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A study on financial performance of selected Banks during pre& post merger and acquisition

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Abstract

This study was conducted to assess the impact of merger and acquisition activities on the performance of Banks in India. The paper reviews the trends in M&A's in Indian banking and then impact of M&A's has been studied in three leading banks of India. The study covers the area of performance evaluation of M&A's in Indian banking sector during the period pre and post period of six years of Merger and Acquisition activity. The paper studied the post-merger financial performance of merged banks with the help of financial parameters like, Net Profit margin, operating Profit margin, return on Capital Employed, Return on Equity, earnings per share, capital adequacy ratio, dividend per share etc. The findings indicated that strategies and policies in procedural, physical and socio-cultural contexts were very important factors in the post-merger and acquisition process. In addition, the qualitative impacts of the post M&A activities such as accounting reports, market valuations and key. The financial and accounting data for 10 banks was taken from the Financial Statement Analysis by State Bank of Pakistan. Profitability & Efficiency, Leverage, and Liquidity ratios were used to measure the financial performance, where pre and post ratio analysis was done. Results of the study show that there is no positive improvement in the financial performance of the banks in Pakistan after Merger and Acquisition.

INTRODUCTION

Mergers and acquisitions (M&A) involve businesses buying or combining with other companies or their operations. This is a business strategy that allows companies to expand, downsize, or change their focus and competitive standing. In today's global economy, mergers and acquisitions have become a common business strategy for companies looking to grow their market share, boost long-term profitability, enter new markets, and capitalize on economies of scale. The effects of these M&A activities on various financial parameters have been widely analyzed, with mixed results. This study examines the mergers and acquisitions on the financial performance of selected companies in India Growth is the norm today due to intense competition. Businesses can expand internally by growing operations or externally through mergers, acquisitions, takeovers, joint ventures, and more. As competition heightens, mergers and acquisitions have become a popular long-term strategy for corporate restructuring and strengthening in the globalized world. The main idea behind mergers and acquisitions is to create synergy, where the combined entity is greater than the sum of its parts.

In India, since 1991 Government of India introduced various economic reforms from then the pace for mergers and acquisition picked up . These reforms aimed to liberalize and globalize the economy. The Indian economy has undergone major changes since then, and businesses now ocus on "size and competence." Indian companies realized they need to grow and expand intheir core areas to face growing competition. Many leading companies have restructured by selling off non-core businesses and strengthening their focus on their main areas of interest. Mergers and acquisitions have become an effective way for companies to restructure and a key part of their long-term business strategy. Mergers and acquisitions are common these days across various industries. A merger happens when two companies combine to form a single entity, while an acquisition is when one company takes over another. Mergers and acquisitions are an important part of the corporate finance world. The thinking behind them is that two companies together can create more value than theywould individually.

Companies continuously explore merger and acquisition opportunities with the main goal of increasing shareholder wealth. Many previous studies have aimed to understand the core idea behind mergers and acquisitions and their impact on financial performance Companies often choose to merge with or acquire other businesses for various reasons. Many firms see mergers as a way to grow their operations or become more efficient. Others aim to gain new capabilities, increase their market share, or diversify their activities. For both stock and bond analysts, it's crucial to understand the motivations behind mergers and their financial and operational impacts. M&amp.

A transaction can involve significant complexities and risks. Analysts should evaluate these factors, including how the expected benefits of a proposed merger compare to the deal price, as well as the likelihood of the combination actually occurring and achieving the intended results Mergers and acquisitions are complex business deals. These transactions often involve not just the companies buying and being bought, but also other parties like regulatory bodies that oversee competition laws. To properly assess a merger, analysts need to answer two key questions: Will the deal create value? And does the purchase price justify the potential benefits.

REVIEW OF LITERATURE

Review of literature is a crucial aspect in a research project. It involves searching and examining recent studies done in the given field. Here are some of the key literature findings:

Gupta, I., Raman, T. V., & Tripathy, N. (2021): The study provides the impact of the financial performance of real estate firms and construction by mergers and acquisitions. Secondary data was gathered from a separate database for the research period from 2011 to 2020, and the methodology used was a paired t-test. There is believed to be a significant difference between the pre-M&A and post-M&A periods. The study reveals that the financial performance of Indian construction and real estate companies has generally improved for the acquiring firms during the post-M&A period.

Shanmugavel, M., & Ragavan, N. (2020): A study was conducted to analyze the profitability, efficiency, leverage, and liquidity ratios of 10 banks in Pakistan. The aim was to assess the effectiveness of the merger strategy adopted by these banks. The researcher compared various financial parameters before and after the mergers. Unfortunately, the results show that the financial performance of these Pakistani banks did not improve following the mergers and acquisitions. In fact, most banks experienced a decrease in profitability, efficiency, liquidity, and leverage ratios. This suggests that the merger strategy failed to enhance the efficiency of these Pakistani banks.

Aggarwal, P., & Garg, S. (2019): This study examines the increase in mergers and acquisitions (M&A) transactions in India over the past two decades, as well as the impact of these mergers on the acquiring company's accounting-based performance. The study focuses on three key factors - profitability, liquidity, and solvency - to assess the accounting-based success of the mergers. The companies are also categorized into manufacturing and service sectors to evaluate how mergers affected different types of businesses.

Reddy, K., Qamar, M., & Yahanpath, N. (2019): To determine whether mergers and acquisitions (M&As) of the chinese and indian markets add value, and whether they ensure the estimator's efficiency consistency, and lack of bias, this study suggests expanding the sample size and timeframe, as well as employing instrumental variables regression. According to Stock and Watson (2007), a larger sample is significant because it can reduce data variation, which helps to reduce bias and increase the outcomes' consistency and efficiency. The main obstacle is the impact of the financial crisis on the outcomes.

Dixit, B. K. (2019) The goal of this study is to use a difference-in-difference approach to evaluate the operating performance of Indian companies. It also examines whether there is a difference in operating performance between partial and complete acquisitions. The final dataset was created using two data sources: the acquisitions database and Thomson SDC mergers and acquisitions database and the Centre for Monitoring Indian Economy's Prowess database (CMIE). This research has important implications for investors, businesses, and policymakers. The long-term operating success of Indian acquirers is demonstrated.

Beverly, C., Sutejo, B. S., & Murhadi, W. R. (2019): The study titled "Company performance before and after a merger" examined the financial performance of non-financial firms listed on the Indonesia Stock Exchange from 2010 to 2014, both before and after mergers and acquisitions (M&A). The researchers used 14 major financial ratios related to efficiency, profitability, leverage, and liquidity, and employed t-test and Wilcoxon test methods to analyze the data. The sample consisted of 29 companies.

The study concluded that profitability ratios and debt ratios showed improved financial performance following M&A, compared to the period before M&A. However, the performance of expense, activity, and liquidity ratios did not improve after M&A, even though the overall financial performance was better after.

RESEARCH METHODOLOGY

RESEARCH GAP:

A survey of the literature reveals that previous studies on factors of pre and post mergers were done. The relationship between factors and the financial performance is the research gap. In this study, the association between factors and financial performance of the bank were explained

NEED FOR THE STUDY:

The global market is widespread, with disagreement, and it has gotten progressively worse. It is hard for companies to maintain afloat in this modern world. In the contemporary world, businesses select mergers and purchases because they believe that such a form of expansion and snatching of market power, less competition, and capture of increased market share would be an adequate strategy. In this respect, there are none of the recent research done on mergers and acquisitions, which specifically find the parts that would cover this field's protections.

OBJECTIVE OF THE STUDY:

1. The study aimed to analyze the trends of the mergers and acquisitions in the market.
2. To analyze and compare the financial performance of pre-merger and post-merger of the study.
3. To analyze the customer satisfaction regarding the services before the merger and after the merger

PURPOSE OF THE STUDY:

The study aims to provide the valuable insights about the financial performance of the selected bank during pre-merger and post-merger which helps us to understand the whether it has positive effect or negative effect on the selected bank and also the effect on customer satisfaction before and after the merger

RESEARCH DESIGN

When starting a research project, developing a research design is key. This structured approach aims to uncover new insights by analyzing and linking new findings with existing knowledge through scientific methods. Research involves investigating natural or social phenomena to gain a deeper understanding.

Methods of Collecting Data:

Primary data are information that is collected firsthand or through direct observation, specifically for a particular purpose within a specific area of study. The primary data for this research was mainly gathered through surveys and questionnaires. In contrast, secondary data refers to information that has already been collected and analyzed by someone else. The sources of secondary data include various dictionaries, registries, publications, journals, and websites related to the company.

The major source of information for the objectives of this study is secondary data. The data was collected from the Union Bank of India's annual reports from 2017–18 to 2022–23. Many national and international journals, periodicals, working papers, publications, etc. on the pre-and post-financial performance of the Indian banking sector have also been referenced in the research. The present study considers a period of 3 years from 2017 to 2020 for the pre-merger and a period of 3 years from 2021 to 2023 the post-merger where the bank was merged on April 1, 2020.

DATA ANALYSIS AND INTERPRETATION

Table1 Earnings Quality

Particular	Post-Merger				Pre-Merger			
	2022-23	2021-22	2020-21	Avg.	2019-20	2018-19	2017-18	Avg.
ReturnonAssets	0.65	0.44	0.27	0.45	-0.52	-0.59	-1.07	-0.73
InterestIncometoTotalIncome	84.66	84.44	85.85	84.98	87.62	88.39	86.78	87.60
Interest Income toTotalAssets	6.30	5.72	6.42	6.15	6.76	6.95	6.76	6.82
DividendPay-out Ratio	30.00	19.00	0.00	16.33	0.00	0.00	0.00	0.00

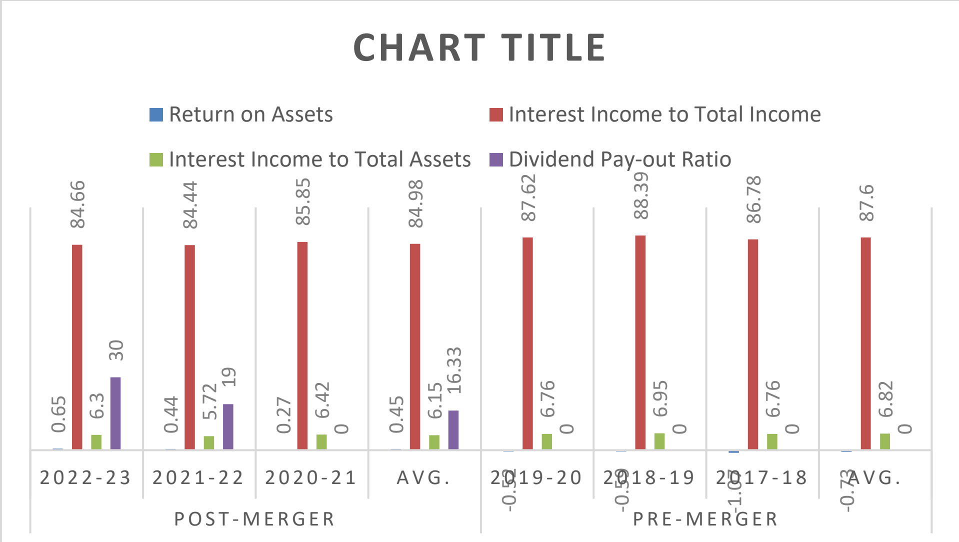


Table 2 Assetsquality

Particular	Post-Merger				Pre-Merger			
	2022-23	2021-22	2020-21	Avg.	2019-20	2018-19	2017-18	Avg.
GrossNPA	7.53	11.11	13.74	10.79	14.15	14.98	15.73	14.95
NetNPA	1.70	3.68	4.62	3.33	5.49	6.85	8.42	6.92
Govt.SecuritiestoTotalInvestments	77.37	76.41	73.07	75.62	70.66	75.56	79.52	75.25
Total InvestmenttoTotalAssetsratio	26.27	29.11	30.68	28.69	27.15	25.49	25.32	25.98

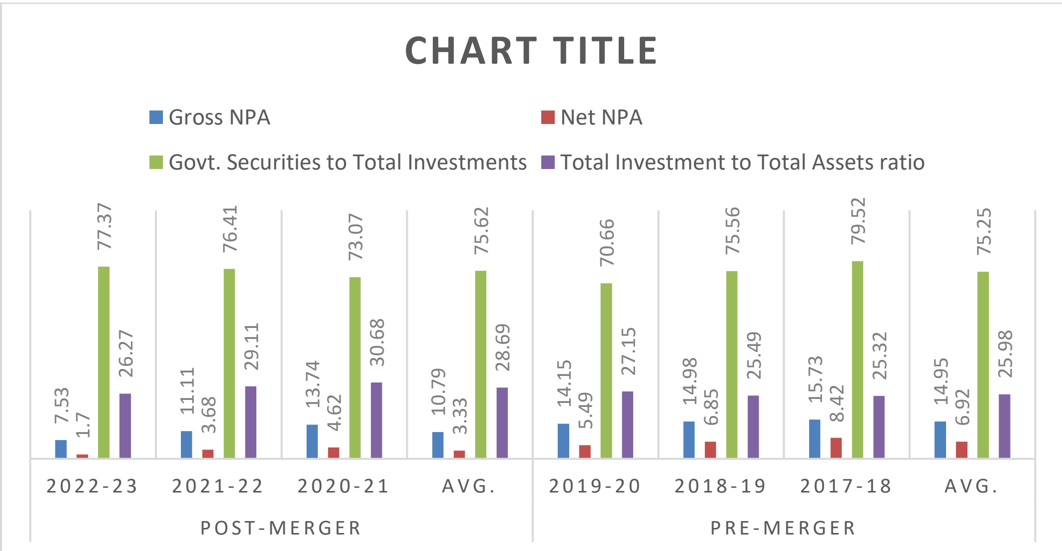


Table 3 Growth

Particular	Post-Merger				Pre-Merger			
	2022-23	2021-22	2020-21	Avg.	2019-20	2018-19	2017-18	Avg.
GrowthofDeposits	1.08	1.12	2.05	1.42	1.10	1.02	1.08	1.07
Growth ofAdvance	1.13	1.10	1.88	1.37	1.07	3.59	1.04	1.90
Govt. SecuritiestoTotalAssets	20.32	22.24	22.42	21.66	19.18	19.26	20.13	19.52

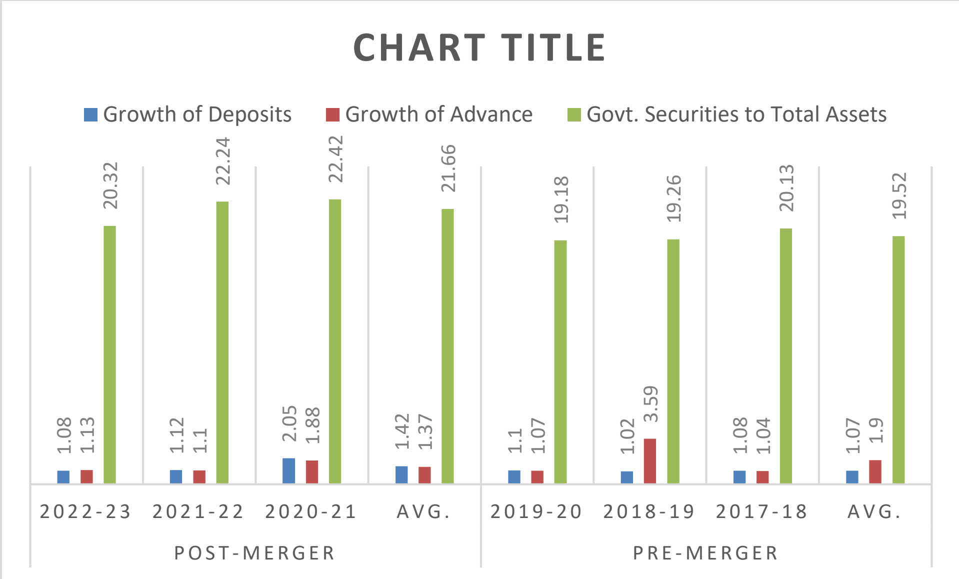


Table4 Liquidity

Particular	Post-Merger				Pre-Merger			
	2022-23	2021-22	2020-21	Avg.	2019-20	2018-19	2017-18	Avg.
LiquidAssetsto Total Deposits	24.19	26.89	27.43	26.17	25.87	19.70	17.25	20.94
Cashwith Bankto TotalAssets	3.92	3.88	3.53	3.78	3.65	4.21	4.31	4.06
LiquidAssetstoTotalAssets	21.11	23.38	23.64	22.71	21.17	16.59	14.46	17.41
LiquidAssetsto Demand depositratio	3.65	3.82	3.98	3.82	4.41	3.08	2.81	3.44

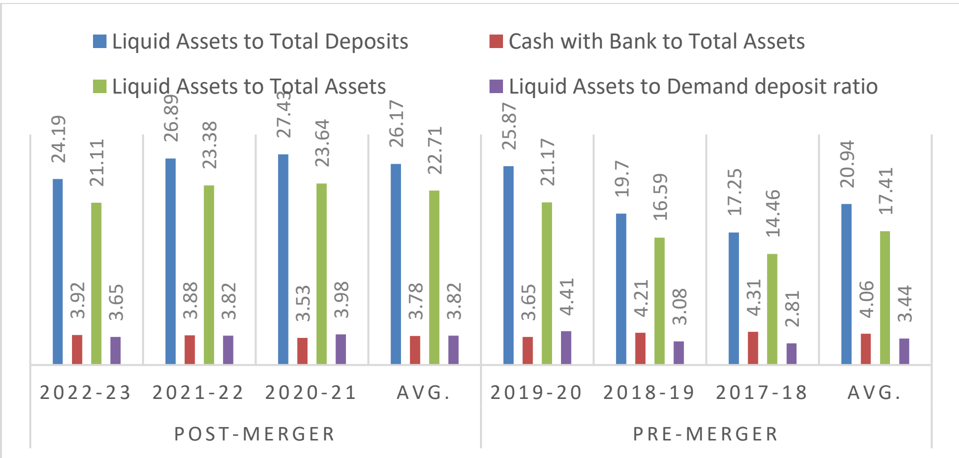
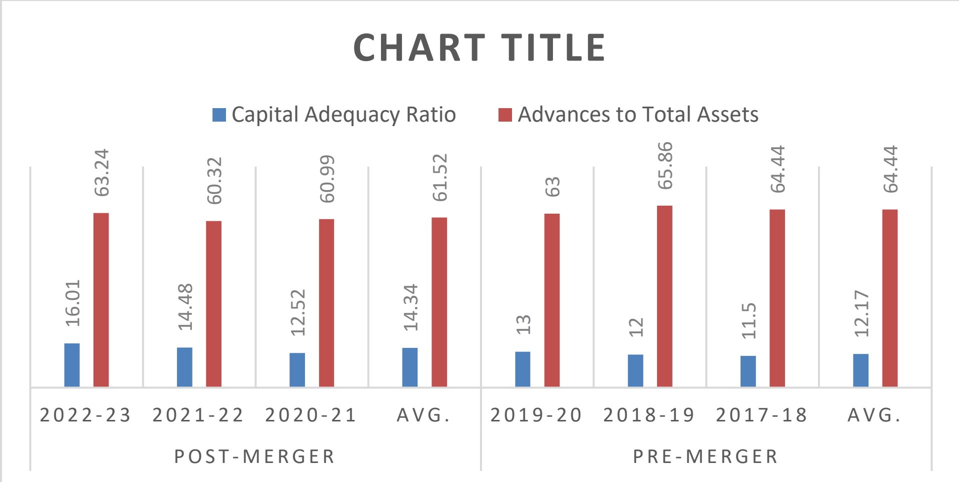


Table 5 Equity

Particular	Post-Merger				Pre-Merger			
	2022-23	2021-22	2020-21	Avg.	2019-20	2018-19	2017-18	Avg.
CapitalAdequacyRatio	16.01	14.48	12.52	14.34	13.00	12.00	11.50	12.17
Advancesto TotalAssets	63.24	60.32	60.99	61.52	63.00	65.86	64.44	64.44



FINDINGS OF THE STUDY:

The total respondents are 30 out of which33.33 % are male and 66.66% are female, Majority of the respondents are between 20-25 yrs. followed by 25-30yrs, Most of the respondents are students followed by employed people 63.33% of the respondents were satisfied with services only 3.33% are dissatisfied.

Among the respondents 33.33% of them avail for the education loan and personal loan. Next 16.66% of them go for vehicle loan and home loan, 93.33% of the respondents were satisfied with the services where 6.66% are dissatisfied 46.66% of the respondents are satisfied with the customer service where 6.66% are not satisfied 66.66% of the respondents opt for the online services and 33.3% opt for the offline services that are provided by the bank 50% of the respondents feel that taking the loan was difficult before the merger and 50% feel the difficulty after the merger.

56.66% of the respondents were accessing the banking services 33.33% of the respondents take the digital banking services and 50% of the respondents take the deposits and 16.66% of respondents take the loans 90% of the respondents met their financial needs where 10% did not meet their needs 66.66% of the respondents feel that online mode services are working effectively 70% of the respondents feel that convincing for accessing the banking services stayed same where as 23.33% of the people feel that they are improved.

50% of the respondents feel that customer service has improved after merger and 43.33% feel that it stayed same 93.33% of the respondents feel that services offered were improved after merger and 3.33% feel that the services were not improved 93.33% of the people are satisfied with the services of the bank after the merger whereas 6.66% are not satisfied. 93.33% of the respondents feel that merger have resulted in better customer service 66.66% of the respondents feel that there is a difference in the services 96.66% of the respondents feels that merger have improved the banks performance.

CONCLUSION

From the above graph's interpretation, we can find that the customer's satisfaction and services offered by the union bank of India were satisfactory before the merger. And after the merger the customer satisfaction and services were improved than before. The overall performance of the bank was satisfactory after the merger. From the findings we can conclude that the merger has a positive effect on the overall customer satisfaction and also the financial performance of the bank

After the merger, Union Bank of India' searning capability strengthened. Due to its high return on assets and dividend payout ratio. but not enhance interest income, therefore the bank must enhance its ability to generate more money.

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