



MERGERS AND ACQUISITIONS IN INDIAN BANKS: AN ANALYSIS OF FINANCIAL PERFORMANCE

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ABSTRACT

Corporate restructuring is a strategy used to revise capital structure, expand business, and defeat rival competitors. Banks undergo mergers and acquisitions to expand their geographic reach, strengthen their financial position, enhance their competitive edge, and drive internal growth. Mergers and acquisition often leads some problems like lack co-operation, technical issue, and volition retirement and losing of customer etc. Banks are facing stiff competition because of globalisation; mergers and acquisitions are the key tool to face the effects of globalisation. Along with facilitating global competition, it contributes largely to banking financial performance. The present study focuses on the effect of mergers and acquisitions on banking financial performance. This research covers two public sector bank mergers, viz Bank of Baroda (BoB) and Punjab National Bank (PNB). The findings of the study state that the Bank of Baroda's financial performance got improved after merger and in case of Punjab National Bank found weak improvement. It is recommended to implement a uniform HR policy to reduce cultural integration issues and to complete its Core Banking System within a year.

KEYWORDS: Mergers and Acquisitions, Bank of Baroda, Punjab National Bank

INTRODUCTION

Corporate restructuring the process of modify their existing operations or the process of modifying existing operations or the capital structure to strengthen financial conditions of the Banks. It involves mergers or amalgamations, financial restructuring, takeovers, acquisitions and demergers. Mergers and acquisitions constitute the inorganic growth strategy that is being used by the banks in the existing bank sector in response to the intense competition in the banking environment. Liberalisation, globalisation and technological advancements in the competitive business environment have made Mergers and Acquisitions (M&As) gain importance in the business world.

Banks function as financial institutions or financial corporations under the authorisation of the state and central government in order to deal with currency through the functions of accepting deposits, lending loans and investing in securities. The important role of banks is in economic growth with the offering of finance to investors. In the current era with the globalisation effects, banks are need to sustain many changes with respect to its regulations which affects the banking industry strategically as well as structurally. The banks frame different strategies in building themselves efficiently in the global arena, which comprising of the consolidations in between banks. Banks, in response to industry consolidation, adopt M&A strategies with the objectives of achieving synergies, enhancing financial performance, strengthening their competitive position and promoting internal growth.

Over the last decades, the Indian banking sector has undergone a major structural consolidation process, propelled by regulatory changes, driven by regulatory changes, driven by regulatory changes stress on balance sheets and the need to improve overall financial stability. The consolidation of PSBs, which began in 2017, represented a significant strategic shift in policy to build a smaller number of larger and more resilient banks that can sustain credit expansion and withstand economic volatility. This merger drive was initiated in a context characterised by rising NPAs, stricter capital requirements under the Basel III framework and growing competition from private and foreign sector banks. Collectively, these factors have transformed the operational landscape of Indian banking and positioned M&As as a key tool for sectoral reforms.

Review of Literature

Kumar & Singh (2019) discussed the impact of SBI merger with its associate banks and found that ROA & ROE declined in the short term due to integration costs and increased NPAs, but CASA and market share improved.

Sowmya R & Vaishnavi S (2023) analysed the Bank of Baroda triple merger and concluded that CAR improved post-merger due to government capital infusion, but profitability was under stress for 2 years.

Anand & Singh (2021), in their study of the PNB merger they found that operating profit improved due to scale, but the GNPA ratio rose to 14% in FY.

Kumar and Aggarwal (2022) observed that the principal objective behind the merger of three public sector banks was to enlarge the customer base and improve customer service delivery. Because mergers in the service sector significantly affect employees, the



study considered human resource management an essential component of the integration process. Using data from 2016–17 to 2020–21, the study examined Bank of Baroda's (BOB) pre- and post-merger performance through selected financial indicators: the investment valuation ratio, debt coverage ratio, profit and loss ratio, and efficiency ratio. The findings indicated that human resource considerations should be integrated into every stage of the merger process in the service sector.

Kulothunga compared the pre- and post-merger performance of Bank of Baroda, State Bank of India, and IDBI Bank during 2000–2010 using net profit ratio, ROE, ROA, EPS, and profit per employee. A paired *t*-test revealed that mergers negatively affected net profit ratio, ROE, and ROA, but positively influenced EPS and profit per employee, suggesting improved risk management and financial health.

Research Gap

Most of the existing studies focus only on a single bank. There is limited comparative study covering the period of 2019 and 2020 mega mergers with data up to FY 2024. Also, most of the studies use data for 1 year post-merger, which is insufficient to capture synergy. This study covers 3 years pre-merger and 4 years post-merger (2017-24) for two major mergers. Providing a more comprehensive comparative analysis.

Research Methodology

Research Design: Descriptive and analytical research design based on secondary data.

Data Source: Annual reports of Bank of Baroda and PNB, RBI database, Money control, and NSE filings.

Period of Study: Pre-merger and post-merger (FY2017 to FY2024 was covered)

Tools for analysis: Financial ratio analysis: Profitability ratios (ROA), (ROE), (NIM), Asset quality (GNPA %, NNPA %), Capital adequacy (CAR), liquidity (CASA Ratio), Efficiency (cost-to-income ratio).

Statistical Tool: Paired *t*-test to check for a significant difference between pre- and post-merger mean performance.

Hypothesis:

H₀: There is no significant difference in financial performance of banks before and after the merger.

H₁: There is a significant difference in the financial performance of banks before and after the merger

DATA ANALYSIS

Case 1: Bank of Baroda + Vijaya Bank + Dena Bank

Table 1: Financial Statement of Bank of Baroda (Rs in Cr)

Financial Indicator	Pre-Merger Avg [FY17-19]	Post-Merger Avg [FY20-24]	Change	Interpretation
Total Business	10,29,000	20,14,000	+95.7%	Huge scale advantage
ROA [%]	0.12	0.62	Improved	Profitability improved after FY22
ROE [%]	2.5	9.8	Improved	Better return to shareholders
NIM [%]	2.54	3.05	+0.51%	Improved due to low-cost deposits of Vijaya
GNPA [%]	11.2	5.4	-5.8%	Drastic improvement due to recovery & write-offs
CAR [%]	12.24	15.84	+3.6%	Strong capital base
CASA [%]	36.1	41.3	+5.2%	Vijaya Bank had high CASA, which helped BoB
Cost-to-Income	48.2%	46.5%	-1.7%	Efficiency improved

Interpretation - BoB: In FY20, BoB reported a loss due to integration costs. But from FY22 onwards, synergies are visible. Branch rationalisation [800+ branches closed/merged] reduced costs. Asset quality improved significantly.

Case 2: Punjab National Bank + OBC + UBI

Financial Indicator	Pre-Merger Avg [FY18-20]	Post-Merger Avg [FY21-24]	Change	Interpretation
Total Business	11,82,000	21,65,000	+83%	Became 2nd largest PSB
ROA [%]	-0.45	0.35	Improved but weak	Was in loss pre-merger due to Nirav Modi fraud
ROE [%]	-8.2	6.9	Improved	Turnaround story
NIM [%]	2.31	2.78	+0.47%	Slight improvement
GNPA [%]	14.8	8.9	-5.9%	Still highest among merged banks
CAR [%]	11.8	14.9	+3.1%	Govt infused Rs. 16,000 Cr
CASA [%]	42.1	44.8	+2.7%	UBI had strong CASA in East
Cost-to-Income	52.3%	49.1%	-3.2%	Efficiency yet to reach BoB level



Interpretation - PNB: PNB's merger was more challenging because all three banks were under PCA [Prompt Corrective Action] and had high NPAs. The merger helped it survive and grow in size, but asset quality pressure continues. The integration of IT systems took longer [until 2022].

Paired t-test					
Name of bank	Statistical test	p-value	Significance level	decision	Interpretation
Bank of Baroda	Paired T =Test on ROA	0.032	0.05	Reject H_0	Significant improvement
Punjab National Bank	Paired T =Test on ROA	0.068	0.05	Accept H_1	Improvement is not statistically significant yet needs more time

The paired t-test on ROA shows a significant improvement for Bank of Baroda ($p = 0.032 < 0.05$), therefore, H_0 is rejected. For Punjab National Bank, the improvement is not statistically significant ($p = 0.068 > 0.05$); therefore, H_0 is accepted, indicating that more time is needed to realise merger benefits.

FINDINGS

1. In both cases of mergers, the scale of business is increased.
2. In the first 1-2 years post-merger, there was a decline in ROA/ROE due to costs incurred for the merger, harmonisation of HR, IT and accounting policies.
3. GNPA improved in the long run due to better recovery mechanisms, diversification of the loan portfolio, and government support. However, PNB still struggles.
4. CAR improved for both banks due to capital infusion by the Government of India as part of the merger package.
5. Merged banks Vijaya Bank for Bank of Baroda and Union Bank of India for PNB have benefited based on CASA.
6. Cost-to-income ratio improved due to closure of overlapping branches and administrative offices.

SUGGESTIONS

1. The biggest challenge in the merger is cultural integration. Therefore, a uniform HR policy, retraining and voluntary retirement should be implemented sensitively.
2. To reduce customer inconvenience, Core Banking System (CBS) migration should be completed within 12 months.
3. To reduce NPA, a dedicated stressed asset vertical should be created for the merged entity.
4. In the case of Vijaya, Dena, OBC, and UBI customers felt a loss of identity, so banks should run customer awareness campaigns.
5. Post-merger, banks should focus on recovery of bad loans rather than aggressive lending.

CONCLUSION

The study concludes that mergers and acquisitions have a mixed but largely positive impact on the financial performance of public sector banks in India. Bank of Baroda merger is a relatively more successful case, showing significant improvement in profitability and efficiency after 3 years. PNB merger, while successful in creating a large bank and ensuring the survival of weaker banks, is still in the stabilisation phase, and its financial turnaround will take more time.

The success of merger does not depend on size alone but on how effectively synergy managed- especially people technology and bad loans. If managed well, PSB mergers can create banks competitive and capable of supporting India's 5 trillion economy dream

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