



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,

- 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.

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:

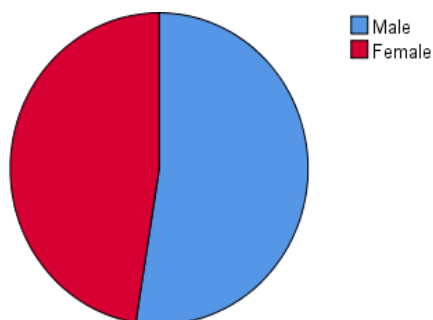
- The study has used a pre-designed structured questionnaire method for data collection.
- The research personally interacted with the respondents who provided the primary data.

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.

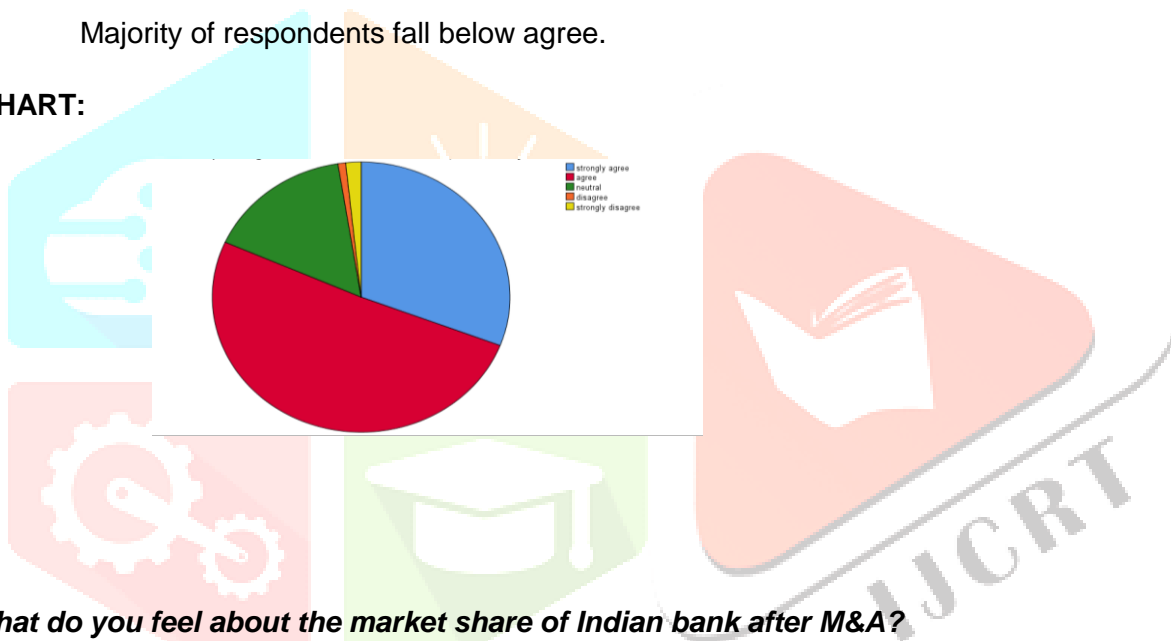
TABLE:

		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?

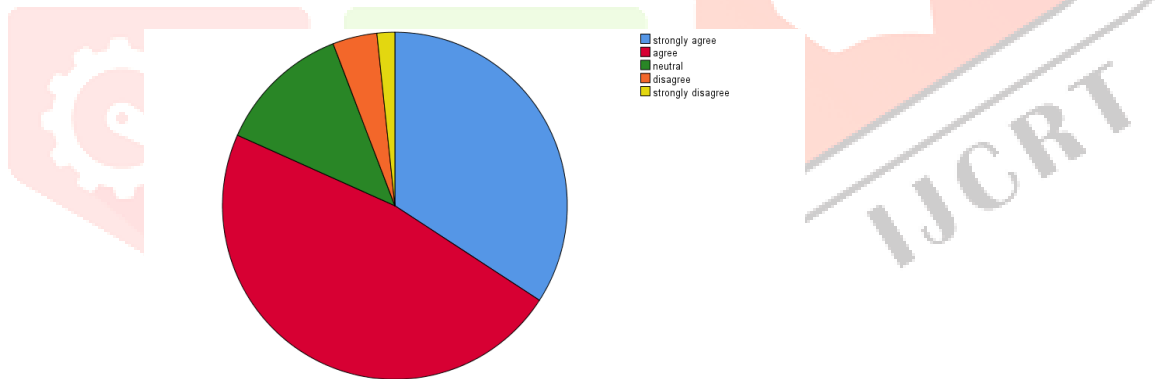
TABLE:

		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 Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (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 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 helfty 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 Significance (2-sided)
Pearson Chi-Square	6.165 ^a	4	.187
Likelihood Ratio	5.267	4	.261
Linear-by-Linear 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 Significance (2-sided)
Pearson Chi-Square	29.452	12	.003
Likelihood Ratio	29.027	12	.004
Linear-by-Linear 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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