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Atul Kumar
Research Scholar, Ch Charan Singh University, Meerut, Uttar Pradesh, India

Dr. Deepak Kumar Agarwal
Head and Associate Professor, Department of Commerce, M.M. College, Modinagar, Ghaziabad, Uttar Pradesh, India

Rakesh Kumar Garg
Assistant Professor, Department of Applied Science and Humanities, I.T.S Engineering College, Greater Noida, Uttar Pradesh, India

Correspondence
Atul Kumar
Research Scholar, Ch Charan Singh University, Meerut, Uttar Pradesh, India

A study of mergers and acquisition of banks in India with special reference to Bank of Baroda

Atul Kumar, Dr. Deepak Kumar Agarwal and Rakesh Kumar Garg

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Abstract
In last two decades Indian banking sector is facing various challenges, liquidity, increasing NPA and low recovery rate, this research paper tries to examine Mergers and Acquisitions (M&A’s) which have occurred in Indian banking sector to understand the ensuing synergies and the long time implications of the merger. The paper opinions the trends in M&A’s in Indian banking after which impact of M&A’s has been studied. The study covers the location of overall performance assessment of M&A’s in Indian banking sector.
This paper examines the performance of merged banks in pre and post with the help of several economic variables. The results proved that M&A’s has been a success in Indian banking sector. The GoI, and Policy makers have to no longer sell merger among robust and distressed banks as a way to sell the interest of the depositors of distressed banks, as it can have unfavorable impact upon the asset nice of the stronger banks. It additionally studies the Bank of Baroda and Vijaya Bank & Dena Bank merger with the professionals and cons of the banks and the personnel of the banks.

Keywords: Mergers, acquisitions, Bank of Baroda and it associates

1. Introduction

An agreement that unites two already-existing organizations into a single new organization is known as a merger. These are a few different types of mergers, as well as some of the factors that lead to mergers in businesses. M&A is typically done to broaden an organization's scope, enter new markets or expand into existing ones, increase revenues, and increase benefits. These actions are taken to boost investor respect. Firms frequently adopt a no shop policy during a merger to prevent purchases or merges by additional organizations. A merger is the deliberate coming together of two organizations doing substantially similar things into another legal substance. The term "merger of equals" is used because the organizations that agree to join are typically equivalent in terms of size, clients, scope of activity, and other factors. The main causes of bank mergers in India are as follows.

a) In an effort to spur economic growth, to establish fewer, better, larger global lenders.
b) To reduce unfair practices and unfair competition among banks in the public sector.
c) The action will align with the goal of making India into a $5 trillion economy.
d) After merging of Vijaya bank and Dena bank with Bank of Baroda, the new bank i.e., BOB (new bank) will become third largest public sector bank in the country with Rs.14.82 lakhs crore.
e) Merging of syndicate bank with Canara bank, the Canara bank (new bank) will become fourth largest public sector bank with Rs.15.2 lakhs crore, post merging.
f) Merging of Andhra bank and corporation bank with union bank of India, the UBI(new bank) will be fifth largest public sector bank with Rs.14.6 lakhs crore business.
g) After merging of Allahabad bank with Indian bank the new bank i.e., Indian bank (new bank) will become seventh largest public sector bank with Rs.8.08 lakhs crore businesses.
h) They can focus more effectively on defaulters. Many people had access to many forms of funding. With merger, they can be housed under fewer roofs, which facilitates healing.

2. Objectives of the study

The major objective of this research is to analyses the conditions after merging these banks in terms of their performance improvement, decrease in NPA, value creation and contribution to economic growth and financial stability to economy of the nation.

In order to address the following problems, the proposed study is crucial.

a. To examine Post-Merger performance of Bank of Baroda and its impact on Indian economy.
b. To examine Post-Merger NPA of Bank of Baroda and its impact on Indian economy.
c. To examine Post-Merger value creation of Bank of Baroda and its impact on economic growth.
d. To analyses the performance of the banks in the Pre and Post-Merger

3. Review of literature

In the context of this study, the researcher assessed many article/research papers, to provide a top-to-bottom view of the industry surrounding mergers and acquisitions. After reading the several useful papers that are readily available on mergers and acquisitions, it becomes clear that some of the research done focused on how these transactions affect various associations' components. A company can carry out internal and external development. Internal growth can be achieved by the consolidation of new branches or the extension of existing ones, while external growth may take the form of mergers, takeovers, joint ventures, amalgamations, and other similar actions. Just take a look at how mergers and acquisitions would demonstrate the impact on the Indian economy of the convergence of nationalized banks and major banks.

CMA Jai Bansal and Dr. Gurudatt Kakkar (2018) [4]: conducted study on “A research on the analysis of merger of SBI with its 5 associated banks and bharatiya mahila bank”, the researcher used many strategic facets and came to the conclusion that it had favorable effects on their profitability. The study looks more closely at mergers and acquisitions in the Indian banking sector. Despite a few mergers in the Indian banking industry, the path to "international banks" remained long.

Kotnal Jaya Shree (2016) expressed in her paper titled “The economic impact of merger and acquisitions on profitability of SBI” many reasons for mergers in the Indian banking sector. Financial metrics such gross profit margin, net profit margin, operational profit margin, return on equity, and debt equity ratio were used to analyses the pre- and post-merger financial performance of merging institutions. Finally, it states that while banks have been favorably impacted, their overall financial health and development cannot be fixed through mergers and acquisitions.

S. Devarajappa (2012) [5]: The study destined in identifying the various reasons for mergers and acquisitions in India. It also focused on pre and post- merger performance of banks from the view pint of ROI, ROCE, and ROE.

Azeem Ahmed Khan (2011) [1]: This study concentrated on illuminating the many drivers of mergers and acquisitions in India. According to the study's findings, mergers and acquisitions facilitated the payment of dividends to equity shareholders.

Bhatnagar, R. G. (2001) [3] the study looked at the severe toll on public sector banks, which were hampered by NPA-tainted balance sheets and weighed down by the excess of previous bureaucratic interventions. Well-managed, extremely well-liked, and inventive sectors banks are giving the PSBs a run for their money in the increasingly competitive industry. The author suggests a merger and more efficient operations as a fix.

Berger and Humphrey (1994) [2] a majority of studies that compared financial ratios before and after mergers found no difference in operational cost and profit ratios. The selection of the sample, the methods used in funding the mergers, and the delay between the conclusion of the merger process and the realization of the benefits of mergers are the causes of the contradictory evidence. Financial ratios may also be deceptive performance indicators because they do not account for product mix or input costs. However, they might potentially mix up the scale and scope efficiency used to achieve frontier X-efficiency increases. To determine the X-efficiency gains of bank mergers, several research have explicitly used frontier X-efficiency approaches. The majority of US-based studies came to the conclusion that bank mergers provide a significant potential for cost-efficiency advantages.

Hearly *et al*. (1992) [9] looked at the post-merger cash flow performance for the 50 largest US mergers and came to the conclusion that, in the five years after mergers, the operating performance of merging firms had improved when compared to their industries following acquisitions. The study found that while the sample companies kept their rates of capital investment and Research and Development (R&D) in comparison to their industries, the development in post-merger cash flows was not accomplished at the expense of the merging firms' long-term sustainability. The study also revealed that an increase in asset turnover rather than an increase in operating margins may be responsible for the rise in industry-adjusted operating returns.

4. Research gap

The majority of the works have been completed on new patterns, regulations, approaches, and their details, as well as human viewpoints that must be evaluated, but not enough attention has been paid to the mergers' profitability and financial inquiry. The present examination provides for research profoundly about merger and procurement occurred in Vijaya bank and Dena bank with Bank of Baroda. The exploration and furthermore talk about the pre and post-merger execution of nationalized banks. An endeavor is made to anticipate the eventual fate of the present merger and securing based on execution of nationalized banks.

4.1 Need for the study

Due to deregulation, liberalization, the admission of foreign banks, and the merging of numerous Indian and international institutions, the banking sector's structure has undergone substantial changes since the early 1990s. In India, there were roughly 25 bank mergers during the post-reform era. The effectiveness and profitability of the banking system are significantly impacted by these mergers. Therefore, in order to understand how the banking industry has been responding to these new challenges and which banks are performing better than others in terms of both managerial and policy interests, it is crucial to understand the impact of these mergers on the efficiency levels of banks and their temporal behaviour.

4.2 Impacts of merger

- Diversification will rise, while merging the banks. Then, they have a variety of possibilities for diversifying their financial portfolio.
- Cost savings via resource pooling and increased effectiveness from cost synergies

- Since consumers of each separate bank will now transact with their new shared identity, more customers will be drawn to the new identity.
- A bigger customer base, which broadens the range of services offered and diversifies the customer base.
- Geographical expansion in the event that banks from different countries merge.
- Improvements in the management system as well the functioning of the bank.
- If the two banks' statuses weren't equal, a merger would benefit the smaller bank.

5. Conclusion

Regardless of the difficulties that have been presented, consolidation has been targeted at according to government objectives as a means of generating world-size banks. The primary objective when it was first included as a clause in the Banking Regulation Act of 1949 was to establish a system that would protect weak banks from the negative impacts of liquidation and dissolution. Due to this concern, RBI was given the authority to compulsorily merge the weak banks with the healthy ones in order to eliminate losses and liabilities. If one bank failed, the banking industry as a whole would also fail. M&A in banking is sought for a number of other reasons, as evidenced by the case studies.

Consolidation is undoubtedly a powerful tool for maintaining liquidity, assuring corporate transparency, and ensuring efficient administration, but it also exposes a single bank to unstable and unanticipated system risk. The conclusion is that the new banks' net profit will decrease as a result of the merger, and the stability of banks is uncertain. Therefore, the new banks must take care of these characteristics to enhance their revenue and stability, which results in a growth in share value over the long term.

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