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A STUDY ON MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR WITH REFERENCE TO HDFC BANK HYDERABAD

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ABSTRACT

The Indian banking sector has undergone significant transformation over the past few decades, with mergers and acquisitions (M&A) emerging as important strategic tools for achieving growth, operational efficiency, market expansion, and financial stability. The increasing competition, technological advancements, regulatory reforms, and changing customer expectations have encouraged banks to adopt consolidation strategies to strengthen their market position. This study focuses on mergers and acquisitions in the Indian banking sector with special reference to HDFC Bank, Hyderabad. The primary objective of the study is to analyze the role and impact of mergers and acquisitions on the performance, growth, and competitiveness of banks, while examining how HDFC Bank has leveraged such strategies to enhance its operational effectiveness and customer service capabilities. The research evaluates the financial and non-financial outcomes of mergers and acquisitions, including improvements in profitability, asset quality, market share, customer reach, and technological integration. The study also examines the challenges associated with the M&A process, such as cultural integration, employee adaptation, operational restructuring, and regulatory compliance. Data for the study are collected from both primary and secondary sources, including annual reports, financial statements, industry publications, journals, and customer feedback.

KEYWORDS

Equity Investments, Risk Analysis, Return Analysis, Stock Market Performance, Volatility, Investment Decisions, Portfolio Management, Financial Markets, Securities Analysis, SMC Global Securities Ltd.

1. INTRODUCTION

Mergers and acquisitions (M&A) have become an important strategic tool in the banking industry for achieving growth, improving operational efficiency, strengthening financial performance, and enhancing competitiveness. A merger is the process through which two or more organizations combine to form a single entity, while an acquisition occurs when one company gains ownership and control over another. In the banking sector, mergers and acquisitions are undertaken to create stronger financial institutions capable of meeting increasing market demands and adapting to changing economic conditions. The primary objectives of bank mergers include expanding market share, reducing operational costs, improving asset quality, enhancing technological capabilities, strengthening risk management systems, and increasing profitability. Mergers also enable banks to achieve economies of scale, optimize resource utilization, improve governance standards, and provide customers with a wider range of products and services. However, the process also presents challenges such as cultural integration, employee resistance, operational restructuring, and the management of non-performing assets (NPAs).

The Indian banking sector plays a crucial role in the socio-economic development of the country by mobilizing savings, facilitating investments, providing credit, and supporting industrial and agricultural growth. Since economic liberalization, the Indian banking industry has undergone significant reforms aimed at improving efficiency, transparency, and financial stability. As part of these reforms, the Government of India and the Reserve Bank of India have encouraged consolidation through mergers and acquisitions to create stronger and globally competitive banking institutions. The mega bank mergers implemented during 2019–2020 represented a major milestone in the transformation of the Indian banking system. Important mergers included Bank of Baroda with Vijaya Bank and Dena Bank, Punjab National Bank with Oriental Bank of Commerce and United Bank of India, Canara Bank with Syndicate Bank, Union Bank of India with Andhra Bank and Corporation Bank, and Indian Bank with Allahabad Bank. These consolidations were intended to improve operational efficiency, strengthen capital adequacy, reduce NPAs, and enhance the capacity of banks to support economic growth.

In this context, HDFC Bank has emerged as one of India's most successful private sector banks, recognized for its strong financial performance, customer-centric approach, and technological innovation. This study focuses on mergers and acquisitions in the Indian banking sector with special reference to HDFC Bank, Hyderabad.

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1.1 NEED FOR THE STUDY

The Indian banking sector has witnessed significant mergers and acquisitions in recent years as a strategic measure to strengthen financial stability, improve operational efficiency, and address challenges such as rising Non-Performing Assets (NPAs). The consolidation of banks has enabled better resource utilization, cost reduction, technological advancement, and enhanced customer services. In a competitive and rapidly changing financial environment, understanding the impact of mergers and acquisitions has become essential. This study is undertaken to examine the role and effectiveness of mergers and acquisitions in the Indian banking sector, with special reference to HDFC Bank, Hyderabad, and to evaluate their contribution to sustainable growth and performance.

1.2 OBJECTIVES OF THE STUDY

- To study the pre and post-merger financial performance of Bank Of Baroda.
- To study the pre- and post-merger financial performance of Punjab National Bank.
- To study the pre and post-merger financial performance of Canara Bank.
- To study the pre and post-merger financial performance of Union Bank.
- To study the pre and post-merger financial performance of Indian Bank.

1.3 SCOPE OF THE STUDY

The study focuses on mergers and acquisitions in the Indian banking sector and their impact on the financial performance of banks. It provides valuable knowledge and understanding of the merger process, its objectives, advantages, and challenges within the banking industry. The study examines the financial performance of selected banks before and after mergers to evaluate the effectiveness of consolidation strategies. It also helps in understanding how mergers contribute to operational efficiency, profitability, growth, and stability in the banking sector. The findings may be useful for researchers, banking professionals, policymakers, and investors.

1.4 LIMITATIONS OF THE STUDY

- This study is purely based on only five selected banks.
- In this study, the pre-merger and post-merger data of the selected banks are used for analysis.
- All the limitations of ratio analysis affect the study.
- The limitations associated with secondary data also impact the analysis, as the study is entirely based on secondary data sources.
- For this study, one year of data before the merger and one year of data after the merger are compared for the selected banks.

2. REVIEW OF LITERATURE

Sanjay Sharma & Sahil Sidana (2017) This study examined the impact of the merger of State Bank of India (SBI) with its associate banks on its financial condition. The authors found that the merger enhanced SBI's global visibility and expanded its branch network. The merger also helped SBI access cheaper funds more easily and reduced its Gross and Net Non-Performing Assets (NPAs). The study concluded that a unified management structure improved the efficiency and effectiveness of business operations.

Kotnal Jaya Shree (2016) The study analyzed the economic impact of mergers and acquisitions on the profitability of SBI. Financial indicators such as Gross Profit Margin, Net Profit Margin, Operating Profit Margin, Return on Equity, and Debt-Equity Ratio were used to compare pre- and post-merger performance. The findings revealed a positive impact on bank performance, although mergers alone could not completely resolve all financial problems of banks.

Prof. Ritesh Patel & Dr. Dharmesh Shah (2016) This research compared the financial performance of banks before and after mergers using Economic Value Added (EVA) and other financial parameters. The study concluded that mergers can improve the financial performance of banks. However, careful examination of financial data before the merger is essential to ensure successful outcomes.

Parveen Kumari (2014) The study viewed mergers and acquisitions as strategic tools for strengthening banks and increasing credit creation. Analysis of post-merger data showed improvements in the number of branches, ATMs, deposits, net worth, and net profits. The research concluded that mergers contribute positively to the growth and expansion of banks.

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S. Devarajappa (2012) This study identified the major reasons for mergers and acquisitions in India and evaluated their impact on financial performance using Return on Investment (ROI), Return on Capital Employed (ROCE), and Return on Equity (ROE). The findings indicated that mergers help weaker banks survive by integrating them with stronger financial institutions.

Bhan Akhil (2009) The study investigated eight merger deals in the Indian banking sector between 1999 and 2006. The results showed that mergers created value for acquiring banks and improved the efficiency of merged entities. The author concluded that the benefits of bank mergers become more visible over the long term rather than immediately after the merger.

RESEARCH GAP

Most of the existing studies on mergers and acquisitions in the banking sector have focused on the overall financial performance of merged banks and the impact of consolidation on profitability, efficiency, and shareholder value. However, limited research has been conducted on the recent banking mergers in India with a comparative analysis of pre- and post-merger financial performance across multiple banks. Furthermore, very few studies have examined these developments from the perspective of HDFC Bank, Hyderabad. Therefore, this study aims to bridge this gap by providing a focused analysis of selected bank mergers and their financial outcomes.

3. RESEARCH METHODOLOGY

- This study is based on descriptive and analytical research design to examine the impact of mergers and acquisitions on the financial performance of selected banks in the Indian banking sector.
- The study primarily relies on secondary data collected from annual reports, financial statements, Reserve Bank of India publications, journals, books, and other relevant sources. Financial performance is analyzed by comparing selected financial ratios and indicators for one year before and one year after the merger.
- The collected data are systematically analyzed and interpreted to evaluate the effectiveness and outcomes of bank mergers.

3.1 SOURCES OF DATA

The study is based on Secondary data collected from:

• Annual reports and investor relations sections of the respective banks' official websites.

• www.moneycontrol.com

• www.unionbankofindia.co.in

• www.hdfcbank.com

• www.bankofbaroda.in

3.2 SAMPLE DESIGN

The study is based on a sample of five major bank mergers in the Indian banking sector. The selected banks include Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India, and Indian Bank, along with their respective acquired banks. These mergers, implemented between 2019 and 2020, form the basis of analysis.

3.3 PERIOD OF THE STUDY

The study covers the period surrounding the major bank mergers implemented in India during 2019 and 2020. For the purpose of analysis, one year of financial data before the merger and one year of financial data after the merger have been considered for each selected bank.

3.4 TOOLS AND TECHNIQUIES FOR THE ANALYSIS

The following tools are used for analysis:

• Ration Analysis

• Statistical analysis

• hypothesis of the study Null Hypothesis

• Alternative Hypothesis

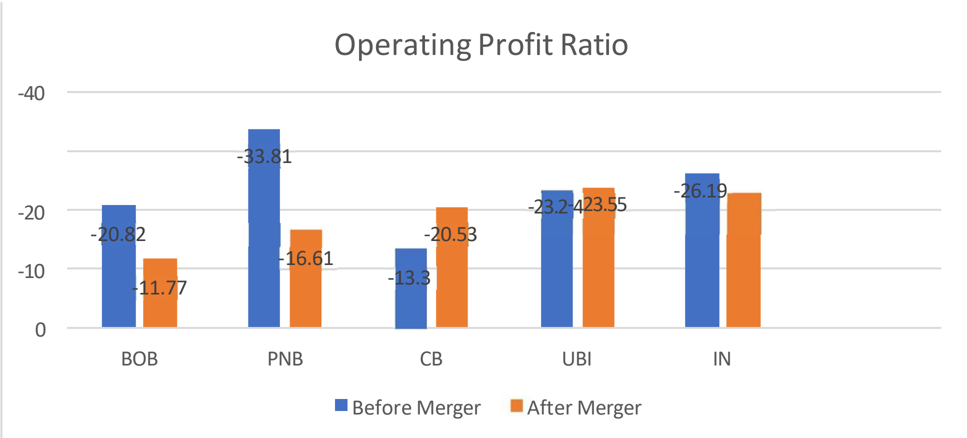
• Graphical Representation

• Tables, Percentages, Charts, and Graphs

4. DATA ANALYSIS AND INTERPRETATION

4.1 OPERATING PROFIT RATIO

C	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-20.82	-11.77	-9.05	81.9025
PNB	-33.81	-16.61	-17.2	295.84
CB	-13.30	-20.53	7.23	52.2729
UBI	-23.24	-23.55	0.31	0.0961
IB	-26.19	-22.83	-3.36	11.2896
		Total	-22.07	441.4011

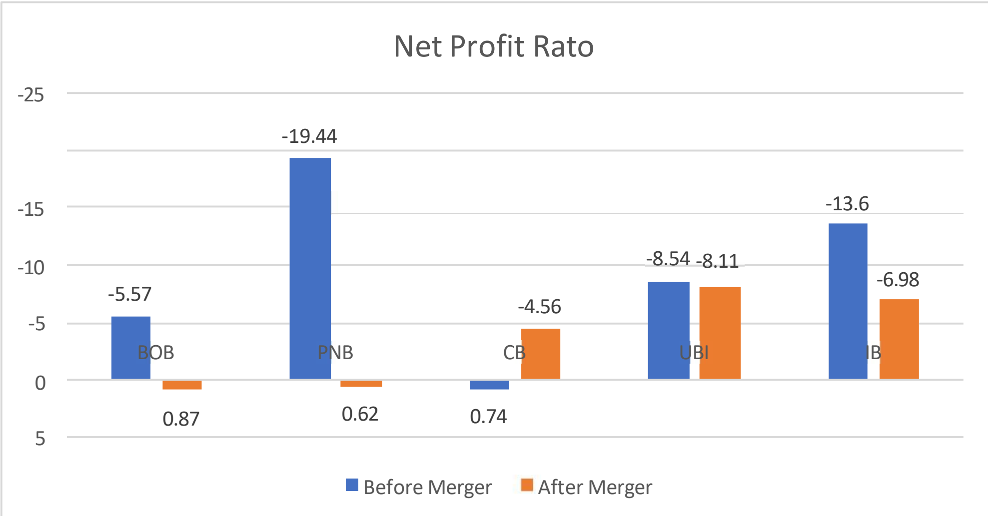


INTERPRETAION

The analysis of the operating profit ratio shows that most banks experienced changes after the merger. Bank of Baroda, Punjab National Bank, and Union Bank of India showed improvement after merger, while Canara Bank and Indian Bank recorded comparatively lower performance changes based on their operating profit ratios before and after the merger.

4.2 NET PROFIT RATIO IN SELECTED UNIT

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-5.57	0.87	-6.44	41.4736
PNB	-19.44	0.62	-20.06	402.4036
CB	0.74	-4.56	5.3	28.09
UBI	-8.54	-8.11	-0.43	0.1849
IB	-13.60	-6.98	-6.62	43.8244
		total	-28.25	515.9765

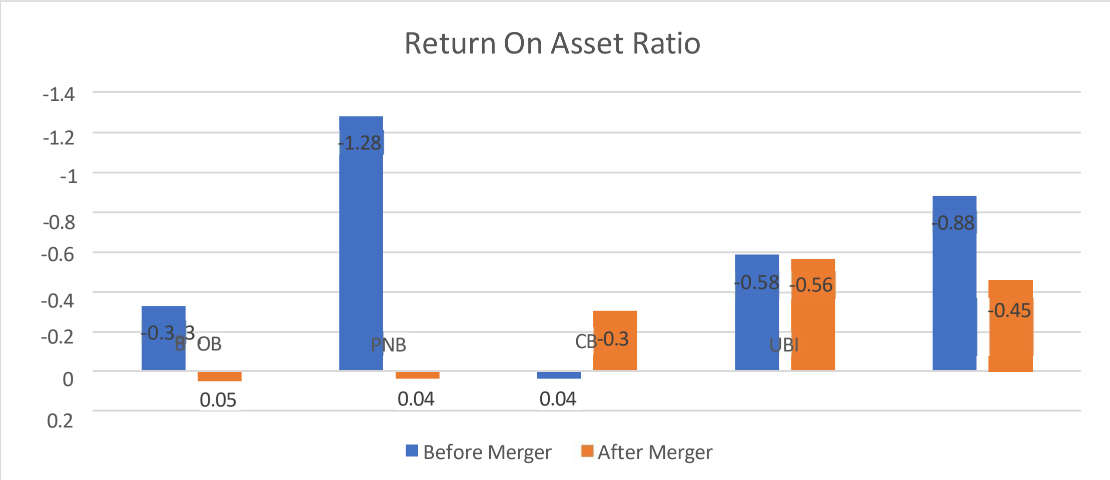


INTERPRETATION

The analysis of the Net Profit Ratio indicates that Bank of Baroda and Punjab National Bank showed significant improvement after the merger, moving from negative to positive ratios. Union Bank of India and Indian Bank also improved after the merger, while Canara Bank showed a decline compared to its pre-merger performance.

4.3 RETURN ON ASSETS RATIO IN SELECTED UNIT

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-0.33	0.05	-0.38	0.1444
PNB	-1.28	0.04	-1.32	1.7424
CB	0.04	-0.30	0.34	0.1156
UBI	-0.58	-0.56	-0.02	0.0004
IB	-0.88	-0.45	-0.43	0.1849
		total	-1.81	2.1877



INTERPRETATION

The analysis of the Return on Asset Ratio shows that Bank of Baroda and Punjab National Bank improved significantly after the merger, changing from negative to positive returns. Union Bank of India and Indian Bank also showed improvement, whereas Canara Bank recorded a slight decline after the merger compared to its pre-merger performance.

5. FINDINGS & SUGESSTIONS AND CONCLUSION

FINDINGS

- In operating profit ratio before the merger, the highest ratio is (-33.81) in Punjab National Bank and the lower ratio is (-13.30) in Canara Bank. After the merger the highest ratio is (-23.55) in Union Bank of India and the lower ratio is (-11.77) in Bank of Baroda.
- In net profit ratio before the merger the highest ratio is (0.74) in Canara Bank and the lower ratio is (-19.44) in Punjab National Bank. After the merger the highest ratio is (0.87) in Bank of Baroda and lower ratio is (-8.11) in Union Bank of India.
- In return on assets before the merger the highest ratio is (0.04) in Canara Bank and lower ratio is (-1.28) in Punjab National Bank. After the merger the highest ratio is (0.05) in Bank of Baroda and lower ratio is (-0.56) in Union Bank of India.

SUGGESTIONS

- In earning per share ratio before the merger the highest ratio is (8.00) in Canara Bank and the lower ratio is (-64.97) in Bank of Baroda. After the merger the highest ratio is (1.00) in Punjab National Bank and the lower ratio is (-46.70) in Bank of Baroda.
- In debt equity ratio before the merger the highest ratio is (21.53) in Canara Bank and the lower ratio is (15.07) in Bank of Baroda. After the merger the highest ratio is (20.27) in Canara Bank and the lower ratio is (13.09) in Punjab National Bank.
- In ROCE ratio before the merger the highest ratio is (1.78) in Indian Bank and the lower ratio is (1.54) in Union Bank of India. After the merger the highest ratio is (2.14) in Indian Bank and the lower ratio is (1.32) in Canara Bank.
- In asset turnover ratio before the merger the highest ratio is (0.07) in Punjab National Bank, Canara Bank, Union Bank of India, and Indian Bank and the lower ratio is (0.06) in Bank of Baroda. After the merger the ratio (0.07) are equal in all the merged banks

CONCLUSION

- The banking industry has been experiencing major Merger and Acquisition in the recent years, with the number of global players emerging through successive Merger and Acquisition in the banking sectors
- The current study indicates that the pre and post-merger and acquisition of the selected banks in India have no grater changes in profitability ratio in a few banks that are satisfactory during the study period. But in future there are robust projections of improvement in profitability. So the result is to specify that the mergers led to higher level of cost efficiencies for the merging banks.
- Merger and acquisition is leads to the financial gain and the increase in price of target banks. it is depends on the condition and the different situations that it will be increase the share and the profit of acquirer or not.
- The primary purpose of the merger and acquisition is to reduce the competition and protect in existing markets in the economy.

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