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Research Article

EFFECT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE IN THE INDIAN BANKING SECTOR

***Khushboo Patel and Dr. Shashi Kashyap**

Department of Commerce, Kalyan Post Graduate College, Sector -7, Bhilai Nagar, Durg, India

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Abstract

Purpose: Mergers and acquisitions are forms of corporate restructuring. This study was conducted to examine the performance of banking sector after merger and/or acquisition during the period 2015-2023. **Design and Methodology: -** The variables used in this study are financial ratios such as Return on assets, Return on equity Operating profit margin ratio, Earning per share, and Return on capital employed. The sample was selected using a non-probability purposive sampling method. Data is analyzed using a descriptive statistical test, and hypothesis test (t-test-paired two sample mean test). This study used paired sample t-test to analyse two different paired samples using the MS Excel. **Findings: -** The results from this study show that the Operating profit margin not affected by mergers and return on capital employed while return on asset, return on equity and earnings per share significantly affected by mergers and acquisition. **Significance of the study: -**It provides valuable insights for companies considering mergers and acquisitions in the Indian market of Banking sector, informs stakeholders when evaluating the potential advantages of consolidation, and offers recommendations for future research to provide a clearer understanding of the impact of mergers and acquisitions on financial performance in the Banking Sector of Indian market.

Keywords: Mergers, Acquisitions, Synergy, Financial Ratios, Banking sector.

INTRODUCTION

The concept of Mergers and Acquisitions (M&A) has attracted the corporate sphere all over the world. M&A culture in India increased over the years, after the removal of constructive arrangements and liberalisation of the Indian economy. M&A's are strategic tools that are used for the development of the economy. This is done by expanding to low-cost markets or emerging markets, especially those which have a high number of skilled workers or by acquiring well established corporate entities. M&A's is most common in the sectors of Energy, Mining and Utilities, followed by Telecommunication, Consumer Durables and Pharmaceuticals. However, key point to note is that there is no restriction regarding the industries which can conduct mergers, to serve more clients in different target markets.

What is a Merger?

A merger is an agreement between two or more corporate firms, to create a new entity by exchange of shareholding. In India, laws do not use the term merger, rather they use the word "amalgamation."

There are generally 4 types of mergers – Horizontal, Vertical, Concentric, Conglomerate.

Section 2(1B) of the Income Tax Act, 1961 defines amalgamation as the "merger of either one or more companies with another company or merger of two or more companies to form one company in such a manner that:

- All the property/liability of the amalgamating company/companies becomes the property/liability of amalgamated company.
- Shareholders holding minimum 75% of the value of shares in the amalgamating company (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders of the amalgamated company"

What is an Acquisition?

An Acquisition means the process by which a company purchases another company or gains a majority in another organisation. One firm takes ownership of another corporate firm because of this. Acquisitions are commonly known as Takeovers. It involves two parties; the acquiring party and the acquired party. Acquiring party is the one that buys most shares or gains ownership of the acquired company. The latest trend in the Indian Corporate sector is the acquisition of foreign companies by the Indian businesses.

Types of Acquisitions

There are generally 4 types of acquisitions –

- Friendly, A friendly acquisition is when both the acquiring and acquired parties willingly corporate in negotiations and in the process of takeover.
- Hostile, is one when the acquired party is not willing to sell or when the acquired party's board members have no knowledge of such an offer.
- Backflip When a bidding company becomes the subsidiary of the acquired company, it is called Backflip. The main reason for such a takeover is to have the advantage of the brand value of the taken over firm takeover.
- Reverse takeover- when a small unlisted private company acquires a larger and well established listed public company, it is called reverse takeover. H owever, this takeover can be either friendly or hostile.

Corresponding Author:** ***Khushboo Patel
Department of Commerce, Kalyan Post Graduate College, Sector -7, Bhilai Nagar, Durg, India

M&A Recent Trends in India

In terms of M&A, India is one of the leading nations because of most of the Indian Companies favouring Mergers and Acquisitions. M&A deals increased in India since 1999, especially after Liberalization. During the years of 2000, 2007 and 2008 such deals declined due to the crisis of the global credit. The trend of M&A in India has been decreasing from 2000 to 2008. in MThough by 2010, such deals hit a new peak. Since then, Indian companies have considered M&As to be key in corporate restructuring. Since 2010, there has been a considerable increase &A deals in India. Multinational companies (MNCs) have entered India with the help of Joint ventures or Acquisitions because of Liberalisation.

LITERATURE REVIEWS

(Soni, 2020)highlights about financial analysis impact of the Acquired company. Paper also highlights shareholders wealth analysis as a short term investment. Harpreet Singh Bedi [2] "Merger & Acquisition in India: An Analytical Study": The paper explores the trends and progress in M & As in India. It also considers various factors that have facilitated in Progress and execution of M & As in India. (Pandya, 2017) tries to measures the mergers and acquisitions sector of India from 1991 to 2010 with the help of time-series data along with major recent worldwide development. This paper also tries to categorize trends in manufacturing and non-manufacturing sectors to provide definite evidence for motives and reasons behind the particular behavior observed, and the prospective future of mergers and acquisitions activity in India. (Kar & Soni, n.d.) emphasized on stating mergers as a strategy to enhance the Enterprise value. Researchers analyzed and selected the period post liberalization to analysis the impact of the Mergers.

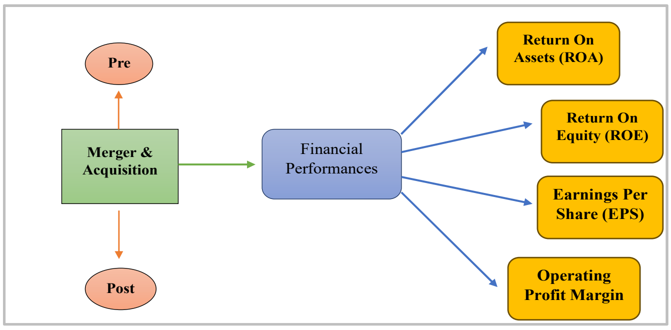

Figure 1. Conceptual Framework: -Based on Literature Reviews

Research Objectives

1. To examine the impact of mergers and acquisitions on return on assets (ROA)
2. To examine the impact of mergers and acquisitions on return on equity (ROE)
3. To examine the impact of mergers and acquisitions on earning per share (EPS)
4. To examine the impact of mergers and acquisitions on Operating profit margin (OPM).
5. To examine the impact of mergers and acquisitions on Return on Capital Employed (ROCE)

Hypotheses

1. H_1Mergers & Acquisition have significant impact on Return on Assets.
2. H_2 Mergers & Acquisition have significant impact on Return on Equity.
3. H_3Mergers & Acquisition have significant impact on Earnings per share.
4. H_4Mergers & Acquisition have significant impact on Operating Profit Margin.
5. H_5 Mergers & Acquisition have significant impact on Return on capital Employed.

RESEARCH METHODOLOGY

This research paper adopted descriptive and explanatory design, which used to determine the causal effect between mergers and acquisition on the financial performance of Indian Banking companies. Causal research design is consistent with the study's objectives and questions, which are to examine the impact of mergers and acquisition on firm's financial performance when it comes to return on asset, return on equity, EPS, Operating profit margin. Secondary data collection method is applied in this research paper, in which the data are collected from firm's annual reports, financial statements of the different companies that involve in mergers and acquisitions ranging from four years pre and post mergers and acquisitions.

Table 1. List of Variables

Independent Variables	Dependent Variable
Merger & Acquisition	• Return on Assets (ROA), • Return on Equity (ROE), • Earnings per Share (EPS), • Operating Profit Margin (OPM)and • Return on capital employed (ROCE)

The study employed Descriptive statistics and Paired sample (T- test) using a longitudinal data analysis approach. Other than that, the study uses a Convenience sampling as a sampling technique and selected 6 major mergers in Public Sector Banks.

Table 2. List of Selected Banking Companies

Sl.No.	Year of Merger	Name of Acquiring Companies	Name of Acquired companies
1	2017	State Bank of India	SBI and its Associates
2	2019	Punjab National Bank	OBCB + United Bank of India
3	2019	Bank of Baroda	Vijaya + Dena Bank
4	2019	Canara Bank	Syndicate Bank
5	2019	Union Bank of India	Andhra Bank + Corporation Bank
6	2019	Indian Bank	Allahabad Bank

Data Analysis

1. **H_1 Mergers & Acquisition have significant impact on Return on Assets (ROA)**

t-Test: Paired Two Sample for Means	*Post ROA*	*Pre ROA*
Mean	0.361667	-0.215
Variance	0.029057	0.37395
Observations	6	6
Pearson Correlation	0.863881	
Hypothesized Mean Difference	0	
df	5	
t Stat	2.991844	
P(T<=t) one-tail	0.015191	
t Critical one-tail	2.015048	
P(T<=t) two-tail	0.030383	
t Critical two-tail	2.570582	

According to the table above, it illustrated that, the T value as 2.57 and the significant (two- tailed) analysis value 0.030, which is below than the level of significant 0.05 (Blackwell, 2008). Furthermore, this outcome determines that return on asset of companies is having a significant impact between merger and acquisition activities.

2. H_2 Mergers & Acquisition have significant impact on Return on Equity (ROE)

The Return on Equity's mean value of companies before and after mergers and acquisition is -4.27 & 6.55 respectively with a T value of 2.57 and a 2 tailed test (Probability) value of 0.030 which is below the significant level of 0.05. The outcome illustrated that mergers and acquisition is having a high significant impact on return on equity.

t-Test: Paired Two Sample for Means	*Post ROE*	*Pre ROE*
Mean	6.555	-4.265
Variance	11.46415	134.9975
Observations	6	6
Pearson Correlation	0.868241	
Hypothesized Mean Difference	0	
df	5	
t Stat	2.998076	
P(T<=t) one-tail	0.015083	
t Critical one-tail	2.015048	
P(T<=t) two-tail	0.030166	
t Critical two-tail	2.570582	

3. H_3 Mergers & Acquisition have significant impact on Earnings per share (EPS)

t-Test: Paired Two Sample for Means	*Post EPS*	*Pre EPS*
Mean	16.36333	-4.92333
Variance	170.3407	338.1967
Observations	6	6
Pearson Correlation	0.909566	
Hypothesized Mean Difference	0	
df	5	
t Stat	6.148658	
P(T<=t) one-tail	0.000827	
t Critical one-tail	3.36493	
P(T<=t) two-tail	0.001654	
t Critical two-tail	4.032143	

In accordance with the above table, T- test value of 4.03 and a insignificant probability value of 0.0016, which is below the scale of 0.05 significant level. The result shows that earning per share is found to have a significant relationship with pre and post-merger and acquisition.

4. H_4 Mergers & Acquisition have significant impact on Operating profit margin

t-Test: Paired Two Sample for Means	*Post Operating profit margin*	*Pre-Operating Profit Margin*
Mean	-10.4941667	-5.9
Variance	18.2152778	398.52744
Observations	6	6
Pearson Correlation	-0.22564584	
Hypothesized Mean Difference	0	
df	5	
t Stat	-0.52745375	
P(T<=t) one-tail	0.31021824	
t Critical one-tail	2.01504837	
P(T<=t) two-tail	0.62043648	
t Critical two-tail	2.57058184	

T –test value of 2.57 and an insignificant probability value of 0.620 that is above 0.05, which is the significant level. This conclusion displays that net profit margin of firm is having insignificant relationship on mergers and acquisition.

5. H_4 Mergers & Acquisition have significant impact on Return on Capital Employed (ROCE)

t-Test: Paired Two Sample for Means	*Post ROCE*	*Pre ROCE*
Mean	1.807917	1.725
Variance	0.021571	0.02767
Observations	6	6
Pearson Correlation	-0.35232	
Hypothesized Mean Difference	0	
df	5	
t Stat	0.787862	
P(T<=t) one-tail	0.233234	
t Critical one-tail	2.015048	
P(T<=t) two-tail	0.466468	
t Critical two-tail	2.570582	

Moreover, T – test value of 2.057 and an insignificant probability value of 0.466 that is above 0.05, which is the significant level. Also, Ti shows negative Correlation between Pre and Post-merger. This conclusion displays that Return on Capital Employed of firm is having insignificant relationship on mergers and acquisition.

RESULTS AND DISCUSSION

The result of this research explained that 3 variables out of 5 experienced significant changes. Variables that experience significant differences are in the variables ROA, ROE, EPS, H_1, H_2, and H_3 were accepted. This finding is similar from that of Yeh and Hoshino (2002), and Ismail et al. (2009) who found out the ROA of merged firms in Philippines decrease significantly after the merger. The test results of the OPMR and ROCE variables show insignificant changes after mergers and acquisition so H_4 and H_5were rejected. The key findings of the research on the effects of mergers and acquisitions on financial performance are; the study tested several hypotheses related to the impact of mergers and acquisitions on financial performance, including the hypothesis that there is a significant positive relationship between mergers and acquisitions and Return on Assets, Return on Equity, Earning per Share, Return on Capital Employed and Operating Profit Margin. The study found support for this hypothesis, suggesting that mergers and acquisitions can have a positive impact on the financial performance of Indian Banking companies.

Conclusion

The implications of the research findings for companies considering mergers and acquisitions in the Banking sector of Indian market are significant. The study suggests that mergers and acquisitions can have a positive impact on the financial performance of companies, specifically in terms of Return on Assets, Return on Equity, Earning per Share, and Operating Profit Margin (Putri, 2012). This implies that Banking companies in the Indian market should carefully consider the potential benefits of mergers and acquisitions in enhancing their financial performance. Additionally, the findingsprovide valuable insights for stakeholders, including the community, shareholders, and directors, when evaluating the advantages of amalgamating with other firms to achieve profitability.

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