Journal of Neonatal Surgery
ISSN(Online): 2226-0439
Vol. 14, Issue 21s (2025)
https://www.jneonatalsurg.com

Merged Banks and their Performance: A Study with Reference to Select Banks in India

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Cite this paper as: Dr Usha K N, (2025). Merged Banks and their Performance: A Study with Reference to Select Banks in India. *Journal of Neonatal Surgery*, 14 (21s), 681-684.

ABSTRACT

Bank mergers were an important part of the early phases of the reforms to the financial sector that began in the early 1990s. Following the proposal of the broad pattern of the banking sector by the Narsimham Committee -1 (1991), the process of merger also gathered momentum. Committees on Fuller Capital Account Convertibility (2006), Financial Sector Assessment (2009), and the S.H. Khan Committee (1997) all went through the same consolidation procedure. (2009). Each of these groups came to the same conclusion: The Indian banking system needs to be reorganized, and it needs to be reorganized in a way that is market-driven, taking into account revenue and viability issues that are brought about by the M&A process. Therefore, the purpose of this research is to compare the efficiency of some merged Indian institutions before and after the mergers.

Keywords: *Financial Sector Reforms, Indian Banking System, Mergers & Acquisitions.*

INTRODUCTION

As a result of economic reforms meant to restore equilibrium and security to the banking industry, the topic of mergers and acquisitions in the Indian banking sector has risen to prominence among industry insiders and policymakers in recent years. Globalization has had a greater impact on the manufacturing and service sectors in India's economy in recent years than it has on the country's banking system, which has seen several high-profile mergers in recent years, including those between ICICI Ltd. and its banking arm ICICI Banks Ltd, Global Trust Bank (GTB) and Oriental Bank of Commerce, and most recently, IDBI and its banking arm IDBI Bank Ltd. Mergers and acquisitions (M&A) are becoming more widely accepted as a strategic instrument in the Indian business world. M&A is also being quickly used by Indian companies as a means of international expansion. Mergers and acquisitions (M&A) in the business world have revitalized the way we do business in both the manufacturing and service sectors. The banking industry has been liberalized and deregulated around the globe, making it more open to competition.

The expansion of globalization and advances in communication technology have diminished the size of the world. Customers from every corner of the world can access a wide range of financial services and products. The success of institutions was largely attributed to recent innovations and enhancements. After losing some of its luster in the 1980s, size has once again become a key factor in the financial sector. Globalization and liberalization, defining features of the international banking and finance policy framework, are forcing a dramatic redrawing of banking structures around the world. Strong banking systems are essential for healthy economic development, as was shown by the Southeast Asian crisis and earlier economic turmoil in several developing nations. Consolidation, which is being tried in India as well, is the only way to improve the competitiveness and quality of the banking system and thereby bring efficiency in the performance. Mergers and acquisitions (M&A) in free markets and foreign market consolidation (C&C) both aim to achieve the same thing. The demands of today's operational environment, which are increasingly shaped by factors like technology, competition, and the emergence of new markets and goods, are simply too great for the current structure to handle. Many factors, including the need for more capital, better risk management, the financing of development projects, advances in technology, enhanced customer service, and a global presence in a wide range of financial products and services (including agency work, foreign exchange trading, insurance, mutual funds, venture capital, merchant banking, factoring, leasing, etc.), point to the importance of banking industry consolidation.

Problem Discussion

When compared to the rest of the world, India's economy is expanding at the fastest rate. India's economy is expanding rapidly and has recently emerged as a global leader in many fields, including IT, R&D, pharma, infrastructure, energy, consumer shopping, telecommunications, banking, financial services, the media, hospitality, and more. After the successful completion of banking sector changes measures in India, there has been a dramatic shift in both the public's view and the operations of commercial banks. Due to the difficulties encountered by the Indian banking sector and the general health of the Indian banking industry's economy, mergers and purchases are not unprecedented. In India, banking plays a pivotal role in the country's economy. Strong banking systems are essential for healthy economic growth, as was proven by the recent South-East Asian crisis and earlier economic turmoil in several developing nations. Increasing the efficiency of the financial system requires raising the system's level of competitiveness and quality.

Mergers and acquisitions (M&A) are one method for businesses to increase their chances of success. Mergers, purchases, takeovers, and other forms of business consolidation move the process along quickly. The government of India has repeatedly proposed ambitious plans to boost the country's economy. The procedure for amalgamation is laid out in the Indian Companies Act of 1956, while the Income Tax Act of 1961 offers incentives to the merged companies. Professionals, consultants, finance managers, banks, and merchant bankers who work with business customers have all been paying attention to the merger. Meanwhile, Indian businesses have to contend with rivalry from multinational corporations. This is a major issue for all sectors, especially the financial industry. They may be able to reestablish themselves as viable, optimally sized entities through M&A reorganization. Therefore, it is important to analyze how well the restructuring has worked. The purpose of this research is to examine the long-term effects of mergers and acquisitions in the financial industry.

The tendency of consolidation in the financial services industry and the banking sector in particular is reflected in the current wave of mergers in India. Banks all over the world have been combining rapidly in recent years to take advantage of operational synergies, scale economies, and meet the needs of increasingly discerning customers. This is why companies prefer rapid development via mergers to the more laborious and time-consuming process of organic growth. It appears that merging companies produces strategic and budgetary benefits. With the above setting the present study is intended to examine the following research objective;

1. To examine the performance of pre and post-merger.

LITERATURE SAMPLES

The performance assessment of scheduled commercial bank mergers and acquisitions in India is examined by Chellasamy and Ponsabariraj (2014). Using a wide range of financial parameters (ROA, ROE, profitability ratios, current ratios, etc.), this paper compares the pre- and post-merger financial success of the merged banks. The research encompasses the years 1999/2000 through 2010/2011. To determine whether or not there is a statistically significant difference between the profitability and liquidity performance of specific commercial banks in India before and after mergers and acquisitions, a paired t-test was conducted. There are no significant shifts in financial success, according to the study's findings.The influence of bank mergers and acquisitions on banks' profitability was studied by Fatima T. and Shahzad A. (2014), who also raised awareness of their post-merger position. Profit after tax, return on assets, return on equity, debt to equity, deposit to equity, and earnings per share were the six financial measures the author zeroed in on. Ten bank mergers between 2007 and 2010 were chosen for this study. All 10 banks' averages were compared using data gathered three years before and three years after the merger. Using a paired sample T-test, we find that the merger and acquisition plan had no effect on any of the ratios except Return on Equity. Raja Abhay, in 2016, examines the efficacy of bank mergers and acquisitions in India. The study includes both the five years prior to the merger and the five years following it. Different profitability, liquidity, and solvency ratios of the institutions have been analyzed to determine the merger's viability.

METHODOLOGY

The following are the banks that have undergone mergers in April 2020 have been chosen for the study.

1. Oriental Bank of Commerce (OBC) and United Bank of India will be merged into Punjab National Bank (PNB). After the merger, these together will form the second-largest public sector bank in the country, after State Bank of India (SBI).
2. Syndicate Bank will be merged into Canara Bank, which will make it the fourth-largest public sector lender.
3. Indian Bank will be merged with Allahabad Bank.
4. Union Bank of India will be merged with Andhra Bank and Corporation Bank

ANALYSIS AND DISCUSSION

Table 1: Banks Ranked by Business Size Pre-merger

Banks	Business size (INR L Cr)	Market Share (%)
SBI	52.05	22.5
PNB + OBC + United Bank	17.94	7.7
HDFC Bank	17.50	7.6
Bank of Baroda	16.13	7.0
Canara + Syndicate	15.20	6.6

Union Bank + Andhra Bank + Corporation Bank	14.59	6.3
ICICI Bank	12.72	5.5
Axis Bank	10.60	4.6
Bank of India	9.03	3.9
Indian Bank + Allahabad Bank	8.08	3.5

Source: Economic Times

The table defines the position of banks undergone mergers and their business size before merging. SBI tops the list with 22.5 per cent of market share having 52.05 lakh crores of business in Indian market. Indian Bank with Allahabad bank seems to have least market share of 3.5 per cent with the business size of 8.08 lakh crores.

Table 2: Particulars of Financials of Banks Pre and Post-Merger

Particulars	PNB		Canara		Indian		Union	
	Pre-Merger	Post-Merger	Pre-Merger	Post-Merger	Pre-Merger	Post-Merger	Pre-Merger	Post-Merger
Loan (INR Cr)	458200	684500	427700	632800	181300	323500	296900	577000
CASA Ratio (%)	42.2	40.5	29.2	30.2	34.7	41.6	36.1	33.8
Net NPL (%)	6.6	6.4	5.4	5.6	3.7	4.4	6.8	6.3
PCR (%)	61.7	59.7	41.5	44.3	49.1	66.2	58.3	63.1
Tier 1 Equity (%)	7.5	8.3	9.2	9.8	11.5	9.8	9.6	10

Source: Economic Times & Hindu Business Line

1. Among the four mergers, the combined entity of Allahabad Bank and Indian Bank will have the lowest net NPA (non-performing assets), while boasting the highest provisioning coverage and strongest CASA (current account and savings account) franchise.
2. “Indian Bank’s merger with Allahabad Bank will help it emerge as a strong entity with reach, improving provisioning coverage ratio (PCR) and strong CASA ratio,” suggests Bumb. The merged entity also has the least branch overlap. However, this diversity in cultures may prove challenging during integration and may also lend no major cost benefits from the merger.
3. Further, Indian Bank will see deterioration in its asset quality owing to Allahabad Bank’s unhealthy loan book.
4. Greater synergies are likely to accrue from the merger of Syndicate Bank with Canara Bank as both have similar cultures and geographical presence. The merged entity will become the fourth-largest lender in the country, with better provisioning and capital ratios post-merger.
5. The combined entity of Union Bank will see improved provisioning and capital ratio after the merger with Andhra Bank and Corporation Bank**.** However, its asset quality position will take a hit, with the merged bank likely to report the highest gross NPA ratio among the four entities.

H_{01}: There is no significant difference in the performance of select banks pre and post-merger

Table 3: Paired Sample t test

Banks	t	Sig. (2-tailed)	Remarks
PNB	65.20	0.05	**H_{01} Rejected**
Canara	-14.72	0.02	**H_{01} Rejected**
Indian	6.93	0.01	**H_{01} Rejected**
Union	52.98	0.05	**H_{01} Rejected**

Source: RBI

The table 3 denotes the paired sample t test for the testing of significance of the performance of merged banks in India. The table confers that the t value is 65.20, -14.72, 6.93 and 52.98 for the banks PNB, Canara, Indian and Union respectively. The p values for all the banks too are found significant at 5 per cent for PNB, Canara and Union. The p Value is significant at 1 per cent for Indian bank. Hence the null hypothesis is rejected and concluded that there is a significant difference in the performance of select banks pre and post-merger.

CONCLUSION

The practice of merging and buying up other companies is now common practice in the business world. In this ever-changing landscape, India has also become a key actor. Research on mergers and acquisitions (M&A) has not been able to provide conclusive proof on whether they improve efficiency or destroy wealth, despite the fact that they have been a crucial part of corporate strategy around the world for several decades. These days, mergers and purchases are commonplace in the Indian business world. However, there seems to be a lack of information regarding the long-term performance of firms in India following a merger and the strategic variables that influence that performance. A bank's profitability and financial success are major factors in determining whether or not to merge with another institution. There have been a large number of mergers and acquisitions in the Indian banking sector recently. The conclusion is that corporate governance of the banks is intrinsically linked to the bank merging. The current merger boom appears to be driven primarily by a desire for increased efficiency and broader powers.

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