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Impact Of Post Merger And Acquisition Of Selected Public Sector Banks (Ratio Analysis)

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ABSTRACT:
Merger and Acquisition is an important tool for the growth of the banks, company etc. Through which any bank, company etc. can take advantage of synergy benefits and many other important benefits. The study's objective is to evaluate the effect of mergers and acquisitions on the performance of India's public sector banks. Ratio analysis between pre and post M&A has been used to analyse the financial performance (Profitability Ratio) of the banks.In this research, studies have been done from 2018-19 to 2021-22. 2018-20 has been considered as pre-merger period and 2020-22 as post-merger period. . Secondary data is gathered from relevant banks' annual reports and www.moneycontrol.com. Profitability ratio of public sector banks has increased after pre and post analysis of banks. Finally, it can be said that after mergers and acquisitions, the financial performance of India's public sector banks has generally improved. At the end, study found that the performance of Indian banks has been at the highest level after M&A.
Keywords: *Merger and Acquisition, Financial Performance, Ratio Analysis, Pre and Post, Profitability Ratio.*

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I. INTRODUCTION

MEANING OF MERGER AND ACQUISITION

Merger: A merger is defined as the joining of two or more businesses into one, with one remaining active while the others cease operations. The active business can continue to operate using the merger company's resources and liabilities. Usually, the firm that survives is the buyer, and it either keeps its name or gives the merged company a new one.

According to Sudarsanam (1995), a merger takes place when two or more corporations come together to contribute and share their resources to achieve common objectives. The shareholders of the combining forms often remain as joint owners of the combined entity.

Acquisition: During an acquisition, the acquiring company takes control of most of the acquired businesses without changing their name or legal status.

History of Merger and Acquisition

At Global Level: The history of mergers and acquisitions spans over 110 years and is divided into several areas are so-called waves. While most financial analysts refer to five significant merger and acquisition waves that occurred throughout the history of the US, UK, and later Europe.

Table:1.1: Waves of Merger and Acquisition According to USA

YEARS	WAVES	OBJECTIVE
1897-1904	First Wave	Horizontal Consolidation, Survival of the fittest
1916-1929	Second Wave	Increasing Concentration
1965-1969	Third Wave	Conglomerate Era
1981-1989	Fourth Wave	The Dumping Decade
1990-2009	Fifth Wave	The Era of Mega Mergers

Source: Mergerstat, Feb. 2010

Indian Banking Sector: The years 1961 to 2022 are separated into different periods based on government policy initiatives.

Table: 1.2: The table below lists mergers in the banking sector by phase:

S. No.	Phase	Period
1	Pre-Nationalisation Period	1961 to 1969
2	Post Nationalisation Period	1969 to 1991
3	Post LiberalizationPeriod	1991to 2015
4	Consolidation ofBanks	2015 to 2022

Motives of Merging

Businesses unite to achieve specific goals. Maximizing owner wealth, as shown in the share price of the acquirer, is the primary objective of mergers. When certain factors are thought to be consistent with maximizing owner wealth, such as expansion or diversification, synergy, managerial talent or technology, tax considerations, enhanced ownership liquidity, and takeover defense, such factors should be pursued.

Growth or Diversification: Companies that seek to expand quickly in terms of size, market share, or product range may find that a merger might help them achieve their goals. The company can accomplish the same goal quickly by merging with another company rather to going through the laborious process of internal growth or diversification.

Synergism: The concept behind synergism is simple. When a combination's value is greater than the sum of its component values,constituent components, synergism exists. In other terms, "2+2=5" describes synergism.

Complementary Internal Funds Flows: Merger often can reduce or remove seasonal or cyclical fluctuations in fund flows. If this is the case, financial synergism reduces the combination's operating capital needs in comparison to businesses that will operate independently.

More Efficient Use of Financial Leverage: Financial synergy could outcome from the more effective financial leverage usages. The acquiring company could have low debt and desire to leverage the combined income by leveraging the acquired company's large debt.

Increased External Financial Capability: Many mergers occur when the acquired firm purely cannot finance its operations, especially when the acquired firm is relatively small. A small growing firm with broadening financial requirements is typical of this situation.

Types of Mergers

Horizontal Mergers: Two businesses that operate and compete in a related industry join forces in this kind of merger. The assumption underlying the merger is that the larger merged unit will result in scale economies.

Vertical Merger: Vertical mergers, also known as forward or backward integration, happen between companies that are at distinct phases of production or operation. The main motivation is to cut down on costs associated with contracting, payment collection, advertising, and price comparison. There may also be a cost savings associated with communication and production coordination.

Conglomerate Mergers: Conglomerate mergers occur between businesses engaged in unrelated or dissimilar commercial activities. These mergers are typically carried out by businesses looking to expand their product offerings. Companies that choose conglomerate mergers oversee a variety of activities in numerous industries that call for a variety of managerial abilities in areas like applied engineering, production, marketing.

II. REVIEW OF LITERATURE

A literature review is a piece of academic writing that summarizes and assessment defines of the research literature on a given subject. It is considered a literature review rather than a literature report because it also involves a critical assessment of the sources. I studied different research papers which are described as below:

Krishnan H. A. and Park D. (2002) concluded that the impact of work force reduction in America from the merger and acquisition. The focus of the study was to increase the understanding of value creation in acquisition and investigated the performance outcome of workforce reduction in merger and acquisition. The study had been conducted among 1992-1995. The study revealed that the negative impact on performance of work force reduction on post-acquisition because unclear understanding between partners and integration problem of merger and acquisition performs lower than expectations.

Cloodt *et al.* (2006) studied that the merger and acquisition performance of acquiring companies in four high sectors. This sector was the Aerospace and defense, computer and office machinery, pharmaceuticals, electronic and communication. The study had been taken 2429 merger and acquisition in the period of 1985-1994. The study had been taken different tools like regression, time series etc. The data was analyzed by the panel database model. This study founded that the positive impact of the technological merger and acquisition and negative impact of the non-technological merger and acquisition.

Mantravadi P. and Reddy V. (2008) examined that the impact on operating performance of acquiring/merging corporate in India. The study had been conducted among 1991-2003 for three years prior to the merger and three years after the merger of the companies. The study had been taken secondary source of data and which were collected from the Powers database of CMIE. The study had been taken different tools like paired sample t-test, mean etc. The study revealed that the most decline the operating performance of the horizontal merger and then conglomerate merger and then financial merger. All types of mergers have a negative impact on net worth, capital employed and net profit margin.

Azhagaiah R. and Sathishkumar T. (2014) studied that merger and acquisition of manufacturing company. The main objective of the study was to maximization of the shareholders wealth, and operating and financial risk minimization. The study had been taken secondary source of data and which was collected from the capital market database. The study had been conducted for ten years form 2001-2010 for the five years prior to the merger and five years after the merger of the company. This study had been taken different tools like, correlation, regression analysis, the chow test. The study founded that the significant effect on operating performance of the manufacturing firms in India after merger and acquisition.

Asharf*et al.* (2021) in the study, “Foreign Direct Investment and the environment:Dissent Angling the impact of Greenfield Investment and Merger and Acquisition Sales.’’ the main objective of the study was to investigate the impact of Greenfield foreign direct investment and merger and acquisition on the environment. The study had been conducted among 2003-2016 and the samples were collected from the 108 countries (32 developed economies and 76 developing economies). The study reveals that the all-out examples GFDI investment population while merger and acquisition deals decline it.

Sangisetti M. (2022) analyzed that what would be the customer’s perception and satisfaction towards the quality of services of public sector banks after M&A. In the sample size given to 150 respondents, all the respondents with accounts in the public sector banks were taken. Analytical and Descriptive research was taken in the research approach. The study had been taken primary source of data and which were collected from the questionnaires. It was concluded in the study that weighted average value remained more than 3 which is indicating the satisfaction of the customers.

III. RESEARCH METHODOLOGY

The word research methodology is made up two words research and methodology which means the process of analyzing any information. In this, a problem is solved in a prescribed way by various researchers by choosing objectives. Various Tools and Techniques are used to achieve over objective in this study.

- The objective of this study is to check the financial performance (Profitability Ratio) of selected Indian Public Sector Banks before and after merger and acquisition.
- Secondary data is gathered from relevant banks' annual reports and www.moneycontrol.com.
- In this research, studies have been done from 2018-19 to 2021-22. 2018-20 has been considered as pre-merger period and 2020-22 as post-merger period.
- Descriptive research has been used and the mean of central tendency has been used in this study.
- **Important Information of Selected Banks (Merger of Selected Public Sector Banks)**

- PNB = PNB + OBC + UBI: The “Punjab National Bank (PNB)” has merged with the “Oriental Bank of Commerce (OBC)” and the “United Bank of India (UBI)”. After the State Bank of India, the PNB will be India's second-largest public sector bank.
- Canara Bank = Canara Bank + Syndicate Bank: There is now a single “Canara Bank” and “Syndicate Bank”. India's fourth-largest public sector bank would be “Canara Bank” following this merger.
- Union Bank of India = Union Bank of India + Andhra Bank + Corporation Bank: In order to form "Union Bank of India," "Andhra Bank" and "Corporation Bank" amalgamated. This merger would make "Union Bank of India" the fifth-largest public sector bank.
- Indian Bank = Indian Bank + Allahabad Bank: “Indian Bank”, The fourth merger would see the convergence of the “Allahabad Bank” and “Indian Bank”, The combined "Indian Bank" will rank as the seventh-largest public sector bank in India.

IV. DATA ANALYSIS AND INTERPRETATION

Working with data to extract relevant information that may be used to guide decisions is known as data analysis. The main objective of the study is to check the changes in the financial performance of public sector banks after pre and post-merger and acquisition.

1. Return on Assets = Net profit after tax / Total Assets.

Table: 4.1: Calculation of Pre and Post Analysis of Return on Assets

Bank	Pre-Average	Post-Average	Change in Pre and Post Ratio	Effect
PNB	-0.06	0.21	0.27	Positive
Union Bank of India	-0.56	0.37	0.93	Positive
Indian Bank	0.19	2.87	2.68	Positive
Canara Bank	-0.13	0.36	0.72	Positive

Source: Self Generated.

On the above table shows that the Return on Asset of the four selected public sector banks for the two years pre-merger and acquisition periods and two years post-merger and acquisition from the 2018-19 to 2021-22. Table 4.1 compares the average differences of return on assets for pre and post-merger and acquisition. The difference between pre and post ROA average was 0.27, 0.93, 2.68, 0.72, which shows an significant difference in average. The ROA's banks increased and they exploited their growing assets to generate income.

On the above table shows that the Net Interest Margin of the four selected public sector banks for the two years prior to the merger and two years after the M&A from 2018-19 to 2021-22. Table 4.2 shows that the average differences of net interest margin for pre and post-merger and acquisition.

2. Net Interest Margin(NIM) = Interest earned- Interest Expense Total Assets

Table: 4.2: Calculation of Pre and Post analysis of Net Interest Margin

Bank	Pre-Average	Post-Average	Change in Pre and Post Ratio	Effect
PNB	2.29	2.59	0.3	Positive
Union Bank of India	2.32	2.59	0.27	Positive
Indian Bank	2.92	2.87	-0.05	Negative
Canara Bank	2.46	2.76	0.3	Positive

Source: Self Generated.

The difference between pre and post NIM average was 0.3, 0.27, -0.05, 0.3, which shows a positive impact on post M&A except Indian bank. Indian Bank shows a negative impact on the post M&A. Overall, the banks increases their profitability.

3.Spread Ratio (SP) = Net interest income/total interest earned

Table: 4.3: Calculation of Pre and Post Analysis of Spread Ratio

Bank	Pre-Average	Post-Average	Change in Pre and Post Ratio	Effect
Punjab National Bank	6.50	7.01	0.51	Positive
Union Bank of India	6.49	6.88	0.39	Positive
Indian Bank	5.85	6.48	0.63	Positive
Canara Bank	5.93	6.32	0.39	Positive

Source: Self Generated.

On the above table shows that the Spread Ratio of four selected public sector banks for the two years prior to the M&A and two years after the M&A from 2018-19 to 2021-22. Table 4.3 shows that the average differences of spread ratio for pre and post-merger and acquisition. The difference between pre and post Spread average ratio was 0.51, 0.39, 0.63, 0.39, which shows a positive impact on M&A. This shows that banks could reduce their interest costs and eliminated expenses following merger and acquisitions. An increase in bank efficiency following merger and acquisition is encouraging.

4.Earnings Per Share (EPS) = Net profit after tax/No. of ordinary shares.

Table: 4.4: Calculation of Pre and Post Analysis of Earning Per Share

Bank	Pre-Average	Post-Average	Change in Pre and Post Ratio	Effect
Punjab National Bank	-15.16	2.62	17.78	Positive
Union Bank of India	-18.79	6.14	24.93	Positive
Indian Bank	10.52	29.49	18.97	Positive
Canara Bank	-148.24	-65.01	83.29	Positive

Source: Self Generated.

On the above table shows that the Earning Per Share of four selected public sector banks for the two years prior to the M&A and two years after the M&A from 2018-19 to 2021-22. Table 4.4 shows that the average difference of earning per share for pre and post-merger and acquisition. The difference between pre and post earnings per share average ratio was 17.78, 24.93, 18.97, 83.29, which shows a positive impact on M&A. This shows that the improvement in the profitability of public sector banks after M&A.

5. Interest expense to Interest Income = Interest expense/Interest Income.

Table: 4.5:Calculation of Pre and Post Analysis of Interest Expenses to Interest Income

Bank	Pre-Average	Post-Average	Change in Pre and Post Ratio	Effect
Punjab National Bank	1.16	0.38	-0.78	Negative
Union Bank of India	2.29	1.61	-0.68	Negative
Indian Bank	0.64	0.58	-0.06	Negative
Canara Bank	2.48	1.75	-0.73	Negative

Source: Self Generated

On the above table shows that the Interest Expenses to Interest Income of four selected public sector banks for the two years prior to the M&A and two years after the M&A from 2018-19 to 2021-22. Table 4.5 shows that the average differences of interest expenses to interest income for pre and post-merger and acquisition. The difference between pre and post interest expenses to interest income, average ratio is -0.78, -0.68, -0.06, -0.73, this shows a negative impact on M&A of banks. This shows that the insignificant improvement in the profitability of the public sector banks after M&A.

V. FINDINGS OF THE STUDY

Merger and Acquisition is an important tool for one's banks, company etc. Through which any bank, company etc. can take advantage of synergy benefits and many other important benefits. The study's objective is to evaluate the effect of mergers and acquisitions on the performance of India's public sector banks. Ratio analysis technique has been used for pre and post of M&A to test the financial performance of banks.The results show that there has been improvement in the financial performance of public sector banks. Profitability ratio of public sector banks has increased after pre and post analysis of banks. Almost all the ratio of PNB, Indian bank, Union bank, Canara bank have been increased.At the end, study found that the performance of Indian banks has been at the highest level after M&A. Followed by the performance of PNB bank and then Canara Bank and then Union Bank.

SUGGESTIONS AND FUTURE SCOPE OF THE STUDY

During this research we have checked the financial performance of four public sector banks in which only two years before M&A and two years after M&A. the limiting factor has been taken as the limit is short.

- Time limit can be extended.
- Along with public sector, private sector can also be studied.
- The number of banks to be analyzed can be increased.
- Foreign banks can also be used in comparison with Indian banks.

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