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A STUDY ON THE EFFECTIVENESS OF BANKS AFTER MERGER AND ACQUISITION RELATED TO INDIAN BANKING SECTOR

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Abstract
A wide range of industries are seeking strategic acquisitions in India and abroad as mergers and acquisitions are the only way to gain competitive advantage domestically and internationally. With the help of mergers and acquisitions in the banking sector, banks can achieve significant growth in their operations and greatly minimize their expenses. Another important advantage behind this type of merger is that the process reduces competition as the merger removes competitors from the banking industry. Through mergers and acquisitions in the banking sector, banks are looking for strategic advantages in the banking sector. They are also looking to expand their customer base. This research paper considers selected mergers ofINDIAN Bank and ALLAHABAD BANK as a sample to analyze the effectiveness of mergers and acquisitions in the banking sector. Keywords: Mergers and Acquisitions, INDIAN Bank and ALLAHABAD BANK, Competitive Advantage

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Introduction

Banking M&A remains distinct from other M&A due to industry-specific characteristics of banking, such as bank valuation, earnings potential, and capital handling, using deposits and funds as raw materials for profitable products. Mergers and acquisitions (M&A) are defined as the consolidation of companies. To distinguish the two terms, a merger is the combine's two companies into one, and an acquisition is one company taken over by the other. M&A is one of the most important aspects of corporate finance in the world. The rationale for M&A is generally that two separate companies create more value together than if he were in one booth. With the aim of maximizing wealth, companies are constantly considering various options through mergers and acquisitions.

Types of Mergers and Acquisitions

- There are two forms of amalgamation or amalgamation: amalgamation by absorption and amalgamation by amalgamation.
- Also, from an economic point of view, mergers can be divided into three types depending on the business combination: whether they are in the same industry or not, horizontal (two companies are active in the same industry), and vertical (different stages of production and value). can be divided into chains and conglomerates (independent industries).
- From a legal point of view, there are various types of mergers, such as summary mergers, statutory mergers, subsidiary mergers, and mergers of equals. Mergers andacquisitions in the banking sector Mergers and acquisitions in the banking sector are well known in most countries around the world.

Numerous international and domestic banks around the world are involved in merger and acquisition activity. One of the main objectives of mergers and acquisitions in the banking sector is to exploit economies of scale. Mergers and acquisitions in the banking sector are forms of horizontal mergers because the merging entities are involved in the same type of business or commercial activity. Non-bank financial institutions may also merge with other banks offering similar services. When it comes to mergers and acquisitions in the banking sector, it can be assumed that scale matters and that increased scale through mergers and acquisitions can be achieved quite easily. Growth achieved by supporting mergers and acquisitions in the banking sector can be described as inorganic growth. Both government-affiliated banks and private banks adopt M&A policies.

Literature Review

1. The work of ***Rao and Rao (1987)*** is one of the earlier attempts to analyse mergers in India from a sample of 94 mergers orders passed during 1970-86 by the MRTP Act 1969. In the post 1991 period, several researchers have attempted to study M&As in India. Some of these prominent studies are; Beena (1998), Roy (1999), Das (2000), Saple (2000), Basant (2000), Kumar (2000), Pawaskar (2001) and Mantravedi and Reddy (2008). ***Sinha Pankaj & Gupta Sushant (2011)*** studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on shareholder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

2. ***Kuriakose Sony & Gireesh Kumar G. S (2010)*** in their paper, they assessed the strategic and financial similarities of merged Banks, and relevant financial variables of respective Banks were considered to assess their relatedness. The result of the study found that only private sector banks are in favor of the voluntary merger wave in the Indian Banking Sector and public sector Bank are reluctant toward their type of restructuring. Target Banks are more leverage (dissimilarity) than bidder Banks, so the merger lead to attain optimum capital Structure for the bidders and asset quality of target firms is very poor.

3. ***Anand Manoj & Singh Jagandeep (2008)*** studied the impact of merger announcements of five banks in the Indian Banking Sector on the share holder bank. These mergers were the Times Bank merged with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the Allahabad bank with the Indian bank Bank, the Global Trust Bank merged with the Oriental Bank of commerce and the Bank of Punjab merged with the centurion Bank. The announcement of merger of Bank had positive and significant impact on share holder‟s wealth.

4. ***Mantravadi Pramod & Reddy A. Vidyadhar (2007)*** evaluated that the impact of merger on the operating performance of acquiring firms in different industries by using pre and post financial ratio to examine the effect of merger on firms. They selected all mergers involved in public limited and traded companies in India between 1991 and 2003, result suggested that there were little variation in terms of impact as operating performance after merger.

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5. ***Dr. K.A. Goyal, And Vijay Joshi(2012)***Evaluated that To keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. We consider a case of Allahabad Bank the largest private sector bank in India, which has acquired nine financial firms to make the steps of the ladder of success. Therefore, the aim of this article is to study the growth of Allahabad Bank through mergers, acquisitions, and amalgamation. This article is divided into four parts. The first part includes introduction and conceptual framework of mergers and acquisition. The second part discusses the historical backgroundof Allahabad Bank and followed by review of literature. The third part discusses all the mergers, acquisitions, and amalgamations in detail. Finally, the article concludes that a firm must devise a strategy in three phases i.e. Pre-merger phase, acquisition phase and post-merger phase. The article will be helpful for policy makers, strategy makers, HR people,bankers, researchers, and scholars.

Research Methodology
Objective of the Study
Primary objective
The main objective of study is to find the effectiveness of merger and acquisition in banking sector in India.

Secondary objective

- To evaluate the purpose of merger and acquisition in banking sector.
- To know the challenges and problems related to merger and acquisition in India.
- To study post-merger analysis of financial performance.
- To study about the employee satisfaction after merger.

Sources of data
There are two sources of data: primary and secondary data. I have used secondary data for merger and acquisition in banking sector.

Population: All the merger and acquisition done in banking sector in India.

Sample size: Merger of Indian bank and Allahabad bank.100 Employees who are working before and after merger of Indian Bank and Allahabad bank collected samples through questionaries' and interviews.

Analysis

Introduction to Indian Bank

Indian Bank is an Indian public sector bank, established in 1907 and headquartered in Chennai. It has overseas branches in Colombo and Singapore including Foreign Currency Banking Units at Colombo and Jaffna. It has 227 overseas correspondent banks in 75 countries.

Introduction to Allahabad bank
Allahabad Bank was an Indian nationalised bank with its headquarters in Kolkata, India. Founded in Allahabad in 1865 and nationalized by the government of India in 1969, the bank provided banking

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and financial services for 155 years until it was merged with Indian Bank in 2020.It was one of the oldest bank until merger happened.

4.1 Financial ratios of two banks before merger:

The below table shows the financial data's of the INDIAN bank and ALLAHABAD bank dated on Feburary,2020.

Table 4.1 Financial Ratios of two banks before merger

RATIOS	Indian Bank	Allahabad Bank
EPS	32.38	-65.35
Share price	46.53	7.46
Dividend /share	6.50	0
Operating Revenue	311.99	80.43
Net profit/share	31.67	-55.38
Return on Asset	0.58	-3.35
Return on Equity	2.49	2.21
Net Interest Margin	10.52	-134.70
ROCE%	1.94	1.13

Source : Secondary data

Inference: From the table 4.1 we can see that the Allahabad Bank though it's a oldest bank its financial status has not been to up to the mark, the Earning per share of the bank has been reduced in terms of Allahabad Bank. So this was the main drawback for the Allahabad bankto meet the merger.

4.2 Financial ratios of two banks after merger

The below table shows the financial data's of the INDIAN bank and ALLAHABADbank after the merger takes placed on April,2020.

Table 4.2 Financial Ratios of two banks after Merger

RATIOS	Indian Bank(before merger)	Allahabad Bank	Indian Bank(after merger)
EPS	-72.35	-65.35	32.38
Share price	46.53	7.46	110.76
Dividend /share	5.20	0	6.50
Operating Revenue	28.99	80.43	311.99
Net profit/share	20.67	-55.38	31.67
Return on Asset	0.58	-3.35	0.58
Return on Equity	1.49	2.21	2.49
Net Interest Margin	8.52	-134.70	10.52
ROCE%	0.94	1.13	1.94

Source secondary data

Inference

From the table 4.2 its evident that after the merger of the Indian bank and Allahabad bank the financial stability of the bank has been increased in terms of the Return on equity ,Return on assets, Dividend per share. The share price in the stock exchange has improved alot after the merger and the volumes of the shares bought has also improved.

4.3 SWAP ratio after merger

Table 4.3 SWAP Ratio after Merger

SWAP RATIO Indian Bank : Allahabad Bank	115:1000

Inference

The table 4.3 shows that for every 1,000 shares of Allahabad Bank its been replaced with the 115 equity shares of Indian Bank. This was the swap ratio that's been given and mandated by the government.

4.1 Number of branches, ATMs and customer before and aftermerger

The below table shows the number of branches, number of ATMS, number ofcustomers of the Indian bank and Allahabad bank before and after merger.

Table 4.4 Number of Branches ,ATM's and Customer of two banks

Number of	Indian Bank (Before Merger)	Allahabad Bank	Indian Bank (After Merger)
Branches	2521	3245	5721
ATMS	4622	806	5,428
Employees	19,734	23,210	39,734

Source Secondary data

Inference

The table 4.4 shows that after merger the number of ATMs,branches has been steeped into a higher count ,there has some changes in the number of the ATM,Branches its because the branches that are underperforming are been shut down and the ATM's which not been quite often used are closed after merger.

4.4 Employees Satisfaction after Merger

After the merger the employees of Allahabad bank are treated as the employees of the Indian bank this table says how the employees are satisfied are merger.

Table 4.5 Employees Satisfaction after Merger

	Highly Satisfied	Satisfied	Dissatisfied
Employee Retention	56.7%	30%	13.3%
Promotion	40%	38.2%	21.8%
Work culture adoption	53 %	37.5%	9.5%
Salary	49.56%	29.67%	20.77%

Source: primary data

Inference: From the table 4.5 its clear that the employees are happy with the retention strategies used by the Indian bank, the promotion that was given by the Indian bank was also highly satisfied, the work culture adoption for the Allahabad bank employee were highly satisfied for 53% of the respondents, and the salary was also highly satisfied by 49.56 % of the employees.

Conclusion

This paper conclude that there are various advantages of merger and acquisition in banking sector like increase in customer base, increase in branches, increase in number of product and service offered, increase in number of ATM network, increase in number of employees , benefits of expertise employees , increase in work culture adaption, access to various region in the country, increase in deposit and advance amount. There are also various challenges like difference in deposit rate and interest rate, difficulty in managing nonperforming assets, difficulty in managing the employees because difference in salary structure, etc. after analysis post-merger financial performance we can say that after merger and acquisition, there is increase in net interest income, increase in profitability, increase in number of customers, improve liquidity, share price has been increased

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