Journal of Advanced Research in Applied Sciences and Engineering Technology

Journal homepage: https://jaraset.com/
ISSN: 2462-1943

EXPLORING AND COMPARING ECONOMIC PERFORMANCE, CULTURE, AND R&D OF 12 PUBLIC SECTOR BANKS IN INDIA (PSBS)

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ARTICLE INFO

Article history:
Received: 15-04-2024
Received in revised form: 09-05-2024
Accepted: 28-06-2024
Available online: 20-09-2024

Keywords:

Public sector banks (PSBs), Economic performance, Organizational culture, Non-performing assets (NPAs), Employee engagement

ABSTRACT

India is a country whose economy is growing at a faster rate in the world. These days commercial banks face lot of problems for branch expansion in order to expand their area of operations because it involves a very high cost. Secondly, investors judge the performance of commercial bank on the value of its share price. Commercial banks in today’s environment face tough competition from the private banks in terms of profitability, low operating costs, rising NPA’s and high share prices. Keeping the above problems in mind the following topic “Impact of Mergers and Acquisition on Financial Performance of Indian Commercial Banks” have been selected. In the globalized economy Merger and Acquisitions acts as an important tool for the growth and expansion of the economy. Merger is a combination of two or more companies through the pooling of interests. The name of the company after merger can be a new company’s name or follow either buyer or the seller company’s name. Furthermore, an acquisition is one company taking over controlling interest in another company.

INTRODUCTION

India is a country whose economy is growing at a faster rate in the world. The economy of India is tending to spread very quickly and has been emerging at the highest place whether it be Information technology, Research and development, pharmaceutical, infrastructure, energy, consumer retail, telecom, banking, Financial services, media and hospitality etc. There has been a large change in the perception and working of Commercial banks in India after the fulfillment of banking sector reforms measures. The Indian banks are anticipated to manage the large inflows and outflows of various resources which are of financial nature. For managing the inflow and outflow of financial resources a strong banking system through restructuring is needed.

The banking sector of India is examined to be the biggest growing sector and the soundness of the banking system has been extremely important for the development of the country's economy.

The Indian banking sector is referred to as the backbone of the Indian economy and occupies an important and pivotal place in a developing country like India. Since the inception of economic and banking reforms in 1990, there have been 22 amalgamations in the banking sector (Arunava Bhattachrya, C.A.K Lovell, Pankaj Sahay, 1997)[1]. As we know that Banks are the institutions which is dealing in money. In the recent past few years, the banking sector of India has been undergoing significant changes that have affected both its form, shape and its nature of strategic interaction among the banking institutions. The Indian banking industry is moving from traditional savings and lending functions to other financial services such as merchant banking, venture capital, securities trading, Insurance etc. In the recent past banks have also enlarged their activities in wider areas. To cover wide areas of activities banks provide various facilities, resources and various financial services to their customers at single place. If the banking system needs to tackle the demand of this new environment then it has to expand its form and structure also. Banks need to be financially healthy to face the global competition and leverage on opportunities. Due to this growing intensity of competition, banks experience the urge of growth using inorganic tools like mergers and acquisitions (Satish Kumar and Lalit K.Bansal, 2008)[2]**.** To meet this changing scenario the bank can adopt the plan of action like Mergers and Acquisitions (M&As). Golbe and White (1993)[3] were among the first to observe the cyclical pattern of Merger and Acquisitions (M&As) activity. Merger and acquisition is a very important tool for the expansion of business in different countries and the researchers from all over the world are taking interest to work in this field (Goyal and Joshi 2011)[4]. In the post liberalization period of the Indian economy, the financial regulatory authorities and Reserve Bank ofIndia* in particular have taken several steps towards consolidating the Indian banking sector (Panwar, 2011)[5]. The economy of India has grown over by 9% since past few years. It has made it to be regarded as the next economic power house. Indian banking sector faced various challenges and problems and the economy of Indian banking Industry have made mergers and acquisitions activity not an unknown phenomenon. M&As activity in India started way back in 1920's when three Banks viz. Bank of Bengal, Bank of Bombay and Bank of Madras were reorganized to form a single banking entity which was subsequently known as State Bank of India.

Commercial banks in India constitute the largest segment of the Indian financial system and were predominantly government owned till the early 1990s. Indian banking system consists of scheduled commercial banks (SCBs) and cooperative banks and the SCBs are grouped into: 1) public sector banks comprise of State Bank of India and its associates, and nationalized banks, 2) private sector banks

comprise of old and new private sector banks, 3) regional rural banks and 4) foreign banks[6].

Indian Banking system comprise of public sector banks, private sector banks, foreign banks, Post office saving banks etc. Table No. 1 enumerates a brief detail of the number of Indian commercial banks as on March 2015. As on March 2015, the number of commercial banks in India was 93, out of which 27 were public sector, 20 in private sector and 46 were foreign banks.

Table 1: Total No. Of Banks

Type of Bank	**No. of Banks**
Public Sector	27
Private Sector	26
Foreign Sector	42
Total	95

REVIEW LITERATURE

Kaushik K.P. and Sinha Neena (2010) examined the financial position of the companies during the period 2000-2008 by applying ratio analysis approach to calculate the change in the financial position of the companies after M&A. The paper also examined the changes in the efficiency of the companies during the pre and post mergerperiodbyusingnon-parametricWilcoxonsignedranktest.Afteranalyzingthe researcher found a significant change in the earnings of the shareholders but there is no significant change in liquidity position of the firms. The study also indicated that M&A cases in India showed a significant correlation between financial performance and the M&A deal in the long run, and the acquiring firm.

Sinha Pankaj & Gupta Sushant (2011) studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on shareholder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

Thlha, Sallehhuddin (2011) showed that M&A of Malaysian banking sector result in debt improvement ratio. For the purpose of study theoretical framework is derived from efficiency theory which is one of the principal value explanation of acquisition. The study focused on the

financial strategy obtained by the 10 Malaysian Banks after M&A program in the year 2000. The efficiency theory consists of three elements i.e financial synergy, operation synergy and managerial synergy.

Jalandhar, et al. (2011), examined the performance evaluation of Indian Commercial Banks in terms of growth in Profitability, Revenues, Investment, Deposits and Total Assets. After merger the biggest challenge for the banks is to manage employees and customer relationships. The researcher further concluded that the real benefits of merger is derived from development in technology, the need to maintain economic capital in relation to the risks a bank is exposed to, and the imperative of confronting to best international practices and standards in risk management.

Khan A. A. (2011), studied the performance of banks before and after merger two banks and concluded that after merger the efficiency and performance of banks have been increased. For the purpose of research he studied that merger led to profitable situation or not. For that the researcher has taken comparison between pre and post merger performance in terms of various ratios like Gross profit margin, Net profit margin, return on capital employed, return on equity, debt equity ratio. The comparison has been done on the performance of both the banks (three years before) merger and (three years after) merger have been compared. The independent t- test has been applied by the researcher for analyzing the pre and post merger performance.

Sinha P. and Gupta S. (2011) analyses the data for of eighty cases M&A from 1993-2010. The study indicates that Profit after tax and Profit before Depreciation, Interest and Tax have positively changed after the merger but the liquidity position which is represented by Current Ratio has declined. After Merger it came to find that companies may have been able to leverage the synergies arising out of merger and Acquisition that have not been able to manage their

Khan A. A. (2012) ***a***nalyses and concluded the M&A is a useful mechanism for development, growth and expansion in the Indian Banking sector. Case I–Global Trust Bank and OBC and Case II- South Gujrat Local Area Bank Ltd and Bank of Baroda. The researcher uses various financial ratios like operating profit margin, Net profit Margin, RONW etc. of the pre and post Merger. For comparing these ratio t-test is applied. The researcher concluded that the various financial parameter of the bank performance have not improved in both cases.

Tanwar N. (2013) analyzes the growth of selected merged bank during pre-merger and post-merger periods. It compared pre and post merger performance on the basis of various ratios like gross profit margin, net profit margin, return on capital employed, return on equity, debt equity ratio etc. The result suggests that after merger the efficiency and performance of banks have increased.

MATERIAL AND METHODS.

Research is derived from the Latin word which means ‘to know’. In other words research means to re-search (Sekaran, 2006)[83]. The chapter aims to detail the

adopted research process, continuing with the explanation of data collection and data analysis methods employed by the researcher with the justification for the used methods and approaches. In this chapter, author has intended to explain how the research methodology will be carried on throughout the study and how the research was planned and designed.

RESEARCH PURPOSE

Literature on mergers and acquisitions in the Indian banking sector has shown that mergers and acquisitions has emerged as the most preferable option for restructuring in Indian banks. These days commercial banks face lot of problems for branch expansion in order to expand their area of operations because it involves Avery high cost. Secondly, investors judge the performance of commercial bank on the value of its share price. Commercial banks in today's environment face tough competition from the private banks in terms of profitability, low operating costs, high share prices. According to **Singh, V. R. (2016)** The Indian banking sector has been facing serious problems of raising Non- Performing Assets (NPAs). The NPAs growth has a direct impact on profitability of banks. Non- performing assets are one of the major concerns for scheduled commercial banks in India**.**

Since the early 1990s, the structure of the banking sector has significantly changed due to the deregulation and liberalization, accompanied by divestment of public sector banks, entry of foreign banks and merger of many banks in India and in the world. In the post reform period about 25 bank mergers took place in India. These mergers have important implication on the performance and profitability in the banking system. Keeping the above problems in mind the following topic "Impact of Mergers and Acquisition on Financial Performance of Indian Commercial Banks" have been selected. Keeping this as goal the research in particular focused on:

1. To identify the reasons of mergers and acquisition of banks in India.
2. To identify the relationship between CAMEL Variables (Capital Adequacy, Asset Quality, Management Quality, Earning Quality and Liquidity) and financial performance of Indian Banks.
3. To examine the impact of Mergers and Acquisition on Camel Variables of Indian Banks before and after the Merger.

In order to carry out this kind of research a predominant strategy will be qualitative; some elements of qualitative research will also be present in the research. For that regression equation is formed to prove the following objectives:

- To develop a Merger and Acquisition model effect based on factorial interaction.
- To analyze the impact assessment of Mergers and Acquisitions on various

CAMEL model ratios.

It is seen that, most of the works have been done on trends, policies and their framework, human aspect which is needed to be investigated, whereas profitability and financial analysis of the merger have not given due importance. The research will mainly focus on the Merger and Acquisitions in the Indian Banking sector in post liberalization regime. The study will also focus on pre and post merger financial performance of commercial banks.

In the globalized economy Merger and Acquisitions acts as an important tool for the growth and expansion of the economy. Merger is a combination of two or more companies through the pooling of interests.

The study is based on empirical evidences. To analyse the performance of banks after merger has been done using CAMEL (Capital Adequacy, Asset Quality, Management Quality, Earning Quality and Liquidity) framework. CAMEL is basically a ratio based model for evaluating the performance of banks. It is a management tool that measure capital adequacy, assets quality, efficiency of management, earnings quality and liquidity of financial institution and banks.CAMEL rating is used by most banks across the world as a performance evaluation technique **(Raiyani, 2010)**.

RESEARCH APPROACH

The traditional research in the area of mergers and acquisition in Indian bankingsectorhasbeendoneinbothqualitativeandquantitativemethods.Furtherthe studies related to examining the relationship between CAMEL Variables (Capital Adequacy, Asset Quality, Management Quality, Earning Quality and Liquidity) and financial performance of Indian Banks. In an ideal set up researchers have used both qualitative and quantitative techniques to provide a complete picture of the financial performance of the banks after merger.

RESEARCH DESIGN

This research makes an attempt to evaluate the pre and post-merger performance of Indian Commercial banks that have merged 1999 to 2010 by analyzing the variables elucidated in the CAMEL model. “The research process can be presented in the form of a model which usually starts with a broad area of interest, which is the initial problem that the study attempts to analyze.” (Zikmund, 2000)[88]. The research design choosen is descriptive research. The main purpose of using descriptive style of research design is that the data collected is very concise and structured which makes the analysis factual and uncomplicated. The study has collected data pertaining to Indian banking mergers and acquisition deals that have taken place since 1999 till 2010. Sixteen banking merger and acquisition deals were covered during the period under study. The research examined the impact of mergers and acquisitions on the performance of the acquiring banks during the pre-merger versus post-merger period and also analyzed the impact of mergers and acquisitions on the post-merger performance of acquiring banks.

RESULT AND DISCUSSION

The procedure produces two tests of the difference between the two groups. One test assumes that the variances of the two groups are equal. In case of Indian overseas bank, the significance values of all the statistical variables except 'Total Adv to Total Asset Ratio', Total Advances to Total Deposit Ratio, Net NPA to Net Advances, Business per employee, Dividend Payout Ratio, Return on Assets, Operating Profit by Average working fund, Return on Equity, Return on Net Worth. The government or bank boards can take decisions on future merger of banks. Pillai's trace is a positive-valued statistic. Increasing values (0.999) of the statistic indicate effects that contribute more to the model. Merger and Acquisition effects the 'CAR', 'TATA', 'GSTI', 'TDTD', 'CDR' 'IDR', 'CaDR', 'NNNA','BPR','PPR','DPR','ROA''OPAW','ROE','RNW','NPTF','P/E','LATA', 'ASTA', 'LADD', 'LATD' and the overall financial position of banks that have been merged/acquired or the banks who have taken over or merged other banks in them. Wilks' Lambda is a positive-valued statistic that ranges from 0 to 1.

Decreasing values (0.001) of the statistic indicate effects that contribute more to the model. Hotelling's trace is the sum of the eigen values of the test matrix. It is a positive-valued (1550.018) statistic for which increasing values indicate effects that contribute more to the model. Hotelling's trace is always larger than Pillai's trace (1550.018>.999), but when the eigen values of the test matrix are small, these two statistics will be nearly equal. This indicates that the effect probably does not contribute much to the model. Roy's largest root is the largest eigen value of the test matrix. Thus, it is a positive valued statistic (1550.018) for which increasing values indicate affects that contributes more to the model. Roy's largest root is always less than or equal to Hotelling's trace. When these two statistics are equal, the effect is predominantly associated with just one of the dependent variables, there is a strong correlation between the dependent variables, or the effect does not contribute much to the model.

Table 2: Multivariate Tests of Bharat Overseas Bank

Multivariate Tests [a]						
Effect		Value	F	Hypothesisdf	Errordf	Sig.
Intercept	Pillai's Trace	1.000	6757.732[b]	9.000	1.000	.009
	Wilks'Lambda	.000	6757.732[b]	9.000	1.000	.009
	Hotelling'sTrace	60819.584	6757.732[b]	9.000	1.000	.009
	Roy'sLargestRoot	60819.584	6757.732[b]	9.000	1.000	.009
Category	Pillai's Trace	.997	32.657[b]	9.000	1.000	.135
	Wilks'Lambda	.003	32.657[b]	9.000	1.000	.135

	Hotelling'sTrace	293.915	32.657b	9.000	1.000	.135
	Roy'sLargestRoot	293.915	32.657b	9.000	1.000	.135
a.Design:Intercept+Category						
b.Exactstatistic						

CONCLUSION:

Mergers and Acquisitions is a very useful tool for restructuring in the Indian Banking sector. It is very helpful for survival of weak banks by merging into large banks. The study is confined to Indian Banks to analyze whether M&A improves the financial performance. In an attempt to find out the impact of Mergers and Acquisitions on the financial performance of 22 Indian commercial Banks, the present study has employed different parameters of study. Financial performance of each banks five years before and five years after merger has been analysed. Financial performance has been measured by using CAMEL rating method and then by applying relevant statistical tool. The following table concluded the increase or decrease in various financial parameters of CAMEL rating method.

Further, Merger and Acquisition expand the capital base as well as the value of the shareholders of the banks thus enabling the banks to access more resources and especially credit facilities that ensure that the business has liquidity. This enhances the stability and effectiveness of operations of the organization increasing customer's satisfaction. M & As being relatively less popular phenomenon in India has not received much attention of researchers. The present study is aimed at examining the M&A activity in India during the post-liberalization period in terms of its financial performance. An attempt has also been made to evaluate the pre- and post-merger performance.

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