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Research Article

PERFORMANCE OF MERGED NATIONALIZED COMMERCIAL BANKS IN INDIA – A COMPARATIVE ANALYSIS OF PRE- AND POST-MERGER

Dr. S. Kulothunga Pandian*
Assistant Professor, Dept. of Commerce, Sri Kaliswari College (Autonomous)
Sivakasi, Tamil Nadu, India.

*Corresponding author | Received: 16/10/2020 | Accepted: 09/11/2020 | Published: 25/11/2020

Abstract: *The present study provides a comparative analysis of the performance of merged nationalized banks in India pre- and post-merger between the time period 2000 to 2010 on different parameters like net profit ratio, return on equity, return on assets, earnings per share, and profit per employee. The banks considered for the study included Bank of Baroda, State Bank of India, and IDBI Bank. With the help of paired t-test, it was found that there was a negative impact of the merger on net profit ratio, return on equity, and return on assets, while there was a positive impact of the merger on earnings per share, and profit per employee.*
Keywords: *Banking Industry, Nationalized Commercial Banks, Merger, Long-term Profitability, Financial Performance*

Introduction

Indian Banking industry has a significant role to play in the economic development of the country. Many reforms have been done in the Banking system of India for the last three decades. There are two types of banks in the banking industry, that is, Scheduled commercial banks and non-scheduled commercial banks. Banks that are registered in Schedule II of the Reserve Bank of India Act, 1934 are known as scheduled banks. Scheduled banks are further divided into three categories i.e., public sector banks, private sector banks, and foreign banks. All the nationalized banks, State Bank of India and Regional Rural Banks are known as public sector banks. The private sector is of two types, that is, new private sector banks and old private sector banks. Banks working in rural areas are known as regional rural banks. These banks are sponsored by any particular bank, state, and central government.

Seeds of the banking industry are sown back in the 18th century during colonial time and the first bank established in India were General Bank of India and Bank of Hindustan established in 1786 and 1790 respectively. Later on, some more presidential banks were established like Bank of Bengal, Bank of Bombay and Bank of Madras under the Charter Acts of British East India Company. Later on, these banks were combined to form the Imperial Bank of India in 1921 which was later renamed as State Bank of India after post-Independence. Bank of India, Bank of Baroda, Canara Bank, Corporation Bank, Indian

Bank and Central Bank of India were established between the time period of 1906 and 1911. All these banks have survived until the present era.

Indian Banking Industry has gone a vast change since 1992 that includes organizational and functional changes, resource mobilization, the role of banks in socio-economic conditions, problems and solutions. Indian Banking System has covered a long journey from a highly regulated environment related to different parameters like branch, location, interest rate on deposits and advances, priority sector lending, etc., to a highly competitive environment by bringing various reforms in the banking industry since 1992. In the pre-liberalization era, banks were not evaluated on the base of profitability, especially the public sector banks while in the post-liberalization era, there has been a vast change in the philosophy, perception, and functioning of commercial banks. And to understand the role of commercial banks and their problems and challenges that they face currently, there is a dire need to study the major developments made in the banking sector during the post-reform period.

Banks are financial institutes or corporation that is authorized by the state to deal with the money related operations like accepting deposits, giving out loans and investing in different securities. Banks mainly perform the work that is related to economic growth, expansion of the economy and provide funds to invest in various projects. In the present era, various changes are taking place in the banking industry due to regulation and globalization, which are significantly affecting the banking system. Different strategies are adopted in this sector so that it could work efficiently and surge ahead in the global arena. One such strategy is consolidating banks, which is found to be one of the successful strategies to save our banking system. Consolidation of banks can be performed in many ways, one of them is through mergers. Merging two weaker banks or one healthy bank with the weaker one can lead to faster and cheaper profit-making than spurring internal growth. The main objective to merge the banks is to achieve economies of scale and scope. It diversifies the products, that helps in reducing the risks.

The banking system in India has achieved various outstanding and remarkable achievements in a very short time span, for the world's largest and diverse democracy. Several reforms are done in the Indian Banking Industry in the post-liberalization era and some successful mergers are also done that have helped it to grow manifold.

In the year 1968, an ordinance was issued by the central government to nationalize 14 commercial banks in the country. These banks at that time contained 85% of the total deposits of the country. Another nationalization was done in the year of 1980 in which 6 more banks were nationalized. With this significant step, 91% of the banking sector came under the control of the central government, and with this step number of nationalized banks grew to 20. In the year 1993,the government took another step towards economic growth and decided on the merger of banks. The New Bank of India was merged with Punjab National Bank. This was the first and the only merger between two nationalized banks and it decreased the number of nationalized banks from 20 to 19, which is the same to date.

Presently, banking organizations have increased their scope and complexity of their activities and are facing different and increasingly complex regulatory environment. Globally it has been realized that mergers and acquisitions are the only methods to gain an advantage of competitive environment, domestically and internationally. And the whole industry is looking forward to strategic acquisitions within India and abroad.

There are several reasons to perform mergers like consolidation of business, to expand the business to enter a new market, to increase the product line, synergies, etc. The combined value of merged firms is known as synergies. A major transformation has occurred in the Indian banking system. It is expected that the industry would further reach more heights of growth due to increased expenditures on infrastructure, speedy implementations of projects and continued reforms in the country. All the factors show a clear indication for robust growth in the banking industry, therefore, increasing the business opportunities. The advancement in technology like mobile banking and internet banking have brought improvisation and transparency in the banking system that provides maximum satisfaction to the customers.

There are 5 types of merger – The first one is a Vertical merger, in which merger is done between the non-competing companies where one's product or component is the necessity of the other one. This type of merger is done between firms that are involved in different types of business. The second one is Horizontal merger, in this type of merger firms that are involved in the same type of business and compete with each other are merged together. The acquiring firm and the target one both are involved in the same business. The third one is the Accretive merger, in which the company having a high price of earning ratio purchases a company of low price to earning-ratio. And if there is no economic relationship between the parent and the target company then it is the fourth type of merger known as the Conglomerate merger. A merger when EPS of the acquiring company falls after a merger is the fifth type of merger that is a Dilutive merger. This is due to the poor performance of the target company.

According to Narayanswamy (2017), financial analysis is considered as a technique that is used to study the annual performance report of the company so that relevant information is provided to decision-makers. There is always a need to check the performance of the target company before acquiring it as all the stakeholders are affected by the merger. Since the financial performance of the acquiring firm is also affected by the merger, it may be positive or negative. It is necessary for the acquiring company to evaluate the performance before performing any kind of merger deal. If not done so the merger can lead to poor financial performance.

Mergers in the India Banking sector are done to strengthen the banking sector by merging the weaker and inefficient one with the stronger and profit-making one. But in recent times, it is observed that the mergers are performed between the profit-making banks for making benefits further and making a strong way of synergies to mergers. Several mergers have taken place due to various reasons over a period of time. Therefore, the study of banking mergers in India has become significant in coarse of time.

Mergers provide an opportunity for banks to share their resources, reduce intermediate costs, and to expand and improve chances to scale up their performance and economy of the sector. These developments have important implications for improving operations related to the banking system and earn more profits. Therefore, it is important to understand the banking industry and how they work in the emerging challenges and which banks are performing well in these challenging situations for both managerial and policy interest.

Literature Review

Ishwarya J (2019) studied the Mergers and Acquisitions (M&A) of the Indian Banking System in order to understand the resulting synergies and their long-term impacts. In the paper, he also analyzed the emerging trends in Mergers and Acquisitions of Indian Banking and the impacts seen after the mergers performed. A comparative analysis is done on the financial performance of pre- and post-merger considering the financial parameters. The data collected for the study are from secondary sources. Findings of the research suggest that mergers have been successful in the Indian Banking System. The study also suggests that mergers between a weak and strong bank in order to increase the interest of depositors of weak banks, must not be encouraged by the government and policymakers as it would adversely affect the asset quality of stronger banks.

Zhang, et al. (2018) observed the relationship between merger and performance of firms with the help of partial least squares regression and the data of listed Chinese pharmaceutical firms for the time period of 2008 to 2016. In the research, it was analyzed that when all the other conditions were unchanged, then value chain extension merger and acquisition and technology seeking merger and acquisition had a positive impact on the performance of the firm. It also described the growth ability of the firm, its assets, and the solvency of the firm had no impact on its performance after merger and acquisition.

Athma and Bhavani (2017) studied the phase-wise, sector-wise and time-wise mergers and performance of mergers in the Banking system of India. In the study, the trends of the merger of the banking sector were also evaluated. Data collected for the study is taken from secondary sources. Simple percentage, f-test, and t-test are performed for the analysis done in the study. Findings of the paper suggest that mergers performed throughout the pre-liberalization period, the public sector banks mostly dominate the scenario of mergers. The role of private sector banks increased in the post-liberalization period in merger activities. The study has found that in the present scenario mergers are taken as an important strategy for consolidation and expansion. That is why profit-making banks are taking a keen interest in the merger activities.

Patel (2017) studied the comparison between pre-merger and post-merger of long-term plans and profitability with respect to Indian banks for the period of 2003-04 to 2013-14. The sample for the study included the data from Bank of Baroda, Oriental Bank, Bank of India and IDBI Bank. It was found that there was a negative impact on equity returns, return on assets, net profit ratio, advance, and investment yield while there were a positive trend and growth in some variables like per-share earnings, profit per employee, and business per employee after a merger.

Jayadev et al., (2017) described the innovation done in the Indian Banking structure that laid the foundation of new banking institutions that were small finance banks (SFBs). These banks provided basic banking services and credit services that could support a large population by implementing different banking models. Those models in the banking system helped them to penetrate into financial inclusion. There were some challenges faced by the banking system like low-cost liability portfolios, management of technology, and to balance the regulatory compliance.

Kant (2016) defined merger as amalgamation. When two or more than two companies mix to form a new company or the parent company acquires all the assets and liabilities of the other companies, it is known as a merger. In the study, the process of the merger had been described that all the assets, liabilities and stocks of the companies are transferred to the transferee company and the payments are done of purchasing considerations. The economy of the country is said to be healthy or sound if the banking system is healthy as banks are dominant financial institutes of the country and have shown remarkable growth even in the period of the global financial crisis.

Kumar (2013) studied the impact of consolidation on the profitability and efficiency parameters of the banking system. A comparative study was done on the pre- and post-merger performance of Bharat Overseas Bank and Indian Overseas Bank, on the basis of some parameters that included Profit Per employee, Business Per Employee, Investment and Advances, Interest Income, Return on Assets, NPAs, etc. The study concluded that mergers improve all the parameters of the banks that would, further, improve the condition and performance of the overall banking system.

Khan (2011) drew a comparison between the pre- and post-merger financial performance on the basis of parameters like gross profit margin, net profit margin, operating profit margin return on equity, debt-equity, etc. The data for the study was collected since economic liberalization for the sake of various financial parameters. The independent t-test was used in the research for ratio analysis and also for testing the impact of a merger on the performance of the bank. Through the analysis, it was seen that banks get deeply affected by the merger process. Merged banks become more efficient and earn more profits through merger and acquisition and equity shares are passed out in the form of a dividend.

Goyal and Joshi(2011) described the world as a jungle where the strong one is always ready to gobble the weaker one, therefore one must be competent enough to survive in the battleground. The study reviewed the merger of banks with special reference to Bank of Rajasthan Ltd. and ICICI Bank Ltd. The sample of 17 banking mergers was taken for the study and the factors taken into consideration including the number of branches, geographical penetration in the market and the benefits obtained from mergers. It not only described the financial aspects but also raised some questions related to human resources management and behavior of organizations. Through the analysis, the benefits of the mergers were identified that the sick banks survived after the merger, customer base and market share increased.

Singh and Gupta (2011) analyzed pre- and post-merger conditions of firms on the basis of some financial parameters like earnings before interest and tax (EBIT), returns on shareholder’s funds, profit margin, cost efficiency, etc. It was observed that after a few years of merger, companies came to a point that they would leverage the synergies that aroused from the merger and acquisition that could not manage their liquidity. Thus, it was concluded that firms had profits after post-merger.

Raiyani (2010) studied the impact of mergers on efficiency as well as productivity of Indian banks. The sample of the study included six banks, namely, Bank of Baroda, Punjab National Bank, Oriental Bank of Commerce, HDFC, ICICI, and CBOP. The data was analyzed five years before as well as after the merger with the help of CAMEL rating (Capital, Assets, Management, Earnings, Liquidity). The findings revealed that in terms of profitability and liquidity, the private sector merged banks dominated, while, in terms of capital adequacy and NPAs, the public sector merged banks dominated.

Research Gap

It is being observed that though most of the research study done on merger and acquisition of Indian banking sector has emphasized on the profitability and financial analysis of the merger and acquisition of banking sector. In this study, a detailed investigation and evaluation will be done on merger keeping the Indian banking industry as the prime focus. In the study, the pre- and post-merger conditions and performance of banks will be evaluated and attempts for future predictions will be done on the basis of their performance and profit-making abilities.

Objectives of the study

1. To analyze the performance of banks pre- and post-merger in terms of long-term profitability
2. To analyze the performance of banks with the average of the industry in both pre- and post-merger

Hypotheses

1. Analyzing the impact of pre-merger and post-merger on Net Profit Ratio
   H_0: There is no significant impact of pre-merger and post-merger on Net Profit Ratio
   H_1: There is a significant impact of pre-merger and post-merger on Net Profit Ratio
2. Analyzing the impact of pre-merger and post-merger on Return on Equity
   H_0: There is no significant impact of pre-merger and post-merger on Return on Equity
   H_1: There is a significant impact of pre-merger and post-merger on Return on Equity
3. Analyzing the impact of pre-merger and post-merger on Return on Assets
   H_0: There is no significant impact of pre-merger and post-merger on Return on Assets
   H_1: There is a significant impact of pre-merger and post-merger on Return on Assets
4. Analyzing the impact of pre-merger and post-merger on Earnings per Share
   H_0: There is no significant impact of pre-merger and post-merger on Earnings per Share
   H_1: There is a significant impact of pre-merger and post-merger on Earnings per Share

5. Analyzing the impact of pre-merger and post-merger on Profit per Employee

   H_0: There is no significant impact of pre-merger and post-merger on Profit per Employee

   H_1: There is a significant impact of pre-merger and post-merger on Profit per Employee

Data and methodology

Data collection

With the help of a judgmental sampling method, the selected sample for the study included three public sector banks, namely, Bank of Baroda, State Bank of India, and IDBI Bank. The data collected is of eleven years, from 2000 to 2010, where five years are before the merger while five years are post-merger. The sources from which the data has been collected are RBI reports, reports of Indian bankers' association, Centre for Monitoring Indian Economy, and ACE Equity database software.

Methodology

The study adopted a descriptive research design witha basic research approach. The variables undertaken for the study included net profit ratio, return on equity, return on assets, earnings per share, and profit per employee. The paired t-test was used for calculating the financial performance and long-term profitability. The Student's t-distribution is:

$$\mathbf{t} = \frac{\bar{x} - \mu}{s/\sqrt{n}}$$

where

$$\bar{x} = \frac{x_1 + x_2 + \cdots + x_n}{n}$$

$$s^2 = \frac{1}{n-1}\sum_{i=1}^{n}(x_i - \bar{x})^2$$

Where $x_1, x_2, \ldots, x_n$ be the numbers observed with expected value μ.

Ratios:

1. Net Profit Ratio = (Net Income/Revenue) X 100
2. Return on Equity = (Net Income/Shareholder's Equity) X 100
3. Return on Assets = (Net Income/Average Total Assets) X 100

Analysis and Interpretation

Table 1: Pre- and Post-Merger Financial Performance of Bank of Baroda

Particulars	Duration	Mean	Standard Deviation	t-value	Sig.
Net Profit Ratio (%)	Pre-Merger	27.88	51.62	0.21	0.008
	Post-Merger	22.26	32.12		
Return on Equity (%)	Pre-Merger	15.81	4.64	1.15	0.31
	Post-Merger	14.10	2.69		
Return on Assets (%)	Pre-Merger	0.88	0.28	0.17	0.86
	Post-Merger	0.87	0.14		
Earnings per Share (Rs.)	Pre-Merger	20.84	9.06	-3.72	0.020
	Post-Merger	34.90	16.15		
Profit per Employee (Rs. in Lakh)	Pre-Merger	0.01	0.01	-3.65	0.021
	Post-Merger	**0.03**	**0.02**		

In Table 1, the financial performance of the Bank of Baroda during the pre- and post-merger period has been analyzed. The net profit ratio witnessed a decline from 27.88 percent in pre- to 22.26 percent in the post-merger period. With the t-value being 0.21 and a significance value of 0.008, it can be concluded that there has been a significant impact of the merger on the net profit ratio of the bank. The return on equity pre-merger period was 15.81 percent while during the post-merger period was 14.10 percent. The t-value calculated was 1.15 and the significance value was 0.31, depicting an insignificant impact of the merger on the performance of the bank. The return on assets pre- and post-merger were 0.88 percent and 0.87 percent, depicting a negligible change in the impact of the merger on return on assets. From the table, the average earnings per share during the pre-merger period was Rs. 20.84 and post-merger were Rs. 34.90. Through the t-value of -3.72 and significance value of 0.020, it is revealed that post-merger, the average earnings per share increased significantly. Profit per employee rose from Rs. (lakh) 0.01 in pre-merger to Rs. (lakh) 0.03 in post-merger. The t-value of -3.65 and significance value of 0.021 shows that there had been a significant impact of the merger on profit per employee of the bank. Thus, a negative impact of merger can be seen on the Net Profit Ratio and Return on Equity while a positive impact of merger can be seen on Earnings per Share and Profit per Employee.

Table 2: Pre- and Post-Merger Financial Performance of State Bank of India

Particulars	Duration	Mean	Standard Deviation	t-value	Sig.
Net Profit Ratio (%)	Pre-Merger	17.93	22.32	0.46	0.016
	Post-Merger	9.96	25.91		
Return on Equity (%)	Pre-Merger	16.21	1.04	2.59	0.060
	Post-Merger	12.88	2.64		
Return on Assets (%)	Pre-Merger	0.96	0.10	2.12	0.100
	Post-Merger	0.79	0.15		
Earnings per Share (Rs.)	Pre-Merger	112.92	29.73	-0.535	0.62
	Post-Merger	134.85	71.70		
Profit per Employee (Rs. in Lakh)	Pre-Merger	0.03	0.01	-3.67	0.02
	Post-Merger	0.05	0.01		

The financial performance of State Bank of India pre- and post-merger is depicted with the help of Table 2. The net profit ratio decreased from 17.93 percent to 9.96 percent after the merger. The t-value of 0.46 and the significance value of 0.016 shows that there had been a significant negative impact of the merger on the net profit ratio of the bank. Similarly, the return on equity saw a decline from 16.21 percent to 12.88 percent with t-value being 2.59 and a significant value of 0.060. There was a decline in return on assets from 0.96 percent in pre-merger to 0.79 percent in post-merger. With t-value of 2.12 and a significance value of 0.100, an insignificant impact of merger can be seen on return on assets. After the merger, the average earnings per share increased from Rs. 112.92 to Rs. 134.85. There was an insignificant impact of the merger on the average earnings per share, as depicted from the t-value of -0.535 and significant value of 0.62. The profit per employee saw a rise from Rs. (lakh) 0.03 in the pre-merger period to Rs. (lakh) 0.05 in the post-merger period. The t-value and significant value being -3.67 and 0.02 respectively, showed the significant impact of the merger on the profit per employee of the bank. Thus, it can be concluded that the merger had a negative impact on Net Profit Ratio and Return on Equity while it had a positive impact on Earnings per Share and Profit per Employee.

Table 3: Pre- and Post-Merger Financial Performance of IDBI Bank

Particulars	Duration	Mean	Standard Deviation	t-value	Sig.
Net Profit Ratio (%)	Pre-Merger	101.45	51.62	2.86	0.0455
	Post-Merger	25.19	19.69		
Return on Equity (%)	Pre-Merger	17.21	7.92	1.12	0.032
	Post-Merger	12.44	2.20		
Return on Assets (%)	Pre-Merger	0.89	0.25	2.37	0.076
	Post-Merger	0.61	0.07		
Earnings per Share (Rs.)	Pre-Merger	5.40	1.60	-6.47	0.0029
	Post-Merger	12.32	3.23		
Profit per Employee (Rs. in Lakh)	Pre-Merger	0.07	0.03	-2.05	0.0109
	Post-Merger	0.09	0.02		

Table 3 shows the financial performance of IDBI bank during the pre-merger and post-merger period. The net profit ratio of 101.45 percent before the merger fell drastically to 25.19 percent after the merger. The t-value obtained is 2.86 and the significant value is 0.0455. The return on equity pre-merger is 17.21 percent and post-merger is 12.44 percent. With t-value of 1.12 and a significance value of 0.032, a significant adverse impact of a merger can be seen on return on equity. The return on assets is 0.89 percent before the merger and 0.61 percent after the merger. The t-value is 2.37 and the significance value is 0.076, depicting a significant negative impact of the merger on return on assets. On the contrary, the earnings per share rapidly increased from Rs. 5.40 pre-merger to Rs. 12.32 post-merger. The t-value of -6.47 and a significant value of 0.0029 shows that there had been a significant positive impact of the merger on earnings per share. Similarly, the profit per employee enhanced from Rs. (in Lakh) 0.07 to Rs. (in Lakh) 0.09 after the merger. There had been a significant impact of the merger on profit per employee as depicted from the t-value of -2.05 and a significant value of 0.0109. Thus, it can be concluded that there was a significant negative impact on the net profit ratio while return on equity, return on assets, earnings per share, and profit per employee had the average impact of the merger.

Table 4: Comparative analysis of the financial performance of banks with an average of the industry

Particulars	Period	Bank of Baroda	State Bank of India	IDBI Bank
Net Profit Ratio (%)	Pre-Merger	27.88	17.93	101.45
	Post-Merger	22.26	9.96	25.19
Return on Equity (%)	Pre-Merger	15.81	16.21	17.21
	Post-Merger	14.1	12.88	12.44
Return on Assets (%)	Pre-Merger	0.88	0.96	0.89
	Post-Merger	0.87	0.79	0.61
Earnings per Share (Rs.)	Pre-Merger	20.84	112.92	5.4
	Post-Merger	34.9	134.85	12.32
Profit per Employee (Rs. in Lakh)	Pre-Merger	0.01	0.03	0.07
	Post-Merger	0.03	0.05	0.09

Table 4 draws a comparative analysis of the financial performance of banks with an average of the industry. Among the banks chosen, it can be seen that the net profit ratio of State Bank of India was relatively lower than the Bank of Baroda and IDBI Bank during both pre- and post-merger period. At the same time, the return on equity of Bank of Baroda was higher after the merger than the average in the industry. Though the return on assets was higher in State Bank of India pre-merger, the return on assets of Bank of Baroda saw a rise after the merger. State Bank of India had higher earnings per share both pre- and post-merger as compared to Bank of Baroda and IDBI Bank. Similarly, profit per employee of IDBI Bank was higher as compared to Bank of Baroda and State Bank of India, in both pre- and post-merger period.

Results and Discussions

Relating the findings with the hypothesis, the following has been obtained:

1. Analyzing the impact of pre-merger and post-merger on Net Profit Ratio.

   The results showed that the net profit ratio post-merger decreased significantly from the pre-merger period. Thus, it can be seen that there has been a significant impact of pre-merger and post-merger on the net profit ratio, leading to the acceptance of H_1.

2. Analyzing the impact of pre-merger and post-merger on Return on Equity

   The results showed that return on equity post-merger decreased significantly from the pre-merger period. Thus, it can be seen that there has been a significant impact of pre-merger and post-merger on return on equity, leading to the acceptance of H_1.

3. Analyzing the impact of pre-merger and post-merger on Return on Assets

The results showed that return on assets post-merger decreased significantly from the pre-merger period. Thus, it can be seen that there has been a significant impact of pre-merger and post-merger on return on assets, leading to the acceptance of H_1.

4. Analyzing the impact of pre-merger and post-merger on Earnings per Share
   The results showed that earnings per share post-merger increased significantly from the pre-merger period. Thus, it can be seen that there has been a significant impact of pre-merger and post-merger on earnings per share, leading to the acceptance of H_1.
5. Analyzing the impact of pre-merger and post-merger on Profit per Employee
   The results showed that profit per employee post-merger increased significantly from the pre-merger period. Thus, it can be seen that there has been a significant impact of pre-merger and post-merger on profit per employee, leading to the acceptance of H_1.

Conclusion and Future Dimensions

It is generally believed that large banking firms are less risky and more efficient than the smaller firms or the trend that global banking industries are consolidating to eliminate excess capacity, but the fact that public policies have encouraged the banks for mergers cannot be denied. Mergers are not always done to hide weaknesses but to strengthen the financial sector. It can make each and every branch and bank effective. These mergers combine assets, systems and technology platforms of the corporate that mitigates the risk and extend credit, which is not possible for a single bank. According to the central bank, the consolidation of banks affects the systematic risk and financial stability. Financial integration reduces financial cost, competition in the market increases, improvised use of technology and economic dependence is reduced.

Before the mergers proceed, certain conditions must be ensured so that the mergers prove beneficial for all the stakeholders. There must be clear reasons for mergers that include revenue growth, lower costs and improved return on assets. Strong domestic banks are created by mergers that are capable of competing with international banks. Market-driven mergers are mostly preferred. If mergers provide soundness and stability, then regulators must behave like facilitators. Mergers must not lead to the monopoly of any single strong bank in the market by merging the dominant banks. Mergers must always be done keeping in mind the public interest. Management involved in the merger must be “fit and proper” and properly skilled so that they could efficiently complete the process of integration and manage the risks involved.

Capital is the most important tool that can fight against all losses, therefore while performing mergers it should be ensured that the merged entities are adequately capitalized so that they could meet their requirements even if they face any loss. It is always preferred that ownership of the merged entities must be diversified, it must be ensured that there is no single shareholding in the company who can exercise undue practices and influences on the banks. Mergers lead to the creation of large financial conglomerate; it should ensure that regulatory and supervisory practices are adequate to supervise such entities.

Till all these conditions are not fulfilled and solved, it is risky to perform mergers as it can derail the steady improvements of the health of the banking system that is the result of continuous banking reforms in the past.

Mergers are considered a useful tool for growth and expansion in the banking system of India. It helps in the survival of weak banks by consolidating them with healthy banks. In this study, the evaluation has been done on the banking mergers and impact of mergers are shown in the Indian banking system and also over the concerned banks. It is studied that whether the mergers lead to a profitable situation or not.

Financial performance has been evaluated by selecting certain financial variables like Net Profit Ratio, Return on Equity, Return on Assets, Earnings per Share, Profit per Employee. After performing a comparative study between pre- and post-merger, it is observed that the net profit ratio of SBI lowered as compared to that of Bank of Baroda and IDBI Bank whereas the return on Equity of Bank of Baroda was higher after the merger performed. Return on Assets of SBI was higher in the pre-merger period and that of Bank of Baroda was higher in the post-merger period. In both pre- and post-merger time, SBI had higher earnings per share as compared to IDBI and Bank of Baroda. Profit per employee of IDBI was higher than Bank of Baroda and State Bank of India in both pre- and post-merger period.

Results show that mergers increase the performance and efficiency of banks. The most important factors are to generate higher net profits in post-merger so that the decision taken by the management for the merger is justified to the shareholders. The research also gives the future suggestions that the research that will be done in the coming future must be on the impact of merger only on the stronger bank by comparing its pre- and post-merger performance and large sample must be taken concerning the longer time period for the study that would provide better and more accurate results.

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