# Mergers and acquisitions of banks in India impact on cost efficiency and financial performance for banks in post liberalization era.

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## ABSTRACT

*Mergers and acquisitions (M&A) are the joining of two or more businesses into one, often funded with cash, equity, or a mix of the two. Takeovers are when one person, a group of people, or both make a transaction, either directly or indirectly. Centric mergers serve the same customers in the same sector and provide complementary products and services. Consolidrative mergers involve a union of two businesses that operate in entirely unrelated industries. Co-generative mergers involve two companies that provide distinct goods within the same sector of business and take advantage of overlapping technologies, parallel distribution networks, or related production techniques.Triangular mergers involve combining with a division of the acquiring corporation in a three-way agreement. E-governance is a helpful tool in achieving the aim of speed, and legally binding mergers may be accorded statutory acceptance in India under the Company Law. This research investigated the concept and practice of M&A and made suggestions to improve cthe financial performance and cost efficiency of Indian banks. Secondary data showed that ICICI Bank Ltd. and HDFC Bank Ltd. saw a considerable increase during the post-M&A activity period, while Kotak Mahindra Bank Ltd. experienced a decrease. Reasons for persistent EPS include cutting back on unnecessary expenditures, focusing on more recent profitable goods, and enhancing corporate governance. Mergers and acquisitions should not be used by the government to help weaker banks, as their asset quality would decline.*

**Keyword:-** *Merge acquisition, Asset, Earning, Top, Management etc.*

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## INTRODUCTION

On paper, it would appear like M&A is the ideal course of action for advancing in terms of business expansion, improving profitability, and lowering costs. But the truth is that a sizable proportion of completed mergers have fallen short of expectations. While some failures are influenced by financial, legal, and commercial factors, the bulk of unsuccessful mergers are mostly attributable to difficulties with underutilised human resources. It has been observed that during M&A transactions, the importance of human capital is sometimes neglected while legal and financial matters are handled with the utmost earnestness. Such a treatment of workers lessens their motivation and productivity and causes top talent to leave.

## MERGER

A merger is the joining of two or more businesses into one, when only one remains in business and the others cease to exist as separate entities. All of the combined company's assets and liabilities are acquired by the survivor. The firm that is extinguished is the seller, and the company that survives is the purchaser and keeps its identity.

It entails joining two businesses into one larger business by different means, such as shares or stock swaps or a payment, and this combination contains a crucial element of transfer of ownership. The firms participating in the merger renounce their shares and are virtually given new shares as the new entity.

## ACQUISITION

In the business world, it is known as a corporate action when a corporation purchases the majority, if not the whole, ownership interest of the target company in order to seize control of the target company. When expanding, it is advantageous to take over the activities of existing companies, and acquisitions are frequently performed as part of growth strategies. Acquisitions are often funded with cash, equity, or a mix of the two.

Both amicable and hostile acquisitions are possible. An acquisition is deemed friendly when the target firm agrees to be bought because there is widespread consent; an acquisition is hostile when there is no general consent. To maintain control of a majority of the total interest, significant stakes in the target firm must be purchased. For small, successful businesses that want to grow but lack the resources, acquiring the target company may be seen as a chance to utilise and expand the resources.

## TAKEOVERS

A takeover happens when one person, a group of people, or both make a transaction, either directly by buying the assets outright or indirectly by taking over the management of the business. It is possible to differentiate between takeovers and acquisitions based on the degree of willingness displayed by the parties engaged in the transaction.

## TYPES OF MERGER

Mergers and acquisitions take many various shapes, and they transform the economic landscape by forging fresh strategic alliances and advancing corporate philosophies. A few important criteria should be taken into consideration when examining mergers and acquisitions from the perspective of corporate structure.

### HORIZONTAL MERGERS

A firm combines with another business that supplies customers with a comparable range of goods and services. When two businesses are directly competing, a merger aids in removing that immediate threat, increasing market share along with sales and profits.

### VERTICAL MERGERS

Here, a merger combines two businesses that each produce a different service or component along the value chain for a finished good.

### CONCENTRIC MERGERS

The companies merging serve the same customers in the same sector and provide different but complementary products and services. As the sale of one product will enhance the sale of another, such a merger serves to increase profits.

### CONGLOMERATE MERGER

This kind of merger refers to a union of two businesses that operate in entirely unrelated industries and have no bearing on the stages of production. This kind of merger occurs when a company has to diversify into a whole new sector, which helps to lower the business risk of operating in a single industrial field. Since the amalgamated firms have no connections to or relationships with businesses of similar kinds, neither their product lines nor business types would overlap, but their operations would.

### REVERSE MERGER

A reverse merger occurs when a financially sound corporation combines with one that is less stable financially, and the previous company is dissolved. Additionally, a parent corporation merging with a subsidiary business is known as a reverse merger. A private business purchasing another private company in order to convert it into a public corporation is also known as a reverse merger.

### CO-GENERIC MERGER

Two companies unite that provide distinct goods within the same sector of business then happen Co-generic mergers. These mergers happen in order to take benefit of overlapping technologies, parallel distribution networks, or related production techniques.

**TRIANGULAR MERGER**

Due to regulatory and fiscal considerations, a triangular merger is constructed in this way. The target firm combines with a division of the acquiring corporation in a three-way agreement. Which entity survives such a merger depends on the circumstances. Both backward and forward triangular mergers are possible. Deals are progressive when the subsidiary company survives, whereas deals are backward when the target business does. The target's non-transferable assets and contracts might then come under the ownership of the acquiring corporation.

## IMPACT OF MERGER AND ACQUISITION

There are two methods used in studies examining the consequences of mergers and acquisitions. (a) The financial method is used to assess the businesses' share price patterns, and (b) Comparing a set of organisations' tendencies to seek for differences in them. The rate of returns to shareholders is one indicator used to evaluate the consequences of mergers and acquisitions. An rise in rate following the acquisition or merger is a sign that the new company will succeed in the long run. Corporate takeovers are generally perceived as having a favourable impact on shareholders' wealth.

The impact of merger and acquisition

1. Employees
2. Top Management
3. Shareholders
4. Consumers

## M&A LEGISLATION IN INDIA

In India, the M &A process is court-driven, drawn out, and so difficult. The procedure may be initiated by routine agreements between the 2 parties, but that is insufficient to provide it legal protection. It must have the “High Court's approval in order to be implemented”. The Companies Act of 1956, which deals with mergers and acquisitions, combines procurement identifying with other related concerns of deals, courses of action, and reproductions at various times and for each situation of merger and securing. The method is far from straightforward, but various procurements of the Companies Act are implemented.

Speed is crucial in a developing and dynamic economy like ours, especially given the growing level of market competition. The ability of a corporation to carry out such mergers and acquisitions at a "advanced" pace is a sign of its availability, talent, and cunning. E-governance might be a helpful tool in achieving the aim of speed with options for online application, endorsements, and other processes. The Committee believed that legally binding mergers may be accorded statutory acceptance in India under the Company Law, similar to the practice in many other countries. By a simple majority, shareholders might be required to approve such mergers and acquisitions undertaken by contractual means (i.e., without court action). Resolving this will remove barriers to mergers and acquisitions and make ex-post security and capacity available. A continuous rise in cross-border mergers has coincided with the increase of global trade. Such M&A have the potential to improve corporate governance and provide long-term benefits when they are combined with rivalry-encouraging measures. The Committee looked at a few clauses and the union of business in the existing law, which creates a different code in them selves and directs an important part of rebuilding in light of the economic context.

The legislation a report requires from the “Official Liquidator (OL)” or “Registrar of Companies” if an organisation that is currently dissolving without splitting up wishes to combine in order to guarantee that the company's efforts have not been biassed against the interests of its members or the general public.The Act further stipulates that the Court may not order the dissolution of any transferor organisation unless the OL reports to the Court that the organization's initiatives have not been skewed against the interests of its members or the public.

The Committee believed that by notifying ROC and OL separately, the aforementioned legal requirements could be met, and that this would allow them to record information for the court's witness that may provide guidance on the planned merger. There is no need for further information given the notification to be petitioned for. Since the ROC/OL in question has nothing else to add, there may be a deadline for documenting this report beyond which it should be taken for granted.

## LITERATURE REVIEW

According to Kogut and Singh (1998), post-merger integration is already a difficult undertaking, even in domestic acquisitions, and integrating foreign management creates additional issues that may be exacerbated by management's unwillingness to work with the foreign acquirer.

Sharma (2010) looked at mergers and acquisitions in the U.S. banking sector that resulted in the creation of megabanks; the valuation effects of structural changes were determined using the event research approach and accounting performance tools. Acquisitions that prioritised increasing the business's diversity saw the highest abnormal returns. However, some mergers did not increase or decrease shareholder value.

A 2011 research by Sinha Pankaj and Gupta Sushant found that the firms benefited since, for the most part, their profitability worsened liquidity. Firms who had problems controlling their liquidity may have been able to benefit from the synergies produced by the M&A after a few years of M&A. The study contrasted the pre- and post-analytics for the companies. A number of financial metrics, including Current Ratio, Interest Coverage, Profit Margin, Return on Shareholder Funds, Earnings before Interest and Tax (EBIT), Cost Efficiency, and among others, were also used to demonstrate the favourable benefits.

## OBJECTIVES OF THE RESEARCH STUDY

1. To investigate the concept and practice of M&A.

2. To make suggestions to improve the financial performance and cost efficiency.

## LIMITATIONS OF THE RESEARCH STUDY

1. The accuracy and dependability of the data reported in yearly reports determine the calibre of this research.

2. There are several ways to gauge the banks' productivity and profitability. Different experts' perceptions were different from one another.

3. Financial statements are utilised as the foundation for ratio analysis. The degree of financial statement constraints may have an impact on the precision or calibre of the ratio analysis.

4. In addition to financial success, there are several other factors that might be taken into account when assessing the effectiveness of the M&A activity.

5. For this study, only three banks from the private sector were chosen.

## REASONS FOR MERGERS AND ACQUISITIONS IN BANKS

There are different views on this particular topic then the Indian banking industry as a whole has been shaped by acquisitions and mergers. Even if, there is always hope for a better change after the merger of the banks. The following are the explanations for why banks merge.

- **Merger of weaker banks:**

The Narasimhan committee rejected the practise of combining lesser banks with stronger banks, which was promoted to offer unstable institutions stability. They contend that mergers aid in risk management diversification.

- **Rise in market competition:**

New financial product development and the convergence of regional financial systems are the driving forces behind mergers. Markets industrialised and became more competitive, which resulted in a condensing of market share for each particular company and the beginning of mergers and acquisitions.

- **Scale economies:**

The capacity to produce them when businesses unite

- **Skill & Talent:**

In order for two organisations to advance and become more competitive, skill is allocated between them.

- **Technology and Products:**

Introduction of various financial derivatives and electronic banking, the removal of the entry barrier allowed for the entry of new, technologically advanced banks, and as a result, the old banks decided to combine since they could no longer compete.

- **Positive Synergies:**

When two businesses join, their main goal is to produce a result that is better than the combined impact of the two businesses acting independently. Cost and revenue synergy are two of its characteristics.

- After the merger and the geographic expansion of the branch network, poorly performing banks persisted.
- Higher market share and a larger client base, i.e., by reaching out to rural areas.
- Building infrastructure, limiting rivalry, preventing bank congestion, and using underutilised resources would enable domestic banks to compete with international banks in the global economy.

## SOURCES OF DATA

For this research study, secondary data have been used to evaluate the impact of the M&A activity on the acquiring private sector banks

**Secondary Data**

A secondary source of data has been utilized for this research study Secondary data have been collected from Banks' Annual Reports. The data were collected from the Annual Reports regarding Assets, Liabilities, Incomes and Expenses to evaluate the performance of banks. Other useful data have been collected from the website and books available on Google books as well as from university library.

## DATA ANALYSIS

H0 : "There is no significant difference in Basic EPS (Rs.) Pre and Post M&A activity of selected acquiring private sector banks"

H1 : "There is significant difference in Basic EPS (Rs.) Pre and Post M&A activity of selected acquiring private sector banks"

Basic Earnings Per Share refers to each share's claim to the profits of the firm. In other words, EPS measures the amount of profit a corporation may make from each share it issues. Higher EPS is therefore desired.

Individual Presentation of Basic EPS of all banks in pre and post-merger period

| Bank | Post M& A | | | Pre M& A | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 1 | 2 | 3 |
| Kotak Mahindra Bank Ltd | 39.96 | 19.91 | 28.49 | 24.89 | 27.56 | 34.87 |

| HDFC Bank Ltd | 87.45 | 69.52 | 57.3 | 48.74 | 37.45 | 29.23 |
|---|---|---|---|---|---|---|
| ICICI Bank Ltd | 87.41 | 68.97 | 54.24 | 41.56 | 33.45 | 32.45 |

Even after the merger, EPS increased each of the three years. This demonstrates the benefit of M&A. The EPS of ICICI Bank has continuously increased, especially since the merger. Thus, the benefits of M&A are seen. Earnings Per Share for a few chosen banks during and after the merger. This graph makes it possible to compare EPS amongst banks. Kotak Mahindra Bank had the lowest and most inconsistent EPS over the post-merger era, whereas HDFC Bank and ICICI Bank saw increases.

**INTERPRETATION**

An important tool for assessing a company's financial health is its EPS. Net income left over for equity owners is expressed as EPS, or earnings per share. The Basic EPS (Rs.) research table above shows that ICICI Bank Ltd. and HDFC Bank Ltd. saw a considerable increase during the post-M&A activity period, whilst Kotak Mahindra Bank Ltd. experienced a little decrease. Therefore, it can be concluded from the Basic EPS (Rs.) table that M&A has had a beneficial influence on earnings per share.

t-Test: Paired Two Sample for Means

| | Variable 1 | Variable 2 |
|---|---|---|
| Mean | 56.41 | 32.54 |
| Variance | 538.12 | 19.54 |
| Observations | 3 | 3 |
| Pearson Correlation | .98456 | |
| t Stat | 1.9647 | |
| P(T<=t) one-tail | .09674 | |
| t Critical one-tail | 2.7412 | |
| P(T<=t) two-tail | .01887 | |
| t Critical two-tail | 4.3652 | |
| df | 2 | |
| Hypothesized Mean Difference | 0 | |

From the above table it can be seen that “P value (Two Tail) is 0.1887 which is higher than significance value 0.05 (P value < 0.05)” which means,

“H0 Hypothesis is accepted and it concludes that there is no significant difference in Basic EPS (Rs.) Pre and Post M&A activity of selected acquiring private sector banks”

In contrast to one of the banks, the average result of the chosen banks and the results of the other two chosen banks are determined to be positive. The "t-Test" results show that there is no discernible variation in EPS as a result of the merger, suggesting that merge and acquisitionactivity does not significantly affect EPS. In other words, merge and acquisition activity does not significantly affect either the rise or drop in EPS. Reasons for persistent EPS that are likely

(1) By cutting back on unnecessary expenditures, banks were able to improve their core businesses and boost their profitability.

(2) The banks could have had more time to focus on more recent profitable goods. It should be highlighted that even though the ratio analysis suggests that the EPS has grown, the t-test does not find the increase to be statistically significant.

## FINDINGS AND SUGGESTIONS

Any implications of variations in the accounting practises employed by distinct businesses are not taken into account in the analysis. Not many organisations may have the same effects from the same elements on M&A performance. The technique does not take into account the purchase cost for mergers.

Enhancing corporate governance, strategic business planning, and risk management capabilities should be prioritized. Outsourcing, strategic alliances, and other options are available for putting out effort in the near future.

Banks must profit from this rapidly changing environment and the short product life cycles. Mergers and acquisitions shouldn't be used by the government to help weaker banks. If the larger banks combine with the smaller ones, the asset quality of the stronger banks would decline; thus, this should be avoided. Stronger banks should merge with more powerful banks in order to compete with foreign banks and get access to the global financial market.

## CONCLUSION

Major M&A have been taking place in the banking sector over the past several years, resulting in the emergence of a number of international companies. According to the current study, there were only a few banks that were adequate during the study period; there were no significant differences in the profitability ratios of the selected Indian banks before and after mergers and acquisitions.

However, there are confident predictions of increased profitability in the future. However, the findings show that for the merging institutions, mergers increased levels of cost efficiencies. The participating institutions did not see any discernible efficiency benefits as a result of the combination of weak and strong banks. Although the interests of the depositors of the weak institutions were properly protected by the forced merger of these banks, the merger's advantages have not been disclosed by the banks' stakeholders.

The findings demonstrate how M&As impact shareholder value. The results suggest that structural variables such as the relative sizes of merging partners, the way M&As are financed, and the volume of bids in M&As may have an impact on a deal's success.

The findings emphasise the value of considering both the size of a potential target and the method of funding M&As. The results suggest that structural pressures operating independently may have an effect on shareholder value. This suggests that management in banks and other organisations proposing mergers and acquisitions should make an effort to evaluate and take into consideration how these structural features are likely to have an impact on the success of the planned M&As.

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