A STUDY ON THE IMPACT OF PRE AND POST MERGERS AND ACQUISITIONS OF FINANCIAL PERFORMANCE IN SELECTED BANKS

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Abstract:

Mergers and Acquisitions (M&As) have become a strategic tool for strengthening the Indian banking sector, particularly in response to rising Non-Performing Assets (NPAs), capital inadequacy, and global competitiveness. This study evaluates the financial performance of selected public sector banks before and after mergers, focusing on key metrics such as (ROA), (ROE), (EPS), (DER), and Cost-to-Income Ratio. Through statistical analysis, including the use of paired t-tests, the research investigates whether these mergers have yielded significant improvements in efficiency and profitability.

Keywords: Mergers and Acquisitions, Indian Banking Sector, Financial Performance, Public Sector Banks, Paired t-test.

1. Introduction:

Mergers and acquisitions have become an important strategic tool in the Indian banking sector, especially as banks try to navigate a changing financial environment and improve their overall performance. The industry has been dealing with major issues like rising non-performing assets (NPAs), limited capital, and growing competition from both private and foreign banks. The primary aim of such mergers is to build stronger, more efficient banks that can compete on a global scale. These consolidated banks often show improved financial health, including stronger capital adequacy, better-quality assets, and more efficient operations.

2. Review of literature:

- **Baishali Chakraborty, Ashim Kumar Das (2024):**

Mergers and acquisitions (M&A) in the Indian banking sector have been increasingly recognized as a strategic tool for enhancing capital, expanding business, and achieving financial stability since the 1990s.Recent literature from 2013 to 2023 highlights that while research on M&As often yields inconclusive results regarding financial and operational performance, there is a growing focus on cross-border M&As and technology integration as key factors for competitive advantage.

- **Zakia Rizvi, F. S. Khan (2024):**

Mergers in the Indian banking sector are primarily driven by the goals of better capital management and expanding service areas. The merger of Bank of Baroda with other banks resulted in improved financial and operational performance, demonstrating successful consolidation outcomes. Effective governance and management reforms are critical factors for the success of mergers and acquisitions in the Indian banking industry.

- **Jaspreet Kaur, Dr. Ravi S. Singh (2023):**

The Indian banking sector is undergoing significant changes through mergers and acquisitions aimed at addressing issues like rising bad loans and enhancing financial health. Mergers and acquisitions in the banking industry are intended to promote global expansion, create synergies, and allow larger banks to absorb troubled assets from smaller banks.

- **Meenakshi Kumari, Archana Kumari (2022):**

Mergers and Acquisitions (M&A) in the Indian banking sector are undertaken to improve the financial performance of banks both before and after the merger, aiming to achieve strategic goals. Studies have specifically analyzed the financial impact of major mergers such as Andhra Bank and Corporation Bank with Union Bank of India, as well as the amalgamation of Punjab National Bank, Oriental Bank of Commerce, and United Bank of India, which was the largest in Indian banking history.

- **Manoj Kumar, Dr. Shilpa Bahl (2022):**

Mergers and acquisitions (M&As) are essential strategies for Indian banks to enhance their competitive positioning and achieve economies of scale in both local and international markets. The Indian banking sector has undergone significant transformation over the past 20 years, evolving from a slow-moving industry to a rapidly growing one that attracts foreign investment. M&As are instrumental in helping Indian banks improve their global recognition and deliver greater value to stakeholders.

- **Chirag Aggarwal, Rachit Sachdeva, Harjeet Singh (2012):**

Mergers and acquisitions in the Indian banking sector are primarily driven by the goal of achieving economies of scale, which means reducing costs and increasing efficiency by expanding operations. Consolidation through mergers and acquisitions is considered essential for Indian banks to combat unhealthy competition domestically and to become competitive internationally.

- **Krishnan Lal Grove(2022):**

The literature review covers post-2000 research (2001–2018) on bank mergers and acquisitions (M&As), highlighting a significant increase in related studies during 2014–2018.The study classifies and organizes 40 key research papers to present the current status and emerging aspects of M&As in the banking sector, such as restructuring, strategy, diversification, organization, and complementarily (meaning how merging banks' strengths can enhance each other).

- **R. A. K. (2006):**

The literature review examines fundamental factors and theories that drive bank mergers and acquisitions. Empirical evidence is discussed regarding the operating performance of acquiring and acquired banks before and after mergers, as well as the impact on stockholder wealth. The review also addresses how the form of payment, conglomerate mergers, and corporate governance influence ownership and control in bank mergers and acquisitions.

Research methodology:

Problem Statement:

In recent years, the Indian government has encouraged mergers among public sector banks as a way to improve efficiency, strengthen finances, and make them more competitive globally. The results seem to differ from one merger to another, which raises questions about whether such consolidations are the right approach for all banks.

Objectives:

- To understand key Financial Performance Metrics in selected banks.
- To study the strategic growth and market expansion during pre and post mergers and acquisitions.
- To evaluate the impact of pre and post mergers and acquisitions on shareholders' value.

Hypothesis:

Null Hypothesis (H_0):

There is no major change in the bank's financial performance—measured by Net Profit Ratio, Operating Profit Ratio, EPS, Cost to income ratio, Debt equity ratio, ROE and ROA—after and before the merger.

Alternative Hypothesis (H_1):

There is a major change in the bank's financial performance—measured by Net Profit Ratio, Operating Profit Ratio, EPS, Cost to income ratio, Debt equity ratio, ROE and ROA —after and before the merger.

Significance of the study:

This study is significant as it provides a data-based evaluation of how mergers and acquisitions have impacted the financial performance of public sector banks in India. By analyzing key financial ratios before and after mergers, it offers insights into whether these reforms have improved efficiency, profitability, and stability in the sector.

Scope and limitations:

This study focuses on assessing the financial impact of mergers and acquisitions among selected Indian public sector banks, such as Punjab National Bank, Canara Bank, and Indian Bank, using key financial ratios and statistical tools like the paired t-test. It covers a short to medium-term period before and after the mergers to evaluate changes in profitability, efficiency, and stability. However, the study is limited by a small sample size, a restricted time frame, reliance on secondary data, and exclusion of non-financial factors like organizational culture or customer experience, which may also influence merger outcomes.

Research design: This is a comparative study which adopts a quantitative research design, using secondary financial data to evaluate the impact and the financial performance of selected banks. It involves statistical analysis of financial indicators over time before and after the merger.

Population and sample:
The study focuses on public sector banks in India that have undergone mergers. From this group, three major banks—Punjab National Bank, Canara Bank, and Indian Bank—were selected as the sample based on data availability and the significance of their mergers.

Sampling Techniques:

Purposive sampling was used to select Punjab National Bank, Canara Bank, and Indian Bank based on the size of their mergers and availability of financial data.

Data Collection Methods:

The study relies on secondary data collected from official bank financial reports, annual statements, RBI publications, and government sources. Key financial ratios before and after the mergers were extracted for analysis.

Instruments used:

1. Paired t-test 2.MS Excel

4. Data Analysis and Findings:

Table 1: Pre- and Post-Merger Financial Values of Selected Banks

Bank Name	Metric	Pre-Merger (X)	Post-Merger (Y)	Difference (X–Y)
Punjab National Bank	OPR (%)	22.14	23.37	-1.23
	NPR (%)	-17.00	0.53	-16.47
	ROA (%)	-1.295	0.042	-1.337
	ROE (%)	-23.25	0.627	-23.877
	EPS (₹)	-30.95	0.61	-31.56
	DER	15.97	12.09	3.88
	CIR (%)	19.66	18.98	0.68
Canara Bank	OPR (%)	19.84	16.49	3.35
	NPR (%)	0.65	-3.94	4.59
	ROA (%)	0.046	-0.28	0.326
	ROE (%)	0.97	-5.93	6.90
	EPS (₹)	4.71	-26.50	31.21
	DER	17.67	17.00	0.67
	CIR (%)	19.60	20.39	-0.79
Indian Bank	OPR (%)	23.17	26.29	-3.12
	NPR (%)	1.53	3.05	-1.52
	ROA (%)	0.12	0.26	-0.14
	ROE (%)	1.70	3.63	-1.93
	EPS (₹)	6.70	14.33	-7.63
	DER	13.13	12.73	0.40

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	ROE (%)	-23.25	0.627	-23.877
	EPS (₹)	-30.95	0.61	-31.56
	CIR (%)	43.96	42.92	1.04

Table 2: Different Metrix used for analyzing financial performance during pre and post mergers of the selected banks

Metric	Pre-Merger Mean (X)	Post-Merger Mean (Y)	Mean Difference (X–Y)	t-test	p-value	Result (5% Significance)
Operating Profit Ratio (OPR)	21.71	22.05	-0.34	-0.177	0.87	Accept Ho (No significant change)
Net Profit Ratio (NPR)	-4.94	-0.12	-5.06	-0.73	0.53	Accept Ho (No significant change)
Return on Assets (ROA)	-0.376	0.007	0.383	-0.775	0.512	Accept Ho (No significant change)
Return on Equity (ROE)	-6.86	-0.56	-6.3	-0.69	0.55	Accept Ho (No significant change)
Earnings Per Share (EPS)	-6.51	-3.85	-2.66	-0.415	0.89	Accept Ho (No significant change)
Debt Equity Ratio (DER)	15.59	13.94	1.65	1.49	0.275	Accept Ho (No significant change)
Cost to Income Ratio (CIR)	27.74	27.43	0.31	0.55	0.625	Accept Ho (No significant change)

As it is shown in table 2 that all p-values > 0.05, so in each case the null hypothesis (H_0) is accepted**.** This suggests no statistically significant difference in financial performance after mergers.

Discussion:

Indian Bank demonstrated the strongest overall financial improvement post-merger, particularly in Operating Profit Ratio, which rose from 23.17% to 26.29%, reflecting improved operational efficiency. PNB also improved slightly, while Canara Bank saw a decline, possibly due to integration challenges and cost pressures. In terms of Net Profit Ratio, PNB's recovery was significant, moving from a -17.00% loss to a marginal 0.53% profit, signaling a turnaround. Indian Bank doubled its margin, while Canara Bank slid into losses, highlighting possible merger-related strain. For Return on Assets, both PNB and Indian Bank showed better asset utilization, improving their ROA to 0.042% and 0.26% respectively.

The Return on Equity told a similar story. PNB made a remarkable shift from -23.25% to 0.627%, while Indian Bank's returns increased steadily. A striking improvement was seen in Earnings Per Share for PNB and Indian Bank. PNB jumped from -30.95 to 0.61, and Indian Bank more than doubled its EPS to 14.33. On the Debt-Equity Ratio front, all three banks showed slight improvements, indicating more sustainable capital structures.. Lastly, the Cost to Income Ratio showed better cost management for PNB and Indian Bank, both reducing their CIR marginally.

Conclusion:

The study of mergers involving Punjab National Bank, Canara Bank, and Indian Bank reveals that while mergers are intended to strengthen banks financially and operationally**,** the actual impact varies widely across institutions. The post-merger financial performance, analyzed using key ratios like Operating Profit Ratio (OPR), Net Profit Ratio (NPR), Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), Debt-Equity Ratio (DER), and Cost-to-Income Ratio (CIR**)**, paints a picture that is mixed rather than uniformly positive**.**

Overall, this analysis shows that mergers are not a guaranteed solution for improved performance. While PNB and Indian Bank appear to be moving in the right direction, Canara Bank's results highlight the importance of planning, execution, and post-merger monitoring. These insights are valuable for policymakers, regulators, and banking institutions planning future consolidations.

Suggestions:

- **Strengthen Post-Merger Integration Strategies:** Banks should focus on smoother operational integration after mergers, particularly in areas like IT systems, HR policies, and branch networks.
- **Enhance Risk and Cost Management:** Financial instability post-merger—reflected in declining EPS and ROE—can often be due to poor cost control or increased provisioning..
- **Focus on Profitability-Oriented Policies:** Since metrics like Net Profit Ratio (NPR) and Return on Assets (ROA) showed mixed results, banks must prioritize revenue generation from core operations.

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