A CRITICAL ANALYSIS OF MERGER AND ACQUISITION OF PUBIC SECTOR BANKS

Abstract

Consolidation of public sector banks (PSBs) in India has been a critical area of study, given its significant implications on the financial ecosystem. This research focuses on the merger of Allahabad Bank with Indian Bank, analyzing empirical impact on Indian banking sector. The study investigates the rationale behind such mergers, including objectives like strengthening balance sheets, improving operational efficiency, and addressing non-performing assets (NPAs). By employing financial analysis and statistical tools, the research evaluates pre- and post-merger performance indicators, such as profitability, liquidity, and market share.

Key findings highlight that the merger has led to cost synergies, enhanced capital adequacy, and improved risk management frameworks. However, challenges such as cultural integration, technological synchronization, and customer service disruptions are also observed. The research underscores the broader implications of bank mergers on financial inclusion, credit growth, and the stability of the Indian banking sector. The study provides valuable insights for policymakers, financial analysts, and banking professionals, contributing to the discourse on the effectiveness of mergers as a strategic tool for the restructuring and revitalization of PSBs in India.This paper aims to facilitate a deeper analysis of mergers and acquisitions landscape, offers recommendations for optimizing future consolidation strategies.

Keywords: Mergers and Acquisitions (M&As),Non-Performing Assets (NPAs),Public sector banks (PSBs)

Introduction

M&As in banking have emerged as a strategic tool to strengthen financial institutions, enhance their operational capabilities, and address systemic challenges in a competitive economic environment. PSBs promote financial inclusion, ensuring credit availability, and fostering economic stability. However, these banks have historically faced challenges like high NPAs, inefficiencies in operations, an inability to compete effectively with private and international players. To address these issues, the Indian government and regulatory authorities have pursued consolidation initiatives within the banking sector, consolidation of two or more government-owned banks into single entity. Strategic aims to enhance financial strength, operational efficiency, and overall competitiveness of the participating banks.One of the significant consolidations in recent years was Allahabad Bank merger with Indian Bank, announced in 2019 and effective from April 1, 2020, resulted in the combined entity functioning under the name Indian Bank, with Allahabad Bank losing its independent identity. This merger aimed to create a stronger and more resilient banking entity capable of delivering better services, achieving operational efficiencies, and managing risks effectively. The merger also sought to optimize the use of resources, enhance capital adequacy, and improve the financial stability of the consolidated entity.

The rationale, process, and outcomes of the Allahabad Bank merger, provides an empirical analysis of its impact on the Indian banking sector and delves into the financial performance of the merged entity, explores operational synergies, and evaluates the broader implications for the banking landscape in India. Key aspects such as profitability, asset quality, customer service, and market competitiveness, assess whether the merger has achieved its intended objectives.

Objectives:

1. To Analyze the Rationale behind Mergers and Acquisitions of the Allahabad Bank merger with Indian Bank.
2. To Evaluate Pre- and Post-Merger Financial aspect of merged and merging bank before and after merger.
3. Analyze impact on Non-Performing Assets (NPAs) within the consolidated entity.
4. Analyze the influence of the Allahabad Bank merger on the overall performance and stability of public sector banks in India.
5. Identify the challenges faced during the merger process, such as cultural integration and technological harmonization, and highlight the opportunities created for stakeholders.

6. Examine the implications of the merger on customer satisfaction, service delivery, and stakeholder confidence.

Review of Literature

- F. Braggion, N. Dwarkasing, L. Moore (2002) in study " Mergers and Acquisitions in British Banking: Forty Years of Evidence From 1885 to 1925 " delves into performance of shareholder wealth in banks during forty-year of mergers and acquisitions in British banking sector has been noteworthy. Analyzing this period provides a comprehensive perspective on M&As over an extended timeframe, enabling an exploration of returns from merger transactions as banking industry progressively became more concentrated.
- Jagdish R. Raiyani (2008) in the study on " Effect of Mergers on Efficiency and Productivity of Indian Bank: A CAMELS Analysis" was observed that profitability, liquidity, solvency, asset quality, and managerial efficiency improved following the merger. While private sector merged banks outperformed public sector merged banks in terms of profitability and liquidity, opposite was true for capital adequacy and non-performing assets (NPAs). Overall, private sector merged banks demonstrated superior performance compared to their public sector counterparts.

Hypothesis

H□: Allahabad Bank merger with Indian Bank has no significant impact on financial performance of consolidated entity in terms of profitability, operational efficiency, and asset quality.

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Research methodology

The study employs an empirical and analytical research design to investigate the pre- and post-merger effects. The approach is utilized to focus specifically on merger enabling depth exploration of its impact on financial metrics and stakeholders. For this structured interviews and surveys are conducted with key stakeholders, including bank employees, customers, and policymakers, to gather insights on the qualitative impact of the merger. Data relies on financial statements, annual reports, and performance reviews of Allahabad Bank and Indian Bank, sourced from official bank websites, the Reserve Bank of India (RBI) database, and other reliable repositories. Academic journals, government reports are also reviewed to support the findings. Data has been taken in eight-year period, covering four years before the merger (2017–2020) and four years post-merger (2021–2024), to capture immediate effects. In order to prove my hypothesis paired t-test has been used to measure the variables, examines a comprehensive financial performance, operational efficiency, and broader implications of the merger.

<u>Limitations:</u>

- The study is limited to publicly available data, which may not fully capture proprietary financial details.
- Qualitative findings are subject to biases inherent in stakeholder perceptions.
- The analysis may not reflect long-term impacts beyond the study period.

Allahabad bank

Allahabad Bank, established in 1865 in Allahabad (now Prayagraj), Uttar Pradesh, was one of India's oldest and most renowned public sector banks. It held a significant position in the Indian banking sector due to its long history, widespread presence, and comprehensive range of banking services such as financing agriculture, small businesses, and priority sectors, aligning with government objectives. It became a pioneer in adopting digital banking solutions to serve its customers better in an increasingly technology-driven world. Despite its rich legacy, Allahabad Bank struggled with challenges like high non-performing assets (NPAs) and mounting operational inefficiencies in its later years.Stiff competition from private sector banks and a need for technological upgrades further highlighted its vulnerabilities.

Its merger with Indian Bank represents a pivotal move toward stronger resilient PSBs, brought significant advantages in terms of scale and efficiency, it also posed challenges during the integration process. The success of this merger underscores the importance of strategic planning and execution in transforming the Indian banking sector.

Table 1-Allahabad Bank's data from the year ending March 2015 to year ending March 2019

	Allahabad Bank			
	EPS (in Rs crores)	**Capital Adequacy Ratio**	**Net NPA To Advances (%)**	**Net profit/loss for the year**
Mar-19	-40.33	13	5	-8,333.96
Mar-18	-54.20	9	8	-4,674.37
Mar-17	-3.75	11	9	-313.52
Mar-16	-11.73	11	7	-743.31
Mar-15	11.36	10	4	620.9

Source: moneycontrol.com

The above table consists of Allahabad Bank's data from the year ending mar2015 to year ending mar2019 before merger with Indian bank which clearly reveals that the EPS of the banking was in negative figures denoting poor financial performance during the reporting period., indicates that the company's expenses and losses exceeded its revenues and profits for that period. The net profit for the relevant years also showed negative values showing losses, which was maximum in the year ending Mar 2019.

Indian Bank

Indian Bank is one of India's prominent public sector banks, headquartered in Chennai, Tamil Nadu. Established in 1907, the bank has a long history of serving customers across various segments, including retail, corporate, and rural banking. Over the decades, Indian Bank has grown into a robust financial institution with a wide network, offering a range of products and services.April 2020, Indian Bank merged with Allahabad Bank, making it one of the largest public sector banks in India. Indian Bank is known for its strong capital base and efficient risk management practices. Post-merger with Allahabad Bank, its capital adequacy ratio improved, making it better equipped to handle financial challenges. The bank has a focus on reducing non-performing assets (NPAs) while maintaining profitability.

Table 2-Indian Bank's data from the year ending March 2015 to year ending March 2019

Indian Bank					
	Year	**EPS (in Rs crores)**	**Capital Adequacy Ratio**	**Net NPA To Advances (%)**	**Net profit/loss for the year (Rs. In crores)**
After Merger	**Mar-24**	59.86	16.44	0.43	8062.94
	Mar-23	42.41	16.49	0.9	5281.7
	Mar-22	31.67	16.53	2	3,944.82
	Mar-21	31.67	15.71	3	3,004.68
Before Merger	**Mar-20**	12.37	14.12	3	753.36
	Mar-19	6.70	13.21	4	3,209.28
	Mar-18	26.21	12.55	4	12,629.24
	Mar-17	26.21	13.64	4	14,129.12

Source: moneycontrol.com

The aforesaid table shows the data before and after merger of Allahabad with Indian bank showing that there has been significant rise in the net profit of the banks over years after merger. The EPS also showed positive rise and it rose to 59.86 in the year ending 2024 which was maximum amongst all.

Table 3- Results of T test

t-Test: Paired Two Sample for Means		
	After merger	***Before merger***
Mean	5073.535	7680.25

Variance	4844677.8	44683934.7
Observations	4	4
Pearson Correlation	-0.919031	
Df	3	
t Stat	-0.595782	
P(T<=t) one-tail	0.2966384	
t Critical one-tail	2.3533634	
P(T<=t) two-tail	0.5932768	
t Critical two-tail	3.1824463	

Source: Author’s own calculation

Observation: Paired t-test of means before and after merger signifies that the two- tail p-value of the observations under study is 0.5932768 with the alpha level of significance being taken as 0.05. As calculated p-value being more in comparison to the alpha level of significance (0.5932768>0.05), author failed to reject H_0 thereby accepting $H_{0,}$ which means this merger has no significant impact on financial performance of consolidated entity in terms of profitability, operational efficiency, and asset quality. The Pearson correlation of coefficient revealed a strong inverse relationship between the two variables being observed.

Conclusion

Merger brought significant advantages in terms of scale and efficiency, it also posed challenges during the integration process. The success of this merger underscores the importance of strategic planning and execution in transforming the Indian banking sector.The paired t-test is a powerful tool for testing hypotheses about the differences in related samples. It is particularly valuable in scenarios where paired data is naturally correlated, providing more reliable insights by minimizing the impact of external variability. Observations from this test help in making informed conclusions about the significance of measured changes.Indian Bank stands as a testament to India’s robust banking framework, combining a rich legacy with modern banking practices. With its wide reach, innovative services, and customer-centric approach, the bank continues to be a key contributor to the nation’s financial growth and stability.

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