers during the pre-reform period were instituted by the government in an effort to restructure ailing banking units. Market driven mergers, which are on a gradual rise, are , the outcomes of the post-reform period, driven by the changes in the competitive landscape of the Indian banking system which forced many of the incumbent banks to restructure themselves and boost their efficiency in an attempt to ensure long term profitability and survival.

### **Merger in banking sector: 1992–1994**

During 1991-92, 28 banks under liquidation were treated as dissolved and two banks were placed under liquidation. On 31st March 1992, 96 banks went under liquidation. On July 6, 1991, the RBI suspended all payments and other transactions of Bank of Credit and Commerce International (Overseas) Ltd. and the SBI was appointed as the provisional liquidator of BCCI. In February 1993, the Grand Court of Cayman Islands approved the terms and conditions for the sale of BCCI (O) Ltd., to the SBI. The SBI offered to purchase the business of Bombay branch BCCI (O) Ltd. for a consideration of Rs. 40 r. Following the agreement of promoters a wholly owned subsidiary of SBI viz. SBI Commercial and International Bank Ltd. (SBICI) was incorporated on October 1993, and it started its business from January 31, 1994. The Bank of Karad Ltd. also fell into financial crises due to the large scale irregularities by certain stock brokers. The crises affected the depositor's interest and the survival of the bank. Then RBI took over the matter and issued an interim order for liquidation of the bank on May 27, 1992. The scheme of amalgamation with Bank of India came into force on July 20, 1994.

## **Bank Mergers: 1995-2000**

A very important merger of the early 1990s was that of a nationalised bank viz. New Bank of India with Punjab National Bank. The New Bank of India had incurred losses during the last four proceeding years. With the introduction of prudential accounting standards and new NPA norms, the financial position of the New Bank of India further worsened. The cumulative losses International Journal of Academic Research in Business and Social Sciences December 2013, Vol. 3, No. 12 ISSN: 2222-6990 224 [www.hrmar.com/journals](http://www.hrmar.com/journals) and the erosion of deposits weakened the liquidity position of New Bank of India and threatened its existence. Thus for the interest of the depositors the RBI took a decision in September 1993 for merging the New Bank of India with PNB. In January 1996, the Kashinath Seth bank Ltd. was also merged with SBI. The Punjab Cooperative bank Ltd. and Doab Bank Ltd. were also merged with Oriental Bank of Commerce Ltd. on April 8, 1997. In June 1999, Bareilly Corporation Bank Ltd. merged with Bank of Baroda.

## **Bank Mergers: 2000-2005**

The year 2001 witnessed the merger of the 57 years old Tamil Nadu based private sector commercial bank "Bank of Madura Ltd." with a new generation private bank i.e. ICICI bank. The RBI approved the merger of Bank of Madura with ICICI Bank Ltd. with effect from March 10, 2001. As per the scheme of amalgamation, the swap ratio was fixed at two equity shares of ICICI Bank for every one equity share of Bank of Madura Ltd. On 26th April 2002, the RBI also accorded approval for merger of ICICI Ltd. with ICICI Bank. The Benares State Bank Ltd. was also merged with Bank of Baroda on July 19, 2002. The Nedungadi Bank which was incurring huge losses was also placed under moratorium for a period of 3 months from November 2, 2002 and the scheme of amalgamation of Nedungadi Bank Ltd. with Punjab National Bank came into effect on February 1, 2003. The Global Trust Bank (GTB), which was granted licence in 1994, began showing adverse growth in 2002. The RBI instructed the bank to adopt prudential norms for reducing its adverse futures. But the bank was not able to finalise the programme of capital expansion from domestic sources as advised by RBI. As the financial position of the bank was steadily deteriorating and its solvency

getting seriously affected, the RBI had placed the bank under moratorium on July 24, 2004, to protect the interests of the small depositors and that of the banking system. Of the various merger proposals, the one proposed by the Oriental Bank of Commerce was found acceptable by the RBI and was forwarded to the central government for approval. As per the notification of the government the GTB was merged with OBC on August 14, 2004. In 2005, a proposal of voluntary amalgamation was submitted by two new generation private sector banks viz. "Bank of Punjab" and Centurian Bank Ltd.". The scheme of amalgamation of these two banks was approved by the RBI in terms of Sec. 44A of the Banking Regulation Act , and the became effected from October 1, 2005. The Centurian Bank subsequently changed its name to Centurian Bank of Punjab Ltd.

### **Bank Mergers during the year 2006-2013**

On January 7, 2006, the Ganesh Bank of Kurundwad Ltd. was placed under moratorium for three months, as the net worth of the bank was turned negative and it failed to maintain the capital adequacy requirements for several years. This Bank was merged with Federal Bank Ltd. on September 2, 2006. The Capital to Risk Weighted Ratio of the United Western Bank Ltd (UWB) had turned negative and failed to maintain it and this bank was merged with Industrial Development Bank of India Ltd. on October 3, 2006. The year 2007, witnessed the merger of an old private sector bank "Bharat Overseas Bank Ltd." with a nationalised bank viz. Indian Overseas Bank. The bank with a network of 103 branches was taken over by India Overseas Bank in April 3, 2007. On May 23, 2008, Centurian Bank of International Journal of Academic Research in Business and Social Sciences December 2013, Punjab was merged with HDFC Bank. Centurian Bank of Punjab had around 400 branches out of about 180 locations supported by an employee base of over 7500 employees. The Bank of Rajasthan with asset size of Rs. 17300.06 cr. incurred the net loss after provision and taxes remained at Rs. 102.13 cr. for the year ending March 31, 2010. On August 13, 2010 Bank of Rajasthan was also merged with ICICI Bank.

## **Reports of various committees on Bank Mergers**

Since 1992 the RBI and the Government initiated several initiatives to strengthen the banking system. Several committees were also appointed by the government which gave several proposals for the same purpose.

### **Narasimham Committee I**

In its first report in 1991 the Narasimham committee recommended measures to restructure the Indian banking system. The committee recommended that the Number of public sector banks should be reduced through M&A. The committee made the following important recommendations.

- There should be 3 to 4 large banks of global character
- Eight to ten banks of national character in the country engaged in universal banking
- Some local Area banks whose area of operation is confined to some specific region.
- Some rural banks including the Regional Rural Banks whose main function would be to finance the credit requirements of agriculture and allied activities in rural areas. The committee recommended the merger of strong banks in public and private sector between themselves and in some cases even with development financial institutions and non- banking institutions.

### **Narasimham Committee II**

The second report of The Narasimham committee (April 1998) on banking sector on structural issues made many recommendations. Merger between banks and Domestic Financial Institutions and Non - Banking financial Institutions need to be based on the synergies and locational and business specific complementarities of the concerned institutions and must obviously make sound commercial sense. Merger of public sector banks must emanate from managements of the banks with the government as the common stakeholder playing a supportive

role. Such mergers however can be worthwhile if they lead to rationalisation of the work force and branch network, otherwise the merger of Public sector banks would tie down the management with operational issues and distract attention from the real issues. It would be necessary to evolve policies aimed at “right sizing and redeployment of surplus staff either by way of retaining them and giving them appropriate alternative employment or by introducing a Voluntary Retirement Scheme with appropriate incentives. This would necessitates the co-operation and understanding of the employees and towards this direction managements should initiate discussions with the representatives of staff and would need to convince their employees about intrinsic soundness of the idea, the competitive benefits that would accrue and the scope and potentials for International Journal of Academic Research in Business and Social Sciences December 2013, Vol. 3, No. 12 ISSN: 2222-6990 226 [www.hrmar.com/journals](http://www.hrmar.com/journals) employee’s own professional advancement in a bigger institution. Merger should not be seen as a means of bailing out weak banks. Merger between strong banks and financial institutions would make for greater economic and commercial sense and would be case where the whole is greater than the sum of its parts and have a Force Multiplier Effect. It can thus be seen from the recommendations of the Narasimham Committee that the merger of Public sector banks were expected to emanate from the managements of banks with the government as a common stakeholder playing in the supportive role.

### **Joint Parliamentary Committee on Bank Mergers in India**

While examining the issues relating to the above developments, the “Joint Parliamentary committee” (JPC) on stock market scams and matters relating thereto has made the following observations and recommendations in para 10.87 of the report on the role of the RBI regarding bank mergers Bank merger is a recent phenomenon in our country and before the merger, the sanction of RBI is required as stipulated in section 44A of the banking Regulation act 1949. And the role of RBI is limited. No merger is allowed unless the scheme of merger draft has been placed before the shareholders of the banking companies and approved by a resolution passed by the majority representing two-third value of the shareholders. As such RBI does not have any role to play regarding the SWAP ratio arrived at the end. In case of

any dissenting shareholder, RBI has to determine the value of the share price, which will be final. This practice is at variance from that of mergers in case of the companies. Where as per the Companies Act, the approval of the court is required before the amalgamation/merger between the two companies which also ensures fair price.

Making the above observations, the JPC has made the following recommendations on the role of RBI in bank mergers.

a) Laying down the guidelines to process a merger proposal in terms of the abilities of investment bankers.

b) The key parameters that form a basis for determining the SWAP ratios

c) Disclosures

d) The stage at which the board will get involved in order to have meaningful board level deliberations.

e) Norms for promoter buying or selling shares directly/indirectly, during, before and after discussion period etc.

Without this, many mergers will become a subject of public debate, which may not all the time necessarily be constructive.

### **Varma Committee report on Bank Mergers**

In February 1999, the RBI also appointed a “Working Group on Restructuring of Weak Public Sector Banks” under the chairmanship of Shri M.S. Varma, which was to identify weak public sector banks and to suggest scheme for the restructuring and strengthening of weak banks. For identifying weak banks the committee developed important parameters, which were essential for a financially strong bank. The group submitted its report in October 1999, and recommended the following seven parameters for identifying weak banks

- Capital Adequacy Ratio
- Coverage Ratio
- Return on Assets
- Net Interest Margin

- Ratio of operating profits to average working funds
- Ratio of cost to income
- Ratio of staff cost to net interest income plus all other incomes.

On the basis of the above parameters public sector banks were classified into three categories- i) the banks which meet all the above parameters ii) the banks which meet none of the parameters. iii) The banks in which some of the parameters were present. The Working Group made an exhaustive case by case examination of the financial strength and weakness of all Public sector banks and the Group also suggested a two-stage operation for restructuring of weak banks. The Group opined that the option for merger or privatisation will be relevant only after enhancing the operational efficiency of the banks. The committee recommended that the privatisation or merger of weak banks should be considered as the last option. During the first stage the operational, organisational, financial and systematic restructuring should be undertaken. The operational efficiency could be attained only by adopting modern technology, reducing costs of operations, reducing the level of NPAs, improving practices of corporate governance, change of legal system, adopting staff rationalisation measures, enhancing the efficiency and involvement of bank management etc. In its recommendations the Working Group estimated that in the next three years the overall cost of restructuring the weak banks will be Rs. 5500 cr. Of which Rs.3000 cr. will be the capital infusion, Rs. 1000 cr. Will be the NPA buyout, staff rationalisation measures will cost Rs. 1100 to 1200 cr. and the technology up gradation will cost Rs. 300 to Rs. 400 cr. The Group also recommended the constitution of Financial Restructuring Authority. For speeding up the recovery process in weak banks, the committee recommended the setting up of Debt Recovery Tribunals to take their cases on a priority basis. But in the budget of 2000-01 the then Finance Minister announced the constitution of a Financial Restructuring Authority for each weak bank instead of a single Authority for all weak banks. Under the proposed framework, the statutes governing public sector banks would be amended to provide for the suspension of board of directors on the basis of recommendations of RBI and constitution of a FRA comprising experts and professionals. The amendments would also enable the FRA to exercise special powers, including all powers of the Board of

the bank. The Government would also consider recapitalisation of the weak banks to achieve the prescribed Capital Adequacy Norms.

### **1.7 MEGA BANKS MERGER A STEP TOWARDS \$ 5 TRILLION ECONOMY:**

In the second wave of reforms, Finance Minister Nirmala Sitharaman announced mega merger of Public Sector Banks (PSBs) – Next Gen PSBs. It will enable them to harness their potential at its fullest in terms of increased lending and bigger risk appetite, with national presence and global reach.



Union Finance Minister Nirmala Sitharaman announces the merger of ten big public sector banks (PSBs) into four. The banks which are being merged are Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Indian Bank, Allahabad Bank, Canara Bank, Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank. India will now have 12 Public Sector Banks from 27 in 2017. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to accelerate the economic growth of India.

While addressing a press conference, FM Sitharaman mentioned that only six banks showcased profitability in the 4<sup>th</sup> Quarter of 2018-19.

However, in Quarter 1 of 2019, 14 PSBs showcased growth and profit. In order to boost the national presence of banks along with their global reach, the amalgamation of banks was necessitated. This is not the first time that the Government is merging the banks together. Earlier, under the Banks Consolidation plan itself, the Government had merged all the entities of State Bank of India into one and merged Bank of Baroda, Dena Bank and Vijaya Bank as one single entity. The merger of these banks is aimed at making India a USD 5 trillion economy.

## **HISTORY:**

Narasimhan Committee of 1991 recommended Structural Reorganizations of the Banking sector suggesting actual numbers of public sector banks need to be reduced. Narasimhan Committee in 1998 recommended for merger of strong banks which will have 'multiplier effect' on the industry. It had also suggested to three-tiered structure of banks – international, national and regional. Similarly, P J Nayak committee of 2014 had suggested for merger of the PSBs.

However, it was only in May 2016 that effective action to consolidate public sector banks began to be taken by Modi government. For example, amalgamation of six banks into the State bank of India. The merger was completed in record time, unlike earlier mergers of State Banks of Indore and Saurashtra.

## **STRONG FOUNDATIONS LAID BY FINANCIAL SECTOR REFORMS:**

Reforms is an ongoing endeavour. Strong foundations are laid through Financial Sector Reforms such as

- Doing away with 'phone banking' with no interference in commercial decisions.
- Earlier there was restructuring of stressed assets often without actual resolution. Now, resolution is through Insolvency and Bankruptcy Board of India (IBC) where connected party is debarred.
- Techno-economic valuation with valuation cells created in banks.

With such reforms, as Finance Minister informed, there is almost double recovery by banks from ₹ 61,930 cr (FY 17) to ₹ 1,21,076 cr (FY 19). With improved asset quality, Non-performing Assets (NPAs) are down by ₹ 1.06 lakh cr between March 2018 to March 2019. Profitability of PSBs has enhanced. Now, 14 PSBs are in profit in contrast to just two in FY 18. Moreover, Provision Coverage Ratio, provision made against bad loans from the profit generated, is highest in seven years (as on March 2019).

With these strong foundations, merger of the banks is the logical step towards larger structural reforms pending for almost two decades.

#### **Rationale behind merger of banks:**

Modi government has set the path of structural reforms to make Indian Economy to \$ 5 trillion by 2024 from \$ 2.6 trillion in 2017. Banks are prime lenders for MSMEs, industries etc to fuel growth. With credit to the Indian economy approximately 72% of GDP (\$ 1.9 trillion), it needs commensurate credit growth by banks. Thus, strong banks with scale, more lending capacity using cutting edge technology are imperative for \$5 trillion economy.

## **BENEFITS OF BANK MERGER:**

1. There are wide ranging benefits of the bank merger. Big banks can have strong national presence and global reach with thrust on NextGen technology for banking. Enhanced risk appetite of big banks fuels growth.

2. It also helps for wider offerings, enhanced customisation with operations rationalised. It allows for redeploying of admin staff for business, best of employees benefit without retrenchments. Operational efficiency gains to reduce cost of lending.

3. With unlocking of potential, bank merger poises banks for rapid growth, sets them for market raising apart from bringing them on high profit trajectory.

4. Such gains are visible from earlier amalgamation of Bank of Baroda, Vijaya Bank and Dena Bank. For example, merger of these three banks witnessed robust Current Account and Savings Account (CASA) growth of 6.9% along with strong retail loan growth of 20.5% between June 2018 to June 2019.

## **SALIENT FEATURES OF THE RECENT ANNOUNCEMENTS: SCALE AND SYNERGY**

- Banks are chosen based on core banking solution (CBS) they use, synergy and cultural affinity to enable quick realisation of gains; not on traditional geographical view for merger of banks. It will ensure no disruption in their activities, ensure greater reach and improved CASA.

| Anchor bank          | Amalgamating bank(s)                              | Business size*   | PSB rank by size | CBS     |
|----------------------|---------------------------------------------------|------------------|------------------|---------|
| Punjab National Bank | Oriental Bank of Commerce<br>United Bank of India | ₹ 17.94 lakh cr. | 2nd largest      | Finacle |
| Canara Bank          | Syndicate Bank                                    | ₹ 15.20 lakh cr. | 4th largest      | iFlex   |
| Union Bank of India  | Andhra Bank<br>Corporation Bank                   | ₹ 14.59 lakh cr. | 5th largest      | Finacle |
| Indian Bank          | Allahabad Bank                                    | ₹ 8.08 lakh cr.  | 7th largest      | BaNCS   |
|                      |                                                   |                  |                  |         |
| SBI                  | Amalgamated earlier                               | ₹ 52.05 lakh cr. |                  |         |
| Bank of Baroda       | Amalgamated earlier                               | ₹ 16.13 lakh cr. |                  |         |

- Number of PSBs will be reduced to 12 from 27 in 2017.
- It brings ₹55,250 cr. upfront capital for credit growth & regulatory compliance.
- Specialised risk officer from market to be appointed; more power will be given to boards with merger.

Thus, consolidated Next Gen PSBs with strong regional focus, better national presence and global reach amount to 82% of PSB business and 56% of commercial bank business. Modi government is trading the path towards ₹ 5 trillion economy through reforms, financial strength, technology, consolidation & strong governance.

#### **LIST OF PSB AFTER MERGER:**

Banks to be merged together are:

- Punjab National Bank, Oriental Bank of Commerce, United Bank of India will be merged as one

- Canara Bank & Syndicate Bank
- Union Bank of India, Andhra Bank and Corporation Bank
- Indian Bank & Allahabad Bank

The Government targets USD 5 trillion economy through these bank reforms and consolidation. The Government would infuse Rs 55,250 Crore of capital in these 10 big banks for their credit growth and regulatory compliance to boost the economy. Apart from these merged banks, two public sector banks will continue to work as an independent body to strengthen national presence. These banks are Bank of India and Central Bank of India. Four regional banks will also continue to work independently to strengthen the regional focus. These are: Indian Overseas Bank, UCO Bank, Bank of Maharashtra and Punjab & Sind Bank.

#### **Details of Amalgamation of 10 Banks into 4 NextGen PSBs:**

| <b>Head/Anchor Bank</b>                     | <b>Merged banks</b>                                                       | <b>Business Size (Rupees)</b> | <b>PSB Size</b>              |
|---------------------------------------------|---------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>Punjab National Bank</b>                 | Punjab National Bank<br>Oriental Bank of Commerce<br>United Bank of India | 17.94 Lakh crore              | 2 <sup>nd</sup> largest Bank |
| <b>Canara Bank</b>                          | Canara Bank<br>Syndicate Bank                                             | 15.20 Lakh crore              | 4 <sup>th</sup> largest Bank |
| <b>Union Bank of India</b>                  | Union Bank of India<br>Andhra Bank<br>Corporation Bank                    | 14.59 Lakh crore              | 5 <sup>th</sup> largest Bank |
| <b>Indian Bank</b>                          | Indian Bank<br>Allahabad Bank                                             | 8.08 Lakh crore               | 7 <sup>th</sup> largest Bank |
| <b>State Bank of India (Merged earlier)</b> |                                                                           | 52.65 Lakh crore              | 1 <sup>st</sup> largest bank |

|                                        |                  |                              |
|----------------------------------------|------------------|------------------------------|
| <b>Bank of Baroda (Merged earlier)</b> | 16.13 Lakh crore | 3 <sup>rd</sup> largest bank |
|----------------------------------------|------------------|------------------------------|

### **Banks that will continue to work individually:**

Apart from these 10 merged entities, six banks will continue to work individually. Have a look at the details of these banks:

| <b>Bank</b>           | <b>Business Size</b>                           |
|-----------------------|------------------------------------------------|
| Bank of India         | 9.03 Lakh crore (6 <sup>th</sup> Largest Bank) |
| Central Bank of India | 4.68 Lakh crore                                |
| Indian Overseas Bank  | 3.75 Lakh crore                                |
| UCO Bank              | 3.17 Lakh crore                                |
| Bank of Maharashtra   | 2.34 Lakh crore                                |
| Punjab & Sind Bank    | 1.71 Lakh crore                                |

### **Capital Infusion in the Public Sector Banks:**

Finance Minister Sitharaman also announced capital infusion in the public sector banks with an aim to scale them. The Government plans to infuse Rs 55,250 Crore of capital in the PSBs. Have a look at bank-wise capital infusion:

| <b>Bank</b>          | <b>Capital Infusion</b> |
|----------------------|-------------------------|
| Punjab National Bank | Rs 16,000 crore         |
| Union Bank of India  | Rs 11,700 crore         |
| Bank of Baroda       | Rs 7,000 crore          |

|                       |                |
|-----------------------|----------------|
| Indian Bank           | Rs 2,500 crore |
| Indian Overseas Bank  | Rs 3,800 crore |
| Central Bank of India | Rs 3,300 crore |
| UCO Bank              | Rs 2,100 crore |
| United Bank of India  | Rs 1,600 crore |
| Punjab and Sind Bank  | Rs 750 crore   |

### Figures of Amalgamated Banks

| PNB + Oriental Bank of Commerce + United Bank |           |          |                      |                  |
|-----------------------------------------------|-----------|----------|----------------------|------------------|
|                                               | PNB       | OBC      | United Bank of India | Amalgamated bank |
| <b>Total business</b> (in crore ₹)            | 11,82,224 | 4,04,194 | 2,08,106             | <b>17,94,526</b> |
| <b>Gross advances</b> (in crore ₹)            | 5,06,194  | 1,71,549 | 73,123               | <b>7,50,867</b>  |
| <b>Deposits</b> (in crore ₹)                  | 6,76,030  | 2,32,645 | 1,34,983             | <b>10,43,659</b> |
| <b>CASA ratio</b>                             | 42.16%    | 29.40%   | <b>51.45%</b>        | <b>40.52%</b>    |
| <b>Domestic branches</b>                      | 6,992     | 2,390    | 2,055                | <b>11,437</b>    |
| <b>PCR</b>                                    | 61.72%    | 56.53%   | 51.17%               | <b>59.59%</b>    |
| <b>CET-I ratio</b>                            | 6.21%     | 9.86%    | 10.14%               | <b>7.46%</b>     |
| <b>CRAR ratio</b>                             | 9.73%     | 12.73%   | 13.00%               | <b>10.77%</b>    |
| <b>Net NPA ratio</b>                          | 6.55%     | 5.93%    | 8.67%                | <b>6.61%</b>     |
| <b>Employees</b>                              | 65,116    | 21,729   | 13,804               | <b>1,00,649</b>  |
| March 2019 financials                         |           |          |                      |                  |

## Canara Bank + Syndicate Bank



|                                    | Canara Bank | Syndicate Bank | Amalgamated bank |
|------------------------------------|-------------|----------------|------------------|
| <b>Total business</b> (in crore ₹) | 10,43,249   | 4,77,046       | <b>15,20,295</b> |
| <b>Gross advances</b> (in crore ₹) | 4,44,216    | 2,17,149       | 6,61,365         |
| <b>Deposits</b> (in crore ₹)       | 5,99,033    | 2,59,897       | 8,58,930         |
| <b>CASA ratio</b>                  | 29.18%      | 32.58%         | 30.21%           |
| <b>Domestic branches</b>           | 6,310       | 4,032          | <b>10,342</b>    |
| <b>PCR</b>                         | 41.48%      | 48.83%         | 44.32%           |
| <b>CET-I ratio</b>                 | 8.31%       | 9.31%          | <b>8.62%</b>     |
| <b>CRAR ratio</b>                  | 11.90%      | 14.23%         | <b>12.63%</b>    |
| <b>Net NPA ratio</b>               | 5.37%       | 6.16%          | 5.62%            |
| <b>Employees</b>                   | 58,350      | 31,535         | 89,885           |

March 2019 financials

## Indian Bank + Allahabad Bank



|                                    | Indian Bank | Allahabad Bank | Amalgamated bank |
|------------------------------------|-------------|----------------|------------------|
| <b>Total business</b> (in crore ₹) | 4,29,972    | 3,77,887       | <b>8,07,859</b>  |
| <b>Gross advances</b> (in crore ₹) | 1,87,896    | 1,63,552       | 3,51,448         |
| <b>Deposits</b> (in crore ₹)       | 2,42,076    | 2,14,335       | 4,56,411         |
| <b>CASA ratio</b>                  | 34.71%      | <b>49.49%</b>  | <b>41.65%</b>    |
| <b>Domestic branches</b>           | 2,875       | 3,229          | 6,104            |
| <b>PCR</b>                         | 49.13%      | 74.15%         | 66.21%           |
| <b>CET-I ratio</b>                 | 10.96%      | 9.65%          | <b>10.36%</b>    |
| <b>CRAR ratio</b>                  | 13.21%      | 12.51%         | <b>12.89%</b>    |
| <b>Net NPA ratio</b>               | 3.75%       | 5.22%          | <b>4.39%</b>     |
| <b>Employees</b>                   | 19,604      | 23,210         | 42,814           |

March 2019 financials

| Union Bank + Andhra Bank + Corporation Bank    |            |             |                  |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-------------|------------------|------------------|
|                                                                                                                                                                                                                                                                                                         | Union Bank | Andhra Bank | Corporation Bank | Amalgamated bank |
| <b>Total business</b> (in crore ₹)                                                                                                                                                                                                                                                                      | 7,41,307   | 3,98,511    | 3,19,616         | <b>14,59,434</b> |
| <b>Gross advances</b> (in crore ₹)                                                                                                                                                                                                                                                                      | 3,25,392   | 1,78,690    | 1,35,048         | 6,39,130         |
| <b>Deposits</b> (in crore ₹)                                                                                                                                                                                                                                                                            | 4,15,915   | 2,19,821    | 1,84,568         | 8,20,304         |
| <b>CASA ratio</b>                                                                                                                                                                                                                                                                                       | 36.10%     | 31.39%      | 31.59%           | 33.82%           |
| <b>Domestic branches</b>                                                                                                                                                                                                                                                                                | 4,292      | 2,885       | 2,432            | <b>9,609</b>     |
| <b>PCR</b>                                                                                                                                                                                                                                                                                              | 58.27%     | 68.62%      | 66.60%           | 63.07%           |
| <b>CET-I ratio</b>                                                                                                                                                                                                                                                                                      | 8.02%      | 8.43%       | 10.39%           | <b>8.63%</b>     |
| <b>CRAR ratio</b>                                                                                                                                                                                                                                                                                       | 11.78%     | 13.69%      | 12.30%           | <b>12.39%</b>    |
| <b>Net NPA ratio</b>                                                                                                                                                                                                                                                                                    | 6.85%      | 5.73%       | 5.71%            | 6.30%            |
| <b>Employees</b>                                                                                                                                                                                                                                                                                        | 37,262     | 20,346      | 17,776           | 75,384           |
| March 2019 financials                                                                                                                                                                                                                                                                                   |            |             |                  |                  |

## Motive & Objective behind Merger of PSBs

The Finance Ministry opines that the merger of these 10 public sector banks (PSBs) will help India make a USD 5 Trillion Economy. The bank merger was done under the bank consolidation plan of the Union Government. Have a look at the government's objective behind the merger of these banks:

- Enhanced capacity to increase credit
- Banks with a strong national presence and international reach
- Reduction in lending cost
- Next Generation technology for the banking sector
- Improved ability to raise market resources

## List of Nationalised Banks in India 2020:

In the backdrop of banking sector reform in India and to stipulate the economic growth, the Finance Minister of India Nirmala Sitharaman announced the merger of ten banks into four and on 1st April 2020 this announcement has come into effect. After this massive amalgamation, the total number of Public Sector Banks (PSBs) in India has come down from 27 banks in 2017 to 12 in 2020. Currently India has 12 Public sector banks and RBI is the central authority that manages all the banking operations in India.

Public Sector Bank is the bank that is owned by the Government or is the major shareholder of more than 51% in the bank. Check the total nationalised banks in India, SBI (State Bank of India) became the first nationalised bank in India under the SBI Act of 1955.

RBI regulates the banking sector. The merger will help in increasing the productivity, efficiency and boosting the six-year low economy along with reducing the number of bad loans and NPA's. In the past year 10 Public Sector Banks were merged into 4 banks. As of now the country has 12 public Sector Ban

#### **PUNJAB NATIONAL BANK :**



PNB is the first Swadeshi Bank, which commenced its operations on April 12, 1895, from Lahore, and had authorized capital of Rs 2 lac and working capital of Rs 20,000. The Bank was established to help the Indians.

#### **Indian Bank**



Indian Bank was established on 15th August 1907 along with the Swadeshi movement. It has all India presence with 9786 touch points comprising 2872 domestic branches, 3892 ATMs/BNAs and 3022 BCs.

### **State Bank of India**



SBI is the largest commercial bank of the country and has a history of 200 years. SBI is the largest in terms of assets, deposits, profits, branches, customers and employees, etc. The Government of India has a stake of more than 50% in SBI.

### **Canara Bank**



Founded as 'Canara Bank Hindu Permanent Fund' in 1906, by late Shri Ammembal Subba Rao Pai, a philanthropist, this small seed blossomed into a limited company as 'Canara Bank Ltd.' in 1910 and became Canara Bank in 1969 after nationalization.

## Union Bank of India



The bank was established on 11th November 1919, the Bank now operates through over 4200+ branches across the country. The Bank's core values of prudent management without ignoring opportunities is reflected in the fact that the Bank has shown uninterrupted profit during all 96 years of its operations.

## Indian Overseas Bank



The bank was founded on 10th February 1937 by Shri. M.Ct.M. Chidambaram Chettyar, a pioneer in many fields. The Bank was founded by him with the main objective of specializing in foreign exchange business in banking to take the Bank across the globe.

## UCO Bank



Founded in 1943, UCO Bank is an advertisement bank and a Government of the Republic of India endeavor. Its Board of administrators consists of state representatives from the govt of India and depository financial institution of India moreover as eminent professionals like accountants, management consultants, economists, businessmen, etc.

### **Bank Of Maharashtra**



Maharashtra has been a progressive region additionally the} Banking activity was also started during this region quite early. traditionally speaking, the Bank of Mumbai established in 1840 was the primary depository financial institution in geographic area. However, the primary depository financial institution found out in geographic area outside metropolis was The Poona Bank established in 1889 at Pune followed by The Deccan Bank in 1890 and therefore the Mumbai financial organization in 1898.

### **Punjab and Sind Bank**



It was in the year 1908 when a humble idea to uplift the poorest of poor of the land culminated in the birth of Punjab & Sind Bank with the far-sighted vision of luminaries like BhaiJ Vir Singh, Sir Sunder Singh Majitha and Sardar Tarlochan Singh. The bank was founded on the principle of social commitment to help the weaker section of the society in their economic endeavors to raise their standard of life.

### **Bank of India**



Bank of India was based on seventh Sept, 1906 by a gaggle of eminent businessmen from Bombay. The Bank was beneath-public possession and management until July 1969 once it absolutely was nationalized at the side of thirteen different banks. starting with one workplace in Bombay, with a paid capital of Rs.50 hundred thousand and fifty workers, the Bank has created a rising over the years and blossomed into a mighty establishment with a robust national presence and sizable international operations.

### **Central Bank of India**



Established in 1911, the financial organization of India was the primary Indian bank that was the whole closely-held and managed by Indians. The institution of the Bank was the final word realization of the dream of Sir Sorabji Pochkhanawala, founding father of the Bank. Sir Pherozesha Mehta was the primary Chairman of a very 'Swadeshi Bank'.

### **Bank of Baroda**



Bank of Baroda is an Indian state-owned International banking and money services company headquartered in Vadodara (earlier referred to as Baroda) in Gujarat, India. The bank was supported by the Prince of Baroda, prince Sayajirao Gaekwad III on twenty Gregorian calendar month 1908.

## 1.8 SHORT VIEW OF CURRENT PSB:

| Bank Name            | Revenues        | Established | Headquarters        | Information                                                                                                                              |
|----------------------|-----------------|-------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| State Bank of India  | ₹ 2,110 billion | 1955        | Mumbai, Maharashtra | Formerly known as Imperial Bank of India, SBI remains till date the largest public sector bank in India.                                 |
| Punjab National Bank | ₹774.22 billion | 1894        | New Delhi, Delhi    | New name of the amalgamated 3(Punjab National Bank, Oriental Bank of Commerce and United Bank). 2nd largest public sector bank in India. |
| Bank of Baroda:      | ₹422 billion    | 1908        | Vadodara, Gujarat   | Dena Bank and Vijaya Bank merged with Bank of Baroda, creating the third-largest public sector bank by loans in the country.             |
| Bank of India        | ₹418 billion    | 1906        | Mumbai, Maharashtra | BOI is a commercial bank nationalised in                                                                                                 |

|                     |                 |      |                      |                                                                                                                                                  |
|---------------------|-----------------|------|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
|                     |                 |      |                      | July 1969 along with 13 other banks. founded by a group of eminent businessmen from Mumbai, Maharashtra                                          |
| Bank of Maharashtra | ₹130.53 billion | 1935 | Pune Maharashtra     | The bank was founded by V. G. Kale and D. K. Sathe and registered. It was nationalised in 1969.                                                  |
| Union Bank of India | ₹696.39 billion | 1919 | Mumbai, Maharashtra  | The bank has a network of 2,600 fully automated CBS branches, 3,040 ATMs.                                                                        |
| Canara Bank         | ₹558.30 billion | 1906 | Bengaluru, Karnataka | Canara Bank is one of the largest nationalised public sector banks. Established at Mangalore by Ammembal Subba Rao Pai and nationalised in 1969. |

|                       |                 |      |                     |                                                                                                                                                     |
|-----------------------|-----------------|------|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| Central Bank of India | ₹259 billion    | 1911 | Mumbai, Maharashtra | Oldest and largest commercial banks.                                                                                                                |
| Indian Bank           | ₹405.74 billion | 1907 | Chennai, Tamilnadu  | It has 20,924 employees, 2900 branches with 2861 ATMs and 1014 cash deposit machines and is one of the top performing public sector banks in India. |
| Indian Overseas bank  | ₹235.2 billion  | 1937 | Chennai, Tamilnadu  | Thiru.M. Ct. M. Chidambaram Chettyar established the Indian Overseas Bank (IOB) to encourage overseas banking and foreign exchange operations       |
| Punjab and Sind Bank  | ₹87.44 billion  | 1908 | New Delhi           | Of its 1559 branches spread throughout India, 623 branches are in Punjab state.                                                                     |
| UCO Bank              | ₹185.61 billion | 1943 | Kolkata, WB         | UCO Bank, formerly United Commercial                                                                                                                |

|  |  |  |  |                                                                                                                                                                                                |
|--|--|--|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  |  |  |  | <p>Bank, established in 1943 in Kolkata, is a major government-owned commercial bank of India.</p> <p>G. D. Birla, an eminent Indian industrialist was the architect of this organisation.</p> |
|--|--|--|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

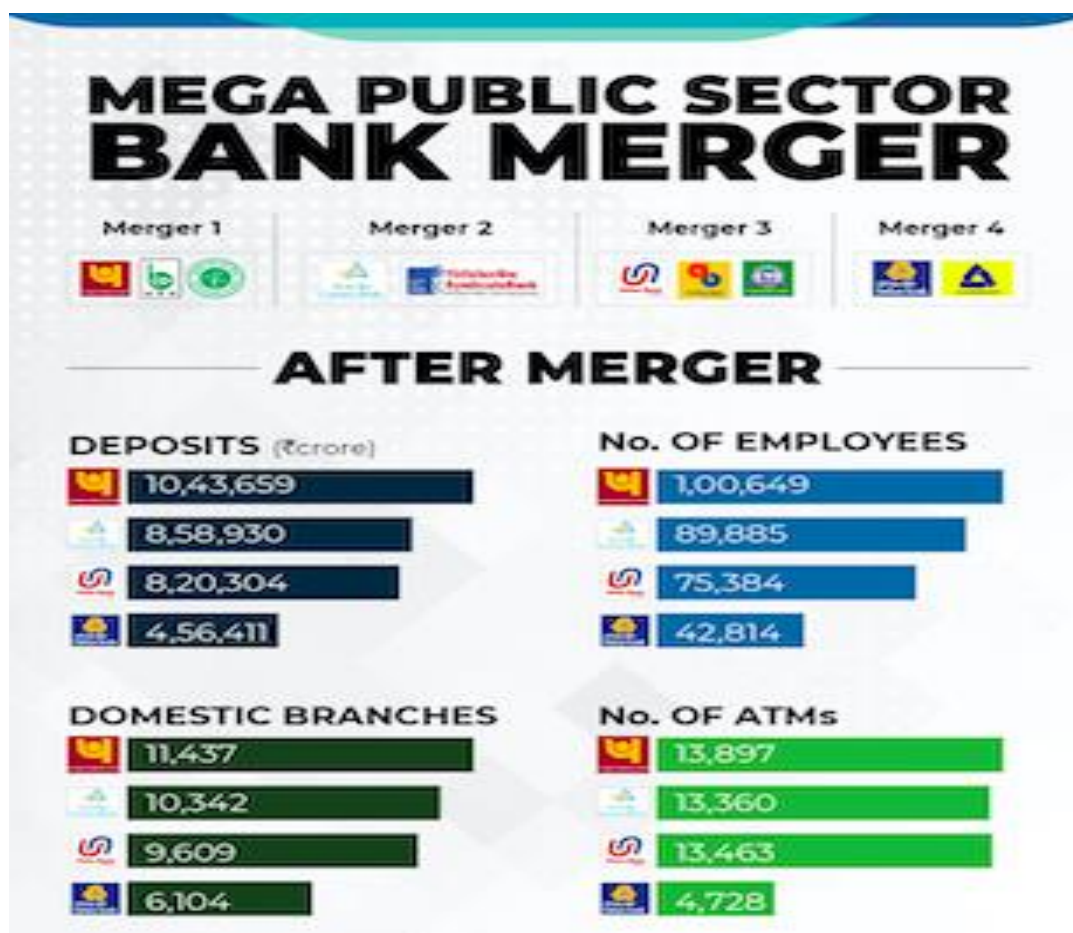
### **FUTURE OF THE BANKS:**

The landscape of India's financial sector is changing and the current merger plans hopes to bring in stability. Larger banks will have more stability and strength making the job of the regulators easier. These major reforms in the banking sector are part of the government's efforts to revive the economy, build a robust banking system, enable the banks to compete globally and increase their operational efficiency by reducing their cost of lending.

### **SOME ISSUES FACED AFTER PROPOSED MERGER:**

The biggest challenge in implementing an amalgamation of public sector banks will be the integration of technology platforms and managing HR and cultural issues. In fact the top reason for the failure of any merger, is the way HR gets integrated- employee differences are often ignored, which may also increase the turnover. Fear of Globalisation, the arrival of new technology or a fast changing economic landscape, all trigger merger and acquisition decisions and the resulting employee issues are ignored.

As Finance Minister Nirmala Sitharaman announced a big consolidation of public sector banks, the banks unions and employees are constantly protesting against this decision and this is not something unexpected, but the view that the plan lacks any rationale and will not help reduce the problem of bad loans is blinkered. The government has sought to allay the fears of unions, saying that there would be no retrenchment, but the list of the issues post merger makes it tougher for them to handle it in the future.



### **Different working styles:**

The major issue before the HR 's of banks will be managing the newly merged bank is the different working style of top management. The **level of compliances of systems and procedures** is much higher in the merged elephant as compared to their earlier organisation.

### **Communication challenges:**

When mergers and acquisitions occur, employees and management are generally left in the dark. Fear and lack of answers deter top management from providing the information that employees need to redirect their actions in the merged company. Rumour's fill mystery and vacuums, this lack of communication creates distrust and uncertainty in the workplace, leading to **lower employee engagement levels**.

### **Favouritism:**

One of the main HR issues is favouritism and biases in every branch and workstation. If any branch is being headed by an associate bank's employee, then he would favour only those employees who are from the same bank and vice versa. Such biases will be **destroying the work culture** for both types of employees.

### **Insecurity, Anxiety and Stress:**

Those who will be affected by the merger will face increased cross selling pressure, increased expectations, increased working hours, changed policies, post-merger trauma etc which may lead to high stress level and job insecurity which will definitely impact their productivity in the coming years

### **Loss of Positions and Identity:**

As the systems change, the hierarchy also changes. Many of the earlier employees in higher positions can lose their positions and they might feel better to **leave the organisation than going down** as we have seen in the case of ICICI Bank and Bank of Rajasthan merger and the same in the merger of SBI and their associate's banks. Three HR heads, for example, will not be needed when two weak banks merge with a stronger entity.

#### **Increased Customer Traffic:**

The customer traffic in each branch will increase due to the closure and merger of many branches. This will **increase the working hours** of employees and ultimately their stress level instead of the morale.

#### **Frequent Job Rotations and Transfers:**

Employees can turn against their parent bank due to the job rotations and transfers they will have to face post the mergers especially with giant and national level banks. Transfers have become very common problem of many employees and is likely to be faced in upcoming mergers.

#### **IMPACT OF PSB MERGER:**

The merger of PSU banks has its share of merits and demerits. The addition of staff and network is the effect that can be easily gauged from the impending merger move.

#### **MERITS OF MERGER:**

- A large capital base would help the acquirer banks to offer a **large loan** amount.
- Service delivery can get improved
- Recapitalization need from the government to reduce
- Customers will have a wide array of products like mutual funds and insurance to choose from, in addition to the traditional loans and deposits
- Technological up gradation on the cards.

#### **DEMERITS OF MERGER:**

- It would be tough to manage issues pertaining to human resource
- Few large inter-linked banks can expose the broader economy to enhanced financial risks.
- The local identity of small banks won't be that prominent

## **PROFILE OF THE STUDY:**

### **INDUSTRY PROFILE**

#### **History:**

Finance is the blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. Banking system plays a very significant role in the economy of a country. It is central to a nation's economy as it caters to the needs of credit for all the sections of the society. Money-lending in one form or the other has evolved along with the history of mankind. Even in the ancient times, there are references to the money-lenders, in the form of sahuikars and zamindars who lend money by mortgaging the land property of the borrowers.

#### **Indian Banking System:**

The Indian banking industry plays an important role in the economic development of the country and is the most dominant segment of the financial sector. Banks help channel savings to investments and encourage economic growth by allocating savings to investments that have potential to yield higher returns. Banks acts as bridge between the people who save and people who want to borrow. The money you deposited in bank will not be idle . It will grow by means of interest to your bank account they will earn interest in return for lending out the same money.

India's banking system is a robust one and is classified into commercial banks and co-operative credit institutions. Commercial banks Include:

- 1) scheduled commercial banks (SCBs)
- 2) non- scheduled commercial banks

SCBs are further classified into public sector banks (PSBs), private banks, foreign banks and regional rural banks (RRBs). Cooperative credit institutions include the various co-operative banks. Indian Banking system consists of 12 PSBs,

22 Private sector banks, 44 foreign banks ,56 RRBs and 1485 urban cooperative banks and 96000 rural cooperative banks in addition to cooperative credit institutions.



## COMPANY PROFILE:



Indian Bank is an Indian state-owned financial services company established in 1907 and headquartered in Chennai, India. It serves over 100 million customers with 20,924 employees, 6,089 branches with 5,022 ATMs and 1,494 cash deposit machines and is one of the top performing public sector banks in India. Total business of the bank has touched ₹430,000 crore (US\$60 billion) as on 31 March 2019. Bank's Information Systems and Security processes certified with ISO27001:2013 standard and is among very few Banks certified worldwide. It has overseas branches in Colombo and Singapore including a Foreign Currency Banking Unit at Colombo and Jaffna. It has 227 Overseas Correspondent banks in 75 countries. Since 1978, the Government of India has owned the bank. As per the announcement made by the Indian Finance Minister Nirmala Sitharaman on 30 August 2019, Allahabad Bank merged from 1 April 2020, making it the seventh largest bank in the country.

## Indian Bank



|                     |                                                                                                                                                                            |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Type</b>         | Public                                                                                                                                                                     |
| <b>Traded as</b>    | BSE: 532814<br>NSE: INDIANB                                                                                                                                                |
| <b>Industry</b>     | Banking, Financial services                                                                                                                                                |
| <b>Founded</b>      | 15 August 1907; 113 years ago                                                                                                                                              |
| <b>Founder</b>      | S. Rm. M. Ramaswami Chettiar                                                                                                                                               |
| <b>Headquarters</b> | Chennai, India                                                                                                                                                             |
| <b>Key people</b>   | Ms. Padmaja Chunduru<br>(MD & CEO)                                                                                                                                         |
| <b>Products</b>     | Consumer Banking<br>Corporate Banking<br>Finance and Insurance<br>Mortgage Loans<br>Investment banking<br>Merchant banking<br>Private equity<br>Private banking<br>Savings |

|                            |                                                          |
|----------------------------|----------------------------------------------------------|
|                            | wealth management<br>Credit cards                        |
| <b>Revenue</b>             | ▲ ₹24,717 crore (US\$3.5 billion) (2020)                 |
| <b>Operating income</b>    | ▲ ₹6,498 crore (US\$910 million) (2020)                  |
| <b>Net income</b>          | ▲ ₹753 crore (US\$110 million) (2020)                    |
| <b>Total assets</b>        | ▲ ₹808,000 crore (US\$110 billion) (2020)                |
| <b>Owner</b>               | Government of India (88.06%)                             |
| <b>Number of employees</b> | 43011 (2020)                                             |
| <b>Capital ratio</b>       | 14.12%                                                   |
| <b>Website</b>             | <a href="http://www.indianbank.in">www.indianbank.in</a> |

# **CHAPTER – II**

## **LITERATURE SURVEY**

## 2.1 REVIEW OF LITERATURE:

The following were the major efforts at research in the subject, which have been referred for the research purpose. A large number of studies examined various aspects of M&A in the Indian banking system. Many important books and research articles have been published. In this section of the chapter an attempt has been made to review some of the books and articles, existing literature dealing with the various aspects of bank consolidation.

**Goyal K.A. & Joshi Vijay (2011)** in their paper, gave an overview on Indian Banking Industry & highlighted the changes occurred in the banking sector after post liberalisation. This study examined the need for M&A in Indian banking. It also gave the idea of changes that occurred after M&A in the Indian banking sector in terms of financial, human resources and legal International Journal of Academic It also described the benefits that come out M&A & examined that M&A is a strategic tool for expanding their horizon and companies like the ICICI bank has used merger as their expansion strategy in rural market to improve customer base and market share. The sample of 17 mergers of post liberalisation period was taken.

**Kuriakose Sony and Giresh Kumar G.S. (2010)** in their paper, assessed the strategic and financial similarities of merged banks and the relevant financial variables of respective banks were considered to assess their relatedness. The study concluded that on;y private sector banks are in favour of voluntary merger wave in Indian banking system and the pubic sector banks are reluctant towards this type of restructuring. Target banks are more leverage (dissimilar) than bidder banks, so the merger lead to attain optimum capital structure for the bidders and asset quality of the target firms is very poor except in case of HDFC and CBOP merger in 2007. The factor behind voluntary amalgamation are synergies, efficiency, cost saving, economies of scale. The merging partner's strategically similarities and relatedness are very important in the synergy creation because the relatedness of the strategic variables have a significant impact on the bank performance .

**Aharon David y et all (2010)** analysed the stock market bubble effect on M&A and followed by the reduction of pre-bubble and subsequent, the bursting of bubble seems to have led to further consciousness by the investors and provide evidence which suggests that during the euphoric bubble period investor take more risk. M&A of banks is the Significant force of change took place in the Indian banking sector.

**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, but in most of the cases the final swap ratio is not justified to their financials.

**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 and finds that on average wealth was not significantly affected by M&A.

**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 which 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.

**Anand Manoj & Singh Jagandeep (2008)** studied the impact of merger announcements of five banks in Indian banking system on the shareholder's wealth. These mergers were the Times Bank merged with the HDFC Bank, Bank of Madurai merged with ICICI Bank, the ICICI Ltd. merged with ICICI Bank, the Global Trust Bank merged with Oriental Bank of Commerce and the Bank of Punjab merged with the Centurian Bank. The announcement of merger of banks had positive and significant effect on the shareholder's wealth.

**Koetter (2008)** in his paper aimed to suggest a taxonomy to evaluate post-merger performance on the basis of cost and profit efficiency. His study identifies successful mergers as those that fulfil simultaneously two criteria. First, the merged banks must exhibit efficiency levels above the average of non-merging banks. Second, banks must exhibit efficiency changes International Journal of Academic Research in

Business and Social Sciences December 2013, Vol. 3, No. 12 ISSN: 2222-6990 229  
www.hrmar.com/journals between merger and evaluation. The study further finds that every second merger is a success in terms of either cost efficiency or profit efficiency.

**Altunba et al(2008)** also 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.

**Aggarwal A.K. (2006)** in the study also concluded that the financial sector reforms have aided the banking industry to optimally harness the operational flexibility and functional autonomy for enhancing efficiency, productivity and profitability gains. As a strong banking system is critical for sound economic growth, it is essential to improve the comprehensiveness and quality of the banking system further to fillip efficiency into the performance of the real sectors. With a view to triumphantly facing global competition M&A are the effective tool. M&A help banks to acquire competitive size, an opportunity to gain sizeable market share, both domestic and international by building brand image and gainfully reducing the cost of product development and delivery. However bank mergers should keep in mind the inherent strength and weaknesses of both the entities. Fundamental features like portfolio, NPA levels, capital adequacy, technology levels, cultural divergence, and employee issues should be meticulously examined.

**Cornett et al (2006)** examined the operating performance around commercial bank mergers and 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. Swain B.K. (2005) also found that the issue of bank consolidation assumes significance from the view point of making Indian banking strong and sound, apart from its growth and development to become sustainable. It is strongly felt that in Indian banking the process of merger should be started immediately. Sooner the process takes off, greater the benefits to the economy as a whole. Ismail & Davidson (2005) also 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.

**Sharma Meena (2005)** is of the opinion the Indian banking industry is likely to see many more mergers as the competition intensifies. The mergers are more likely between the private banks and foreign banks. This is because public sector banks are still protected by their large branch network which insulated them from competition from new banks, which will take some time to develop a comparable network. The private and foreign banks, on the other hand have been most severely affected by competition and are likely to seek mergers to improve their competitive strength. They are also likely to gain benefits from such mergers on account of economies of scale.

**Lakshmi Narayana (2005)** in his study explained that the phenomenon of M&A among Indian banks is not restricted to post liberalisation era of banking system. Between 1960-2004, there have been 71 mergers among banks in India. Of these 55 mergers occurred during 1960-1990. It is important to note that government instituted many mergers during the pre-reform period in International Journal of Academic Research in Business and Social Sciences December 2013, Vol. 3, No. 12 ISSN: 2222-6990 230 [www.hrmar.com/journals](http://www.hrmar.com/journals) order to restructure weak banks. Market driven mergers which are on a gradual rise, are thus, outcomes of the post-reform period, driven by the changes in the competitive landscape of the Indian banking system., which forced many of the incumbent banks to restructure themselves and boost their efficiency in an attempt to improve long term profitability.

**P Akhil Bhan** has made an attempt to study the insight into the motives and benefits of the mergers in Indian banking sector. This is done by examining the eight merger deals of the banks in India during the period of reforms from 1999 to 2006. Through the empirical methods by applying t-test and EVA value calculations the potential of the mergers has been evaluated to study the efficiencies or benefits achieved due to the merger. Through this paper and the sample taken for analysis it has been concluded that the mergers in the banking sector in the post reform period possessed considerable gains which was justified by the EVA of the banks in the post-merger period.

**Dr .V. K. Shobhana and Dr . N. Deepa (2011)** made a probe into the fulfilment of motives as vowed in the merger deals test for analysis and interpretation of data pertaining to the five pre and post-merger periods each. The result indicates that there has been only partial fulfilment of the motives as envisaged in the merger deals of the nine select merged banks. The study uses Summary Statistics, Wilcoxon Matched Paired Signed Rank Test and 't'

**Egl Duksait and Rima Tamosiunien (2009)** described the most common motives for companies decision to participate in mergers and acquisitions transactions. The reason is growth, synergy, access to intangible assets, diversification, horizontal and vertical integration and so on arises from the primary company's motive to grow. Most of the motivations for mergers and acquisitions feature serve as means of reshaping competitive advantage within their respective industries. However, it may be that some of the motives identified affect some industries more than others, and in that sense they can be expected to be associated with a greater intensity of mergers and acquisitions in certain sectors rather than others.

**Ms. Astha Dewan (2007)** focussed on the post-merger financial performance of the acquirer companies in India and performance of firms going through mergers in Indian industry. The merger cases for the year 2003 have been taken for the analysis. The financial data has been collected for six years from 2000-06. Pre-merger and post-merger financial ratios have been examined using paired sample t test. The results of the analysis reveal that there is significant difference between the financial performance of the companies before and after the merger. Further, it has been found that the type of industry does seem to make a difference to the post-merger operating performance of acquiring firms

**Mital Menaparaetal** evaluated the impact of mergers and acquisitions on financial Performance of Indian Corporate Sectors and examined the impact of merger and acquisitions on Return on Investment, Profitability and Liquidity position of selected companies. The authors concluded that emerging from the point of view financial evaluation is that the merging Companies were taken over by companies with reputed and good management. And therefore, it was possible for the merged firms to turnaround successfully in due course.

**Pramod Mantravadi & A Vidyadhar Reddy (2008)** studied the impact of mergers on the operating performance of acquiring corporates in different industries, by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003. The results from the analysis of pre- and post-merger operating performance ratios for the acquiring firms in the sample showed that there was a differential impact of mergers, for different industry sectors in India. Type of industry does seem to make a difference to the post-merger operating performance of acquiring firms. \

**Jagdish R. Raiyani (2010)** in her study investigated the extent to which mergers lead to efficiency. The financial performance of the bank has been examined by analyzing data relevant to the select indicators for five years before the merger and five years after the merger. It is found that the private sector merged banks are dominating over the public sector merged banks in profitability and liquidity but in case of capital adequacy, the results are contrary. Further, it was observed that the private sector merged banks performed well as compared to the public sector merged banks

**Rehana Kouser and Irum Saba (2011)** explored the effects of merger on profitability of the bank by using six different financial ratios. They have selected 10 commercial banks that faced M&A during the period from 1999 to 2010. The lists of banks were selected from the Karachi Stock Exchange (KSE). Quantitative data analysis techniques are used for inference. Analysis was done by using paired t-test. The results recommend that operating financial performance of all commercial bank's M&A included in the sample from banking industry had declined later. The results shows that there is a decline in all 6 ratios: profitability ratios, return on net worth ratios, invested capital, and debt to equity ratios.

**Dr. Neena Sinha et al (2010)** in their study described the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, they calculated the change in the position of the companies during the period 2000-2008. Secondly, they [ISSN 2278-5612](#) examine changes in the efficiency of the companies during the pre and post-merger periods by using nonparametric Wilcoxon signed rank test. The result revealed a significant change in the earnings of

the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value

**Nisarg A Joshi and Jay M Desai** in their study measured the operating performance and shareholder value of acquiring companies and comparing their performance before and after the merger. They used Operating Profit Margin, Gross Operating Margin, Net Profit Margin, Return on Capital Employed, Return on Net Worth, Debt-Equity Ratio, and EPS P/E for studying the impact. They concluded that as in previous studies, mergers do not improve performance at least in the immediate short term.

**Pramod Mantravadi, A.Vidyadhar Reddy (2007)** in their research paper focussed on the impact of mergers on the relative size and operating performance of acquiring corporates by examining some pre- and post-merger financial ratios with a sample of firms chosen from all mergers involving public limited and traded companies in India between 1991 and 2003. The study used the following financial ratios: operating profit margin, gross profit margin, net profit margin, return on net worth return on capital employed and debt-equity ratio. The results suggest that there are minor variations in terms of the impact on operating performance following mergers, when the acquiring and acquired firms are of different relative sizes, as measured by market value of equity.

**Julie Lei Zhu (2011)** developed a new measure for shareholder value creation to assess the efficiency of acquiring firms in utilizing capital before mergers and acquisitions (M&As) and links this measure to acquirers' post-acquisition performance. His measure, constructed before the M&A transaction, (a) predicts both the operating and long-run abnormal stock performance of merged firms after the acquisitions and (b) hedge portfolios based on the measure generate substantial abnormal returns. Overall, the results indicated that investors do not fully recognize how efficient acquirers have been in utilizing capital before M&As and that incorporating the new value creation measure into the decision process of large-scale M&As can help protect shareholder wealth.

**Mehroz Nida Dilshad (2012)** measured the efficiency of market with respect to announcements of mergers and acquisitions using an event study

methodology. The study analysed the effects of banks mergers and their announcements on the prices of stocks, in Europe. Evidence here supports that significant cumulative abnormal returns were short lived for the acquirers. At the end of the event window, the cumulative abnormal returns were 0. Evidence of excess returns after the merger announcement was also observed along with the leakage of information that resulted in the rise of stock prices few days before the announcement of merger or acquisition. At the same time, the results of cumulative abnormal returns showed that target banks earned abnormal returns on the merger announcement day.

**A. Bashir et al (2011)** investigated the performance record of forty-five mergers and acquisitions (M&A) that took place during 2004 to 2010 in various sectors of Pakistan using event study methodology. They indicated that overall during eleven day window period neither target nor acquirer firms created or destroyed value for shareholders. The wealth for the shareholders of target and bidder firms is examined by estimating the cumulative abnormal returns for an 11-day period surrounding the merger announcement. Their findings indicate that overall during eleven day that of acquirer's enjoy statistically insignificant increase in value. Their findings are in disagreement to majority of studies in this area, which indicate the gain to target shareholders while loss to acquired companies.

**Mathieu Luypaert** empirically investigated the industry determinants of shareholder value creation in a sample of horizontal M&As in Europe during the period 1997–2006. The results show that industry concentration, industry-level operating performance, and the ratio of combined target and bidder size relative to the minimum efficient scale in the corresponding industry are significantly negatively related to the total value creation in M&As. The relation between industry sales growth and combined value creation is U-shaped. We also find some evidence that the value creation in M&As is significantly higher in recently deregulated industries. Finally, the data reveal that the distribution of M&A value between target and bidder investors is determined by firm-level variables rather than by industry characteristics.

**Dr. P. Natarajan and k. Kalaichelvan (2011)** used the share price data and financial statements of eight select public and private sector banks, during the period between 1995 and 2004, this study examined M&A as a business strategy and to identify the relative importance of mergers on business performance and increased Shareholders wealth. The study showed that in a banking environment marked by

frequent mergers, such transactions directly or indirectly effects the shareholders sentiments and increase market share (i.e.) mergers enhances performance and wealth for both the businesses and shareholders.

**Ahmad Ismail, Ian Davidson & Regina Frank (2009)** concentrated on European banks and investigated post-merger operating performance and found that industry-adjusted mean cash flow return did not significantly change after merger but stayed positive. Also find that low profitability levels, conservative credit policies and good cost-efficiency status before merger are the main determinants of industry-adjusted cash flow returns and provide the source for improving these returns after merger. Results show that total factor productivity for merger banks for the period after merging can be attributed to an increase in technical inefficiency and the disappearance of economies of scale, while technical change remained unchanged compared to the pre-merging level.

**George E Halkos & Dimitrios (2004)** applied non-parametric analytic technique (data envelopment analysis, DEA) in measuring the performance of the Greek banking sector. He proved that data envelopment analysis can be used as either an alternative or complement to ratio analysis for the evaluation of an organization's performance. However, analysis of the causes of failure has often been shallow and the measures of success weak.

**Ping-wen Lin (2002)** findings proves that there is a negative correlation and statistical significance exist between cost inefficiency index and bank mergers; meaning banks engaging in mergers tend to improve cost efficiency. However, the data envelopment analysis empirical analysis found that bank mergers did not improve significantly cost efficiency of banks. In another study, he found that (1) generally; bank mergers tend to upgrade the technical efficiency, allocative efficiency, and cost efficiency of banks; however a yearly decline was noted in allocative efficiency and cost efficiency. (2) In terms of technical efficiency and allocative efficiency improvement, the effect of bank mergers was significant; however, in terms of cost efficiency improvement, the effect was insignificant.

**Morris Knapp, Alan Gart & Mukesh Chaudhry (2006)** research study examines the tendency for serial correlation in bank holding company profitability, finding significant evidence of reversion to the industry mean in profitability.

# **CHAPTER – III**

## **RESEARCH**

## **METHODOLOGY**

### **3.1 NEED FOR THE STUDY:**

After the implementation of M&A , 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. Thus, the analysis of performance is required to understand the position of bank. The attitude of employees and customers is also relevant as their attitude can directly impact the prospects of the bank . In order to understand the impact of merging of PSB banks; it is significant to study it from the perspective from employees.

### **3.2 SCOPE AND SIGNIFICANCE OF STUDY:**

The study is conducted to analyse the overall performance of Indian bank after post –merger and to know how the performance differs from that in the pre-merger stage. The study also analyses the impact of bank merging of Indian bank and its associate banks on their customers, employees and the prevailing issues related to merging. This study is confined to Indian bank branches in Kallakurichi district. The samples are selected from employees of Indian bank branches in Kallakurichi. Also, there are many issues relating to bank merging, but this study is confined with the impact of bank merging on customers, employees and performance.

### **3.3 OBJECTIVES OF THE STUDY:**

The objective of the study is given below,

- To analyse the performance of banks after merging.
- To evaluate pre-merger and post-merger performance of Indian bank.
- To analyse the impact of merging of the customers.
- To analyse the impact of merging on the employees on the banks.
- To analyse the prevailing issues relating to bank merging.
- To predict the future of ongoing mergers and acquisitions.
- To analyse the impacts of merger and acquisitions on financial performance of stronger banks.
- To examine the trends and progress of merger and acquisitions in India.
- To study the likely impact of merger on the efficiency and profitability parameter of banks.
- To list out post merger effects on Indian bank.

### **3.4 RESEARCH DESIGN:**

A research is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact the research design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data. The research design adapted in the study was descriptive study.

#### **DESCRIPTIVE RESEARCH:**

Descriptive research includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs, as it exists at present. The main characteristic of this method is that the researcher has no control over the variables; research can only report what has happened or what is happening. A descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variable of interest in a situation. Descriptive studies are also undertaken to understand the characteristics of organizations that follow certain common practices. Descriptive research is defined as a research method that describes the characteristics of the population or phenomenon studied. This methodology focuses more on the “what” of the research subject than the “why” of the research subject. Descriptive research is usually defined as a type of quantitative research, though qualitative research can also be used for descriptive purposes. The research design should be carefully developed to ensure that the results are valid and reliable. Here Descriptive research is carried to know the impacts of mergers and acquisitions of Public sector banks towards stronger banks with reference with Indian bank.

### **3.5 SOURCE OF DATA:**

- Data refers to information or facts for study.
- There are two main sources of data for the research study and we use both the sources to collect the data for the study which going on.
- The two sources of data are primary data and the secondary data.

### **PRIMARY DATA:**

In this research primary data was collected directly from Indian Bank and employees worked during in the mergers and acquisitions of Public Sector Bank.

### **SECONDARY DATA:**

Here secondary data is also considered for research from websites, journals, books of authors etc.,

### **3.6 METHOD OF DATA COLLECTION:**

- The study has used a pre-designed structured questionnaire method for data collection.
- The research personally interacted with the respondents who provided the primary data.

### **3.7 SAMPLE SIZE:**

The research was collected from the 120 employees from INDIAN BANK in Kallakurichi involved in mergers and acquisition of public sector banks.

### **3.8 PERIOD OF STUDY:**

The study on impact of merger and acquisition of public sector bank towards stronger banks, a special reference of Indian banks in Kallakurichi was held on 3 months from December to February.

### **3.9 STRUTURE OF QUESTIONNAIRE:**

Questionnaire can be classified as both, quantitative and qualitative method depending on the nature of the questions. Specifically, answers obtained through closed-ended questions with multiple choice answer options are analysed using quantitative methods and they may involve pie-charts, bar-charts and

percentages. Answers obtained to open-ended questionnaire questions are analysed using qualitative methods and they involve discussions and critical analyses without use of numbers and calculations.

- **MULTIPLE CHOICE QUESTIONS:**

A multiple-choice question is a question type where the respondents is asked to choose on one or more items from a limited list of choices. A multiple-choice question consists of a stem, the correct answer, and distracters. The stem is the beginning part of the item that presents the item as a problem to be solved, question or an incomplete statement to be completed.

- **LIKERT SCALE QUESTIONS:**

Likert scale questions are the “do you agree or disagree” questions you often see in surveys, and are used to gauge respondents opinions and feelings. Likert scale questions give respondents a range of options. For example, survey questions for employees often use a Likert scale to measure their opinions or attitudes on a range of topics. For this research I have taken 5-point Likert scale (strongly agree, agree, neutral , disagree and strongly disagree).

### **3.10 SCHEME OF ANALYSIS:**

The collected data were analysed with help of percentages analysis and chi square independence test analysis in SPSS,

#### **PERCENTAGE ANALYSIS:**

The collected data were analysed with the help of percentages and presented as tables and chart. The percentage method was extensively used for findings various details. It is used for making comparison between two or more series of data. It can be generally calculated.

$$\text{Percentage of Respondent (\%)} = \frac{\text{No of Respondent}}{\text{Total no. of Respondents}} \times 100$$

## CHI SQUARE INDEPENDENCE TEST:

A chi-square independence test evaluates if two categorical variables are associated in some population. We'll therefore try to refute the null hypothesis that two categorical variables are (perfectly) independent in some population. If this is true and we draw a sample from this population, then we may see *some* association between these variables in our sample. This is because samples tend to differ somewhat from the populations from which they're drawn. However, a *strong association* between variables is unlikely to occur in a sample if the variables are independent in the entire population. If we do observe this anyway, we'll conclude that the variables probably aren't independent in our population after all. That is, we'll reject the null hypothesis of independence.

## ASSUMPTIONS FOR CHI SQUARE INDEPENDENCE TEST:

Conclusions from a chi-square independence test can be trusted if two assumptions are met:

- Independent observations. This usually -not always- holds if each case in SPSS holds a unique person or other statistical unit. Since this is that case for our data, we'll assume this has been met.
- For a 2 by 2 table, all expected frequencies > 5. For a larger table, no more than 20% of all cells may have an expected frequency < 5 and all expected frequencies > 1.

## **HYPOTHESIS FOR THE STUDY:**

The hypothesis for this research have been taken

➤ **H0 (NULL HYPOTHESIS):**

There is no significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank in India .

➤ **H1 (ALTERNATIVE HYPOTHESIS):**

There is significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank in India.

**CHAPTER – IV**  
**DATA ANALYSIS**  
**AND**  
**INTREPRETATION**

## 4.1 FINDINGS AND INTREPRETATION OF THE STUDY:

### DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS:

This section consists age, gender and educational level of the respondents.

#### 4.1.1. GENDER:

The respondents are classified on the basis of gender.

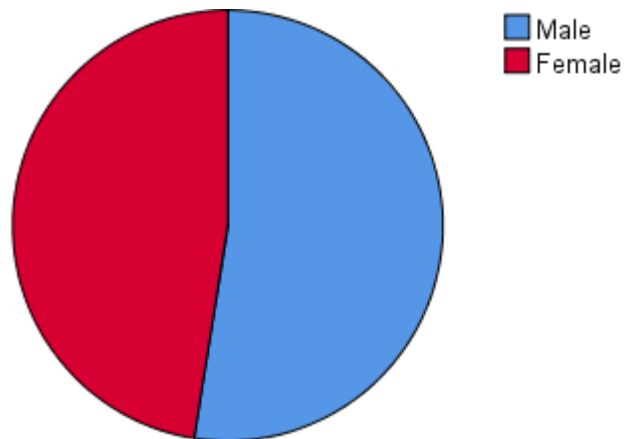
**TABLE :4.1.1**

|       |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | Male   | 63        | 52.5    | 52.5          | 52.5               |
|       | Female | 57        | 47.5    | 47.5          | 100.0              |
|       | Total  | 120       | 100.0   | 100.0         |                    |

#### INTREPRETATION:4.1.1

Gender distribution of the respondents is given in above table . Here, 63 respondents represents 52.5% are male and 57 respondents represents 47.5% are female.

**CHART:4.1.1**



**INFERENCE:**

It is inferred that majority of the respondents are male.

**4.1.2. AGE:**

The respondents are classified on basis of age.

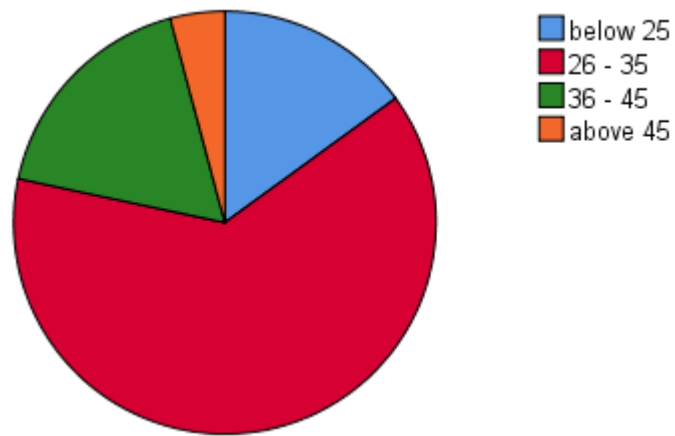
**TABLE :4.1.2**

|       |          | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------|-----------|---------|---------------|--------------------|
| Valid | below 25 | 18        | 15.0    | 15.0          | 15.0               |
|       | 26 – 35  | 76        | 63.3    | 63.3          | 78.3               |
|       | 36 – 45  | 21        | 17.5    | 17.5          | 95.8               |
|       | above 45 | 5         | 4.2     | 4.2           | 100.0              |
|       | Total    | 120       | 100.0   | 100.0         |                    |

## INTREPRETATION:

Age of respondents is given in the above table . Here , 18 respondents represents 15% age are of below 25, 76 respondents represents 63.3% are of age between 26-35, 21 respondents represents 17.5% are of age between 36-45 and 5 respondents represents 4.2% are of age above 45.

**CHART:4.1.2**



## INFERENCE:

It is inferred that majority of respondent's age is between 26-35.

## 4.1.3. EDUCATION LEVEL:

Here respondents are classified on basis of their educational level.

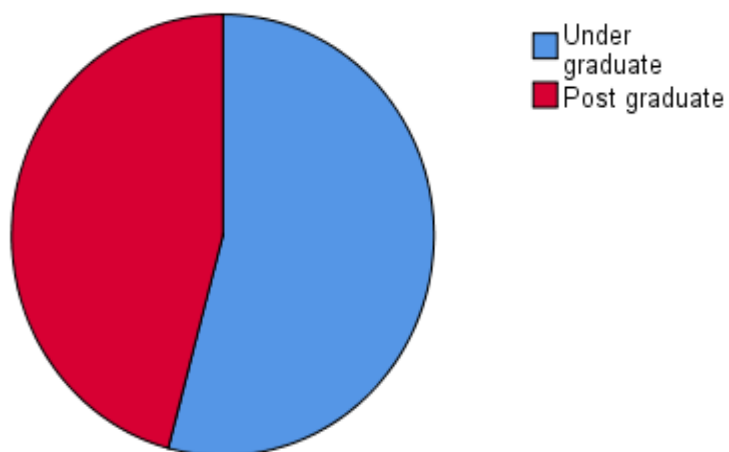
**TABLE:4.1.3**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | Under graduate | 65        | 54.2    | 54.2          | 54.2               |
|       | Post graduate  | 55        | 45.8    | 45.8          | 100.0              |
|       | Total          | 120       | 100.0   | 100.0         |                    |

### INTREPRETATION:

Education level of respondents are given in above table. Here, 65 respondents represents 54.2% completed their under graduate and 55 respondents represents 45.8% completed their post graduate.

**CHART:4.1.3**



## INFERENCE:

It is inferred that majority of respondents are Under graduate.

### Findings and Interpretation of Results of the Study:

Appropriate headings showcased the objectives of the study. This section also looked at the questions asked and responses provided by the respondents on the instrument in order to meet the objectives of the study.

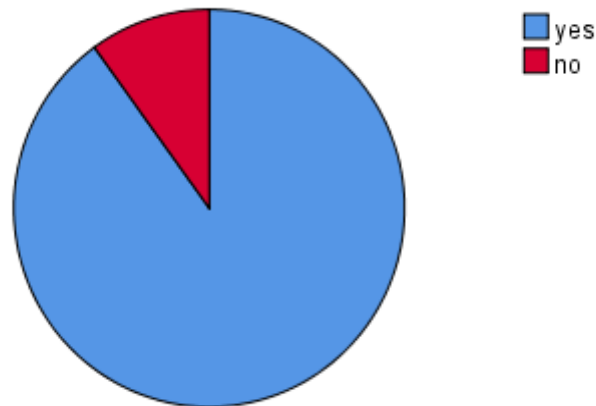
#### 4.1.4 Did you worked in the organization during the time of M&A?

Here, the respondents are classified on the basis of whether they worked in the organisation during the time of M&A.

**TABLE:4.1.4**

|       |       | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------|-----------|---------|---------------|--------------------|
| Valid | Yes   | 108       | 90.0    | 90.0          | 90.0               |
|       | No    | 12        | 10.0    | 10.0          | 100.0              |
|       | Total | 120       | 100.0   | 100.0         |                    |

**CHART:4.1.4**



**INTREPRETATION:**

Here, 108 respondents represents 90% were worked in the organization during the time of M&A and 12 respondents represents 10% were not worked in the organization during the time of M&A.

**INFERENCE:**

Majority of the respondents were worked in the organization during the time of M&A.

**4.1.5. After post-merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.**

The respondents are classified on the basis on their response that After post-merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.

**TABLE:4.1.5**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree    | 37        | 30.8    | 30.8          | 30.8               |
|       | Agree             | 61        | 50.8    | 50.8          | 81.7               |
|       | Neutral           | 19        | 15.8    | 15.8          | 97.5               |
|       | Disagree          | 1         | .8      | .8            | 98.3               |
|       | strongly disagree | 2         | 1.7     | 1.7           | 100.0              |
|       | Total             | 120       | 100.0   | 100.0         |                    |

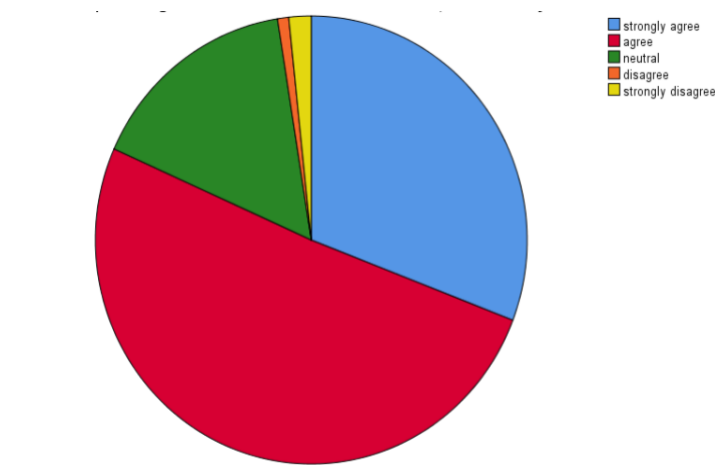
**INTREPRETATION:**

From the above table ,it is inferred that 37 respondents represents 30.8% strongly agree After post-merger of Allahabad bank with Indian bank this adversely affect the health of Indian bank , 61 respondents represents 50.8% agree that After post-merger of Allahabad bank with Indian bank this adversely affect the health of Indian bank , 19 respondents represents 15.8% were neutral that After post-merger of Allahabad bank with Indian bank this adversely affect the health of Indian bank, 1 respondents represents 0.8% disagree that After post-merger of Allahabad bank with Indian bank this adversely affect the health of Indian bank and 2 respondents represents 1.7% strongly disagree that After post-merger of Allahabad bank with Indian bank , this adversely affect the health of Indian bank.

**INFERENCE:**

Majority of respondents fall below agree.

**CHART: 4.1.5**



**4.1.6 Is there any disruption happened among both bank customer after post - merger?**

The respondents are classified on the basis on that Is there any disruption happened among both bank customer after post-merger.

**TABLE:4.1.6**

|       |       | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------|-----------|---------|---------------|--------------------|
| Valid | Yes   | 97        | 80.8    | 80.8          | 80.8               |
|       | No    | 23        | 19.2    | 19.2          | 100.0              |
|       | Total | 120       | 100.0   | 100.0         |                    |

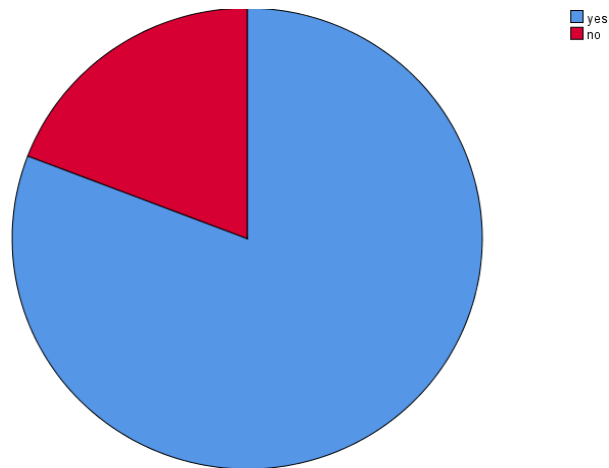
**INTREPRETATION:**

From the above table, 97 respondents represents 80.8% said that there is some disruption happened among both bank customer after post-merger and 23 respondents represents 19.2% said that there is no disruption happened among both bank customer after post-merger.

### INFERENCE:

Majority of the respondents fall under yes it means that there is some disruption happened among both bank customer after post-merger.

**CHART:4.1.6**



### 4.1.7. M&A leads to tax gain:

The respondents are classified on the basis that M&A leads to tax gain.

**TABLE :4.1.7**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree | 68        | 56.7    | 56.7          | 56.7               |
|       | Agree          | 33        | 27.5    | 27.5          | 84.2               |
|       | Neutral        | 17        | 14.2    | 14.2          | 98.3               |
|       | disagree       | 2         | 1.7     | 1.7           | 100.0              |
|       | Total          | 120       | 100.0   | 100.0         |                    |

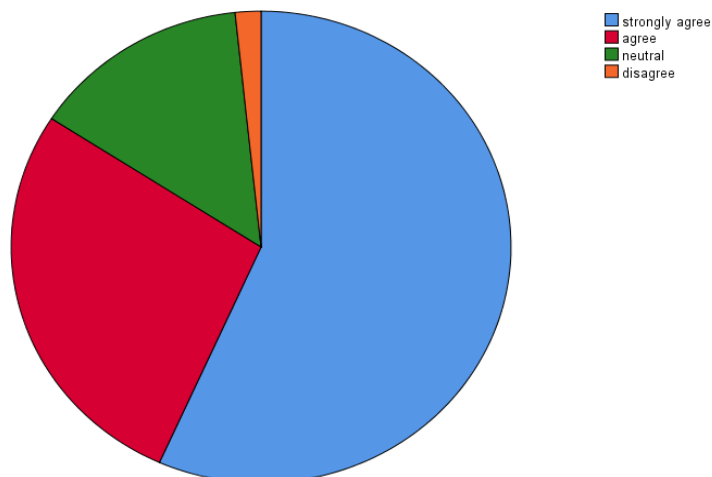
### INTREPRETATION:

From the above table , 68 respondent represents 56.7% strongly agree that M&A leads to tax gain, 33 respondents represents 27.5% agree that M&A leads to tax gain, 17 respondents represents 14.2% were neutral that M&A leads to tax gain and 2 respondents represents 1.7% disagree M&A leads to tax gain.

### INFERENCE:

The majority of the respondents fall under strongly agree it means that M&A leads to tax gain.

**CHART: 4.1.7**



### 4.1.8 M&A helps in greater financial leverage.

The respondents are classified on the basis that M&A helps in greater financial leverage.

**TABLE:4.1.8**

|       |                | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|----------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree | 27        | 22.5    | 22.5          | 22.5               |
|       | Agree          | 62        | 51.7    | 51.7          | 74.2               |
|       | Neutral        | 31        | 25.8    | 25.8          | 100.0              |
|       | Total          | 120       | 100.0   | 100.0         |                    |

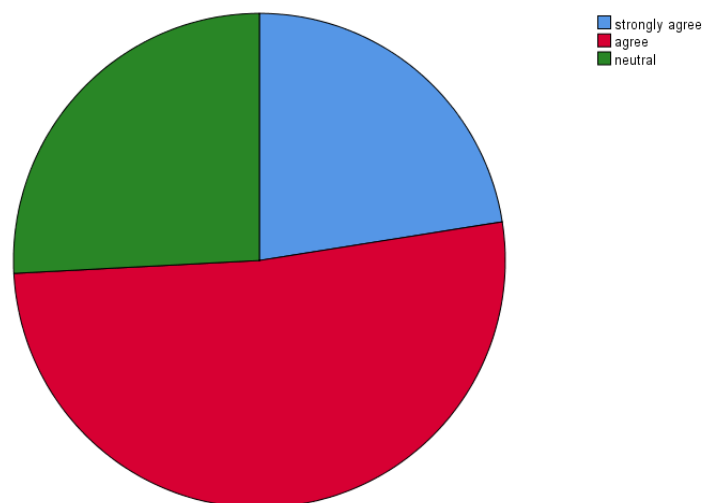
#### INTREPRETATION:

From the above table ,27 respondents represent 22.5% strongly agree that M&A helps in greater financial leverage, 62 respondents represents 51.7% agree that M&A helps in greater financial leverage and 31 respondents represents 25.8% were neutral that M&A helps in greater financial leverage.

#### INFERENCE:

Majority of the respondents fall under agree it means that M&A helps in greater financial leverage.

#### CHART :4.1.8



#### 4.1.9 After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities.

The respondents are classified on the basis that After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities.

**TABLE:4.1.9**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree    | 37        | 30.8    | 30.8          | 30.8               |
|       | Agree             | 54        | 45.0    | 45.0          | 75.8               |
|       | Neutral           | 27        | 22.5    | 22.5          | 98.3               |
|       | strongly disagree | 2         | 1.7     | 1.7           | 100.0              |
|       | Total             | 120       | 100.0   | 100.0         |                    |

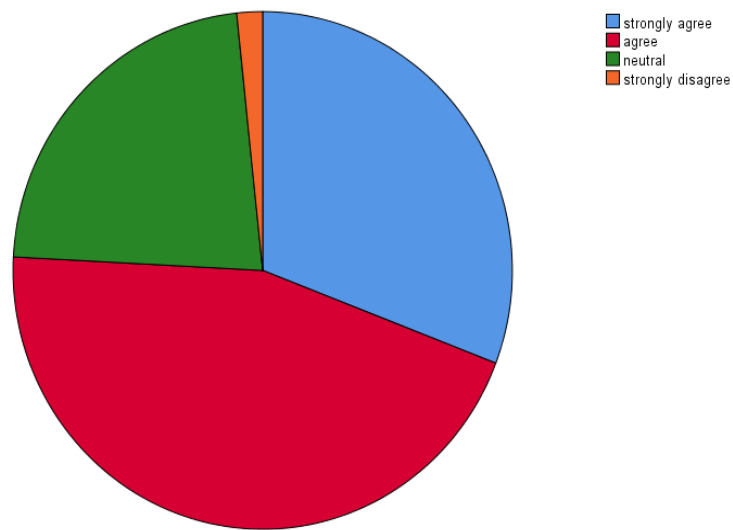
#### INTREPRETATION:

From the above table , 37 respondents represents 30.8% strongly agree that After merging with Allahabad bank , Indian bank sees growth in lending , deposits & new opportunities , 54 respondents represents 45.0% agree that After merging with Allahabad bank , Indian bank sees growth in lending , deposits & new opportunities , 27 respondents represents 22.5% were neutral that After merging with Allahabad bank , Indian bank sees growth in lending , deposits & new opportunities and 2 respondents represents 1.7% strongly agree After merging with Allahabad bank , Indian bank sees growth in lending , deposits & new opportunities.

## INFERENCE:

Majority of the respondents fall under agree it means that After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities.

**CHART :4.1.9**



### **4.1.10 After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill.**

The respondents are classified on the basis that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill

**TABLE:4.1.10**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree    | 41        | 34.2    | 34.2          | 34.2               |
|       | Agree             | 57        | 47.5    | 47.5          | 81.7               |
|       | Neutral           | 15        | 12.5    | 12.5          | 94.2               |
|       | disagree          | 5         | 4.2     | 4.2           | 98.3               |
|       | strongly disagree | 2         | 1.7     | 1.7           | 100.0              |
|       | Total             | 120       | 100.0   | 100.0         |                    |

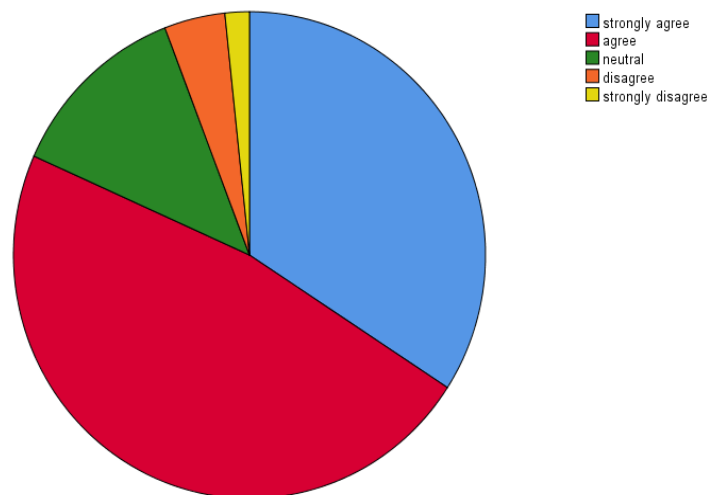
**INTREPRETATION:**

From the above table , 41 respondents represents 34.2% strongly agree that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill , 57 respondents represents 47.5 % agree that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill , 15 respondents represents 12.5% were neutral that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill , 5 respondents represents 4.2% disagree that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill and 2 respondents represents 1.7% strongly disagree that After M&A , Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill.

## INFERENCE:

Majority of the respondents fall under agree it means that After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill.

**CHART: 4.1.10**



### 4.1.11 What do you feel about the market share of Indian bank after M&A?

The respondents are classified on the basis that What do you feel about the market share of Indian bank after M&A?

**TABLE:4.1.11**

|       |                     | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------------|-----------|---------|---------------|--------------------|
| Valid | increases suddenly  | 1         | .8      | .8            | .8                 |
|       | increases gradually | 45        | 37.5    | 37.5          | 38.3               |
|       | Neutral             | 17        | 14.2    | 14.2          | 52.5               |

|  |                     |     |       |       |       |
|--|---------------------|-----|-------|-------|-------|
|  | decreases gradually | 53  | 44.2  | 44.2  | 96.7  |
|  | decreases suddenly  | 4   | 3.3   | 3.3   | 100.0 |
|  | Total               | 120 | 100.0 | 100.0 |       |

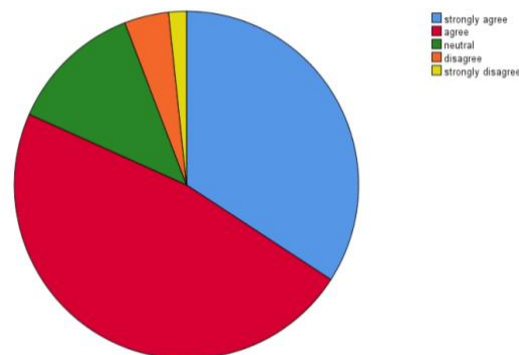
### INTREPRETATION:

From the above table, 1 respondents represents 0.8% feel about the market share of Indian bank after M&A increases suddenly , 45 respondents represents 37.5% feel about the market share of Indian bank after M&A increases gradually , 17 respondents represents 14.2% feel about the market share of Indian bank after M&A neutral , 53 respondents represents 44.2% feel about the market share of Indian bank after M&A decreases gradually and 4 respondents represents 3.3% feel about the market share of Indian bank after M&A.

### INFERENCE:

Majority of the respondents fall under decreases gradually it mean that they feel that the market share of Indian bank after M&A decreases gradually.

### CHART:4.1.11



## 4.2 CHI SQUARE INDEPENDENCE TEST:

### 4.2.1.

1. Do you aware of M&A of public sector banks? \* 3. Did any policies , strategies & practices changed after M&A? Crosstabulation

#### HYPOTHESIS:

**NULL HYPOTHESIS (H<sub>0</sub>):** The employee awareness about M&A and policies, strategies and practices changed after M&A are independent.

**ALTERNATIVE HYPOTHESIS (H<sub>1</sub>):** The employee awareness about M&A and policies, strategies and practices changed after M&A are not independent.

**TABLE: 4.2.1**

#### Chi-Square Tests

|                                 | Value | Df | Asymptotic<br>Significance<br>(2-sided) | Exact Sig.<br>(2-sided) | Exact Sig.<br>(1-sided) |
|---------------------------------|-------|----|-----------------------------------------|-------------------------|-------------------------|
| Pearson Chi-Square              | 2.687 | 1  | .101                                    |                         |                         |
| Continuity Correction           | 1.499 | 1  | .221                                    |                         |                         |
| Likelihood Ratio                | 2.322 | 1  | .128                                    |                         |                         |
| Fisher's Exact Test             |       |    |                                         | .114                    | .114                    |
| Linear-by-Linear<br>Association | 2.665 | 1  | .103                                    |                         |                         |
| N of Valid Cases                | 120   |    |                                         |                         |                         |

a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 2.03.

b. Computed only for a 2x2 table

## INTREPRETATION:

From the chi square statistic table, we get p value = 0.101. Thus  $p > 0.05$ , we accept  $H_0$ . Therefore, the employee awareness about M&A and policies, strategies and practices changed after M&A are independent.

### 4.2.2

**4. After M&A of banks there will be decrease in hefty amounts spend in recovery of bad loans every year by banks. \* 6. Do you feel any unemployment will happen to employees in future after post -merger?**  
Crosstabulation

## HYPOTHESIS:

**NULL HYPOTHESIS ( $H_0$ ):** There is no significant relation between the hefty amount spend in recovery of bad loans after M&A and unemployment that happens in future.

**ALTERNATIVE HYPOTHESIS ( $H_1$ ):** There is significant relation between the hefty amount spend in recovery of bad loans after M&A and unemployment that happens in future.

**TABLE: 4.2.2**

### Chi-Square Tests

|                                 | Value              | Df | Asymptotic<br>Significance (2-<br>sided) |
|---------------------------------|--------------------|----|------------------------------------------|
| Pearson Chi-Square              | 6.165 <sup>a</sup> | 4  | .187                                     |
| Likelihood Ratio                | 5.267              | 4  | .261                                     |
| Linear-by-Linear<br>Association | 3.388              | 1  | .066                                     |
| N of Valid Cases                | 120                |    |                                          |

a. 5 cells (50.0%) have expected count less than 5. The minimum expected count is .21.

#### **INTREPRETATION:**

From the chi square statistic table, we get p value = 0.187. Thus  $p > 0.05$ , we accept  $H_0$ . Therefore, there is no relation between the hefty amount spend in recovery of bad loans after M&A and unemployment that happens in future.

#### **4.2.3**

**8. After post-merger of Allahabad bank with Indian bank's balance sheet will become much stronger than before. \* 11. M&A leads to increase in performance of Indian bank Crosstabulation**

#### **HYPOTHESIS:**

**NULL HYPOTHESIS ( $H_0$ ):** There is no significant relation between Indian bank's stronger balance sheet and increase in performance of Indian bank after M&A.

**ALTERNATIVE HYPOTHESIS ( $H_1$ ):** There is significant relation between Indian bank's stronger balance sheet and increase in performance of Indian bank after M&A.

**TABLE:4.2.3****Chi-Square Tests**

|                                 | Value  | Df | Asymptotic<br>Significance (2-<br>sided) |
|---------------------------------|--------|----|------------------------------------------|
| Pearson Chi-Square              | 29.452 | 12 | .003                                     |
| Likelihood Ratio                | 29.027 | 12 | .004                                     |
| Linear-by-Linear<br>Association | .043   | 1  | .837                                     |
| N of Valid Cases                | 120    |    |                                          |

a.11 cells (55.0%) have expected count less than 5. The minimum expected count is .02

**INTREPRETATION:**

From the chi square statistic table, we get p value = 0.003. Thus  $p < 0.05$ , we reject  $H_0$ . Therefore, there is significant relation between Indian bank's stronger balance sheet and increase in performance of Indian bank after M&A.

#### 4.3 FINDINGS OF THE STUDY:

- It is inferred that 52.5 % are male and 47.5 % are female.
- It is inferred that 63.3 % of respondent's age is between 26-35.
- It is inferred that 54.2 % of respondents are Under graduate.
- It is inferred that 92.5 % were aware of M&A of public sector banks.
- It is inferred that 90 % were worked in the organization during the time of M&A.
- It is inferred that 80.8 % said that there is some disruption happened among both bank customer after post-merger.
- It is inferred that 56.7 % strongly agree that M&A leads to tax gain.
- It is inferred that 51.7 % agree that M&A helps in greater financial leverage.
- It is inferred that 45.0 % agree that After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities.
- It is inferred that 47.5 % agree that After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill.
- It is inferred that 44.2% feel about the market share of Indian bank after M&A decreases gradually.

From the survey, we came to know that there were some changes happened after merger and acquisitions of public sector bank. Therefore, we accept Alternative hypothesis H1 (i.e. There is significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank) and reject null hypothesis H0 ( i.e. There is no significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank in India ) .

# **CHAPTER – V**

## **CONCLUSIONS**

## **5.1 SUGGESTIONS:**

After the merger we will see that in various financial parameter of the bank performance have improved in both cases and some parameter have shown no change but it may be possible that improved performance of merged Bank will show in later years the profit are not visible because M&A of public sector banks came into existence from April 2019, it may be possible that profit will be seen in future. There are various motives, which attract the bank for merger but it is not necessary to achieved all objectives after merger, the size of the bank will increase but no guarantee to increase net profitability after merger.

## **5.2 CONCLUSIONS:**

Mergers and Acquisitions (M&A) have immensely evoked and still continue to capture scholar's interests. More so, M&A in the banking sector evokes high interest simply for the fact that after decades of strict regulations, easing of the ownership & control regulations has led to a wave of M&A in banking industry throughout the world.

Considering the changed environment conditions, we believe that M&A in the Indian Banking are an important necessity. The reasons include (a) fragmented nature of the Indian banking sector resulting in poor global competitive presence and position; (b) large intermediation costs and consequent probability in increasing its risk profile; and (c) meet the new stringent international regulatory norms. While a fragmented Indian banking structure may very well be beneficial to the customers (given increased competition due to lower market power of existing players), at the same time this also creates the problem of not having any critical mass to play the game at the global banking industry level.

This has to be looked at significantly from the state's long-term strategic perspective. Given that economic power is increasingly used as a tool by nations to defend their position, to signal power, to signal intent, and to establish their supremacy over others hence owning and managing large powerful global banks would be an obvious interest for every country.

Consolidation through M&A may be requirement of future. M&A of future should aim at creation of strong entity and to develop ability to withstand the market shocks instead of protecting the interests of depositors of weak banks. The M&As in the banking sector should be driven by market related parameters such as size and scale; geographical and distribution synergies and skills and capacity. The emerging market dynamics like falling interest rate regime which makes the spread thinner; increasing focus on retail banking, enhanced quest for rural credit, felt need for increasing more profits especially from operations, reduction of NPA's in absolute terms, need for more capital to augment the technology needs, etc are the major drivers for mergers and acquisitions in the banking sector.

M&As are no substitute for poor assets quality, lax management, indifference to technology up gradation and lack of functional autonomy and operational flexibility. With increasing globalisation, attaining size advantages will become critical for Indian banks. Combined with the need to attain higher capital standards under Basel II Accord, consolidation in the Indian Banking industry will become imminent. However, the issues that need to be addressed include maximizing synergies in terms of regional balance, network of branches, HR culture, and asset commonality and legacy issues in respect of technology. In the present scenario, we must develop small number large banks of global size instead of large number of smaller banks as we are having now.

Merger and Acquisition is the useful tool for growth and expansion in the Indian banking sector. It is helpful for survival of weak banks by merging into larger bank. This study shows the impact of M&As in the Indian banking sector and in

this the study we studied that impact of M&A of public sector bank towards stronger / anchor bank that merger led to a profitable situation or not and whether any impact happened in post-merger.

The M&A of Public sector bank taking place in the financial sector in banking showed improved performance in the post-merger time period as compared to the pre-merger period. It was found out that the qualitative impacts of post M&A activities on the performance of Banks must go beyond the impact of quantitative indicators (financial and economic indicators). For this research we have taken a survey among the employees of Indian bank in kallakurichi district, one of the stronger / anchor bank merged during M&A of public sector bank in India and also compared performance between pre and post-merger in bank. The success of merger is dependent upon synergy gains created after the merger and overall performance of bank, the financial performance of the Public sector Bank have been improved after the merger and was affected positively.

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## **APPENDIX - 1:**

1.Email ID:

2.Name:

3.Gender:

a) Male

b) Female

4. Age

a) below 25yrs

b)25-35yrs

c) 35-45yrs

d) above 45yrs

5. Educational level

a) Under graduate

b) Post graduate

6. Job designation:

7. Number of year of experience:

8. Do you aware of M&A of public sector banks?

a) yes

b) no

9. Did you worked in the organization during the time of M&A?

a) yes

b) no

10. Did any policies, strategies & practices changed after M&A?

a) yes

b) no

11. If yes, mention some of them:

12. After M&A of banks there will be decrease in hefty amounts spend in recovery of bad loans every year by banks.

a) Strongly agree

b) agree

c) neutral

d) disagree

e) strongly disagree

13. After post - merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.

a) Strongly agree

b) agree

c) neutral

d) disagree

e) strongly disagree

14. Do you feel any unemployment will happen to employees in future after post - merger?

a) Yes

b) no

15. Is there any disruption happened among both bank customer after post merger?

a) yes

b) no

16. After post- merger of Allahabad bank with Indian bank's balance sheet will become much stronger than before.

- a) strongly agree
- a) strongly agree
- b) agree
- c)neutral
- d) disagree
- e) strongly disagree

17. M&A leads to tax gain

- a) strongly agree
- b) agree
- c)neutral
- d) disagree
- e) strongly disagree

18. M&A helps in greater financial leverage

- a) strongly agree
- b) agree
- c)neutral
- d) disagree
- e) strongly disagree

19. M&A leads to increase in performance of Indian bank.

- a) strongly agree
- b) agree

- c)neutral
- d) disagree
- e) strongly disagree

20.After merging with Allahabad bank, Indian bank sees growth in lending, deposits & new opportunities

- a) strongly agree
- b) agree
- c)neutral
- d) disagree
- e) strongly disagree

21. After M&A, Indian bank can offer higher amount of loans to corporate segment & able to invest in required skill

- a) strongly agree
- b) agree
- c)neutral
- d)disagree
- e) strongly disagree

22. What do you feel about the market share of Indian bank after M&A?

- a) Increase suddenly
- b) increase gradually
- c)neutral
- d)decrease gradually
- e) decrease suddenly

23. What was your opinion about M&A of PSB and whether it brings any changes and trends in future?

## **APPENDIX-II (ARTICLE)**

### **A STUDY ON IMPACTS OF MERGERS AND ACQUISITIONS OF PUBLIC SECTOR BANKS TOWARDS STRONGER / ANCHOR BANKS, A SPECIAL REFERENCE WITH INDIAN BANKS EMPLOYEES IN KALLAKURICHI**

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#### **ABSTRACT:**

Today, it's true that tons of dramatic events like mergers, acquisitions, takeovers, demerger etc. occupy the news daily. Mergers and Acquisitions is one among the main aspects of finance world. Mergers refer to the combination of 2 or more companies into one company. It also can cause major issues on Bank's performance. This paper analyses some critical issues relating to merging of public sector banks. Descriptive research design was employed for the study. The main instrument used was a questionnaire to implore the opinions of employees of Indian bank and a sample size of 120 was used. The technique was employed using statistical package for social sciences (SPSS). Frequency tables, pie charts and Chi-square test were used to discuss the responses to the questionnaire taking into consideration the objectives of the study. To predict the future of ongoing merger and acquisitions. In this research, we will study the likely impact of merger on the efficiency and profitability parameters of banks. We also analyse the prevailing issues relating on bank merging.

**KEY WORDS:** Mergers and Acquisitions, Takeovers, Public sector banks, impacts of merging, efficiency and profitability of post-merger.

#### **INTRODUCTION:**

The banking system is one among the prominent indicators of the health of an economy. A bank's ability and freedom to borrow from other banks and lend to corporates features a great impact on the expansion rate of the economy. Banking sector plays an important role within the economic process and development of a nation. Globalisation, deregulation of economies including technological development has changed the banking landscape dramatically. With the fast-changing environment, the banking sector is resorting to the method of consolidation, corporate restructuring and strengthening to stay efficient and

viable. For this, Mergers and Acquisitions became the well-liked strategy for growth within the size of banks which successively play a big role in entering the worldwide financial market. Mergers and Acquisitions are widely used for achieving higher market share, overall productivity and profitability, strengthen their capital base, cost rationalisation, economies of scale and manpower efficiency.

### **MEGA BANKS MERGER A STEP TOWARDS \$ 5 TRILLION ECONOMY:**

In slew of second wave of reforms, minister of finance Nirmala Sitharaman announced mega merger of Public Sector Banks (PSBs) – Next Gen PSBs. It will enable them to harness their potential at its fullest in terms of increased lending and larger risk appetite, with national presence and global reach.

Finance minister of finance Nirmala Sitharaman announces the merger of ten big public sector banks (PSBs) into four. The banks which are being merged are Punjab commercial bank, Oriental Bank of Commerce, United Bank of India, Indian Bank, Allahabad Bank, Canara Bank, Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank. India will now have 12 Public Sector Banks from 27 PSB in 2017. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to accelerate the economic process of India. While addressing a news conference, FM Sitharaman mentioned that only six banks showcased profitability within the 4th Quarter of 2018-19.

However, in Quarter 1 of FY2019, 14 PSBs showcased growth and profit. In order to spice up the national presence of banks alongside their global reach, the amalgamation of banks was necessitated. This is not the primary time that the govt is merging the banks together. The merger of those banks is aimed toward making India a USD 5 trillion economy. The Government targets USD 5 trillion economy through these bank reforms and consolidation in future. The Government would infuse Rs 55,250 Crore of capital in these 10 big banks for his or her credit growth and regulatory compliance to spice up the economy.

### **Motive & Objective behind Merger of PSBs:**

The Finance Ministry opines that the merger of those 10 public sector banks (PSBs) will help India make a USD 5 Trillion Economy. The bank merger was done under the bank consolidation plan of the Government. Have a glance at the government's objective behind the merger of those banks:

- Enhanced capacity to increase credit
- Banks with a robust national presence and international reach

- Reduction in lending cost
- Next Generation technology for the banking sector
- Improved ability to raise market resources.

### **FUTURE OF BANKS:**

The landscape of India's financial sector is changing and therefore the current merger plans hopes to usher in stability. Larger banks will have more stability and strength making the work of the regulators easier. These major reforms within the banking sector are a part of the government's efforts to revive the economy, build a strong banking industry, enable the banks to compete globally.

### **REVIEW OF LITERATURE:**

- Goyal K.A. & Joshi Vijay (2011) in their paper, given an overview on Indian Banking Industry & highlighted the changes occurred in the banking sector after post liberalisation. This study examined the need of M&A in Indian banking and for future.
- Kuriakose Sony and Gireesh Kumar G.S. (2010) in their paper, assessed the strategic and financial similarities of merged banks and thus the relevant financial variables of respective banks were considered to assess their relatedness.
- Aharon David y et all (2010) analysed the stock market bubble effect on M&A and followed by the reduction of pre-bubble and the bursting of bubble seems to have led to further consciousness by the investors and supply evidence which suggests that in the euphoric bubble period investor take more risk. M&A of banks is the Significant force of change took place in the Indian banking sector.
- Kuriakose Sony et. Al.(2009) focused on the valuation practices and therefore the adequacy of Swap ratio fixed within the voluntary amalgamation within the Indian Banking sector and used swap ratio for the valuation of banks, but in most of the cases the ultimate swap ratio isn't justified to their financials.
- 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 and finds that on average wealth was not significantly affected by M&A.
- 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 which emphasised that merger is for creating large size of firm but no

guarantee to maximise profitability on a sustained business and there's always a risk of improving performance after merger.

- Koetter (2008) in his paper aimed to suggest a taxonomy to evaluate post-merger performance on the basis of cost and profit efficiency. His study identifies successful mergers as those that fulfil two criteria.

#### **OBJECTIVES OF THE STUDY:**

The objective of the study is given below,

- O To analyse the performance of banks after merging.
- O To evaluate pre-merger and post-merger performance of Indian bank.
- O To analyse the impact of merging of the customers.
- O To analyse the impact of merging on the employees on the banks.
- O To analyse the prevailing issues relating to bank merging.

#### **SAMPLE SIZE:**

The research was collected from the 120 employees from INDIAN BANK in Kallakurichi district involved in mergers and acquisition of public sector banks.

#### **SOURCE OF DATA:**

##### **PRIMARY DATA:**

In this research primary data was collected directly from Indian Bank and employees worked during in the mergers and acquisitions of Public Sector Bank.

##### **SECONDARY DATA:**

Here secondary data is also considered for research from websites, journals, books of authors etc.,

#### **METHOD OF DATA COLLECTION:**

- The study has used a pre-designed structured questionnaire method for data collection.
- The research personally interacted with the respondents who provided the primary data.

#### **FINDINGS AND INTREPRETATION OF THE STUDY:**

##### **PERCENTAGE ANALYSIS:**

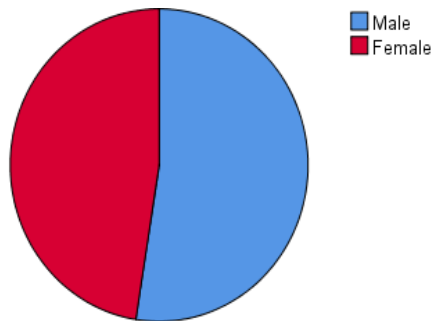
##### **1.GENDER:**

**TABLE:**

|       |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | Male   | 63        | 52.5    | 52.5          | 52.5               |
|       | Female | 57        | 47.5    | 47.5          | 100.0              |
|       | Total  | 120       | 100.0   | 100.0         |                    |

**INFERENCE:**

Majority of respondents are male.

**CHART:**

***2.After post-merger of Allahabad bank with Indian bank, this adversely affect the health of Indian bank.***

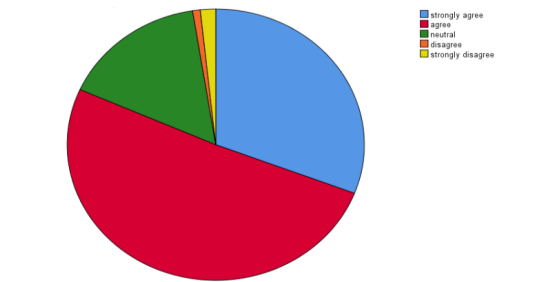
**TABLE:**

|       |                   | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------------|-----------|---------|---------------|--------------------|
| Valid | strongly agree    | 37        | 30.8    | 30.8          | 30.8               |
|       | Agree             | 61        | 50.8    | 50.8          | 81.7               |
|       | Neutral           | 19        | 15.8    | 15.8          | 97.5               |
|       | Disagree          | 1         | .8      | .8            | 98.3               |
|       | strongly disagree | 2         | 1.7     | 1.7           | 100.0              |
|       | Total             | 120       | 100.0   | 100.0         |                    |

**INFERENCE:**

Majority of respondents fall below agree.

**CHART:**



**3.What do you feel about the market share of Indian bank after M&A?**

The respondents are classified on the basis that What do you feel about the market share of Indian bank after M&A?

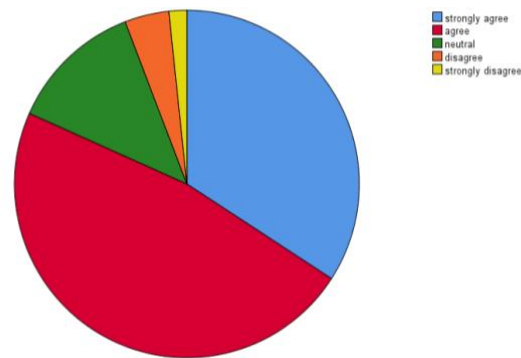
**TABLE:**

|       |                     | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|---------------------|-----------|---------|---------------|--------------------|
| Valid | increases suddenly  | 1         | .8      | .8            | .8                 |
|       | increases gradually | 45        | 37.5    | 37.5          | 38.3               |
|       | Neutral             | 17        | 14.2    | 14.2          | 52.5               |
|       | decreases gradually | 53        | 44.2    | 44.2          | 96.7               |
|       | decreases suddenly  | 4         | 3.3     | 3.3           | 100.0              |
|       | Total               | 120       | 100.0   | 100.0         |                    |

**INFERENCE:**

Majority of the respondents fall under decreases gradually it mean that they feel that the market share of Indian bank after M&A decreases gradually.

# CHART:



## CHI SQUARE INDEPENDENCE TEST:

I) ***Do you aware of M&A of public sector banks? \* Did any policies, strategies & practices changed after M&A? Crosstabulation***

### TABLE:

#### Chi-Square Tests

|                                 | Value | Df | Asymptotic<br>Significance<br>(2-sided) | Exact Sig. (2-<br>sided) | Exact Sig. (1-<br>sided) |
|---------------------------------|-------|----|-----------------------------------------|--------------------------|--------------------------|
| Pearson Chi-Square              | 2.687 | 1  | .101                                    |                          |                          |
| Continuity Correction           | 1.499 | 1  | .221                                    |                          |                          |
| Likelihood Ratio                | 2.322 | 1  | .128                                    |                          |                          |
| Fisher's Exact Test             |       |    |                                         | .114                     | .114                     |
| Linear-by-Linear<br>Association | 2.665 | 1  | .103                                    |                          |                          |
| N of Valid Cases                | 120   |    |                                         |                          |                          |

- a. 1 cells (25.0%) have expected count less than 5. The minimum expected count is 2.03.
- b. Computed only for a 2x2 table

II) ***After M&A of banks there will be decrease in hefty amounts spend in recovery of bad loans every year by banks. \* Do you feel any unemployment will happen to employees in future after post -merger? Crosstabulation***

**TABLE:**

**Chi-Square Tests**

|                                 | Value              | Df | Asymptotic<br>Significance (2-sided) |
|---------------------------------|--------------------|----|--------------------------------------|
| Pearson Chi-Square              | 6.165 <sup>a</sup> | 4  | .187                                 |
| Likelihood Ratio                | 5.267              | 4  | .261                                 |
| Linear-by-Linear<br>Association | 3.388              | 1  | .066                                 |
| N of Valid Cases                | 120                |    |                                      |

a. 5 cells (50.0%) have expected count less than 5. The minimum expected count is .21.

**III)            *After post-merger of Allahabad bank with Indian bank's balance sheet will become much stronger than before. \* M&A leads to increase in performance of Indian bank Crosstabulation***

**TABLE:**

**Chi-Square Tests**

|                                 | Value  | Df | Asymptotic<br>Significance (2-sided) |
|---------------------------------|--------|----|--------------------------------------|
| Pearson Chi-Square              | 29.452 | 12 | .003                                 |
| Likelihood Ratio                | 29.027 | 12 | .004                                 |
| Linear-by-Linear<br>Association | .043   | 1  | .837                                 |
| N of Valid Cases                | 120    |    |                                      |

a.11 cells (55.0%) have expected count less than 5. The minimum expected count is .02.

**FINDINGS OF THE STUDY:**

- It is inferred that 52.5 you're male and 47.5 you're female.
- It is inferred that 63.3 you look after respondent's age is between 26-35 and 54.2 % of respondents are Under graduate.
- It is inferred that 92.5 there have been conscious of M&A of public sector banks and 90 there have been worked within the organization during the time of M&A.
- It is inferred that 47.5 you agree that After M&A, Indian bank offers higher amount of loans to corporate segment & ready to invest in required skill.
- It is inferred that 44.2% feel about the market share of Indian bank after M&A decreases gradually.

From the survey, we came to understand that there have been some changes happened after merger and acquisitions of public sector bank. Therefore, we accept Alternative hypothesis H1 (i.e. there's significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank) and reject null hypothesis H0 (i.e. there's no significant impact of Merger and Acquisitions of Public sector banks towards stronger / anchor bank in India).

#### **SUGGESTIONS:**

After the merger we will see that in various financial parameter of the bank performance have improved in both cases and some parameter have shown no change but it may be possible that improved performance of merged Bank will show in later years the profit are not visible because M&A of public sector banks came into existence from April 2019, it may be possible that profit will be seen in future. There are various motives, which attract the bank for merger but it is not necessary to achieved all objectives after merger, the size of the bank will increase but no guarantee to increase net profitability after merger.

#### **CONCLUSION:**

Merger and Acquisition is the useful tool for growth and expansion in the Indian banking sector. It is helpful for survival of weak banks by merging into larger bank. This study shows the impact of M&As in the Indian banking sector and in this the study we studied that impact of M&A of public sector bank towards stronger / anchor bank that merger led to a profitable situation or not and whether any impact happened in post-merger.

The M&A of Public sector bank taking place in the financial sector in banking showed improved performance in the post-merger time period as compared to the pre-merger period. It was found out that the qualitative impacts of post M&A activities on the performance

of Banks must go beyond the impact of quantitative indicators (financial and economic indicators). For this research we have taken a survey among the employees of Indian bank in kallakurichi district, one of the stronger / anchor bank merged during M&A of public sector bank in India and also compared performance between pre and post-merger in bank. The success of merger is dependent upon synergy gains created after the merger and overall performance of bank, the financial performance of the Public sector Bank have been improved after the merger and was affected positively.

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