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Merger and Acquisition of Indian Banks and Their Impact on its Financial Performance & Shareholder Wealth

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Abstract*: This study investigates the financial performance and shareholder value outcomes of mergers andacquisitions (M&A) in the Indian banking sector. Through the analysis of three major bank mergers—State Bank of India and its associates, Bank of Baroda with Vijaya and Dena Banks, and Punjab National Bank with Oriental Bank of Commerce and United Bank—the research evaluates operational performance, profitability, and shareholder returns pre- and post-merger. Using financial ratios and t-tests, the study identifies significant changes in financial metrics and shareholder wealth. The findings suggest that while M&A can enhance operational efficiency andshareholder value, the results vary based on individual merger circumstances and integration strategies.*

Keywords: Mergers and Acquisitions, Indian Banking Sector, Financial Performance, Shareholder Value, Operational Efficiency

I. INTRODUCTION

in the banking sector, as a response to globalization and economic liberalization. M&A enable companies to achieve economies of scale, expand into new markets, and enhance shareholder value. This study focuses on evaluating the financial and shareholder impacts of M&A in the Indian banking sector, which has witnessed significant consolidation in recent years.

II. OBJECTIVES

- To assess the financial performance of acquiring banks before and after mergers.
- To evaluate changes in shareholder value metrics, including earnings per share, dividendpayout, and stock price.
- To identify the operational synergies achieved through M&A activities in the bankingsector.
- To analyze the challenges and opportunities presented by M&A in achieving regulatorycompliance and competitive advantages.

III. RESEARCH METHODOLOGY

- **Research Design**: Descriptive research was used to analyze financial performance and shareholdervalue pre- and post-merger.
- **Data Collection**: Secondary data was sourced from bank financial statements, the NSE website,and online financial platforms.
- **Tools Used**: Financial ratios and t-tests were employed to evaluate profitability, operationalefficiency, and shareholder metrics.
- **Sample Selection**: The study focused on three mergers in the Indian banking sector from 2017 to2020.

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IV. ANALYSIS AND RESULTS

Financial Performance Metrics:

- **State Bank of India (SBI)**: Post-merger analysis revealed a decline in net profit marginand return on equity, indicating challenges in operational integration.
- **Bank of Baroda (BOB)**: Improved net profit margin and return on equity post-merger demonstrated effective synergy realization.
- **Punjab National Bank (PNB)**: Mixed results with improved operational efficiency but fluctuating profitability.

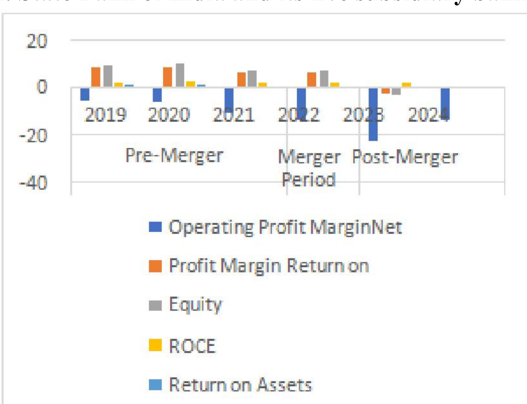
Shareholder Value Indicators:

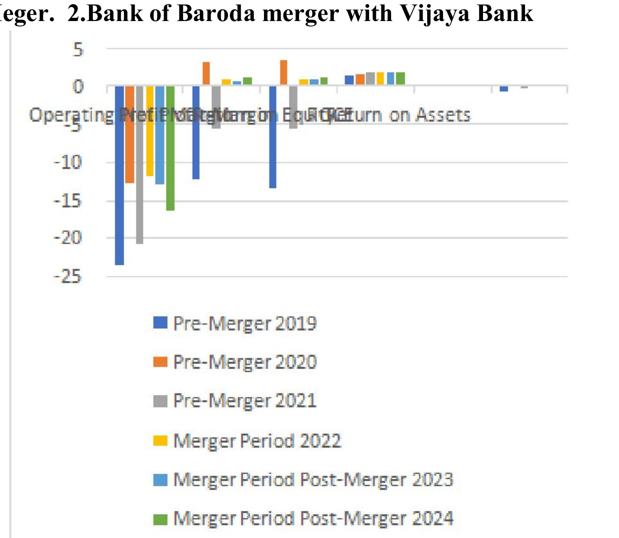
Earnings per share (EPS) generally declined immediately post-merger but showed gradualrecovery in subsequent years for most banks.
Dividend payouts were inconsistent, with SBI and PNB reducing distributions post-merger.
Share prices exhibited volatility, with significant recovery in the years followingintegration for BOB and PNB.

T-Test Results:

Significant changes were observed in operational and shareholder metrics for all three mergers, confirming the impact of M&A on financial outcomes

1. State Bank of India and its five subsidiary banks Meger. 2.Bank of Baroda merger with Vijaya Bank





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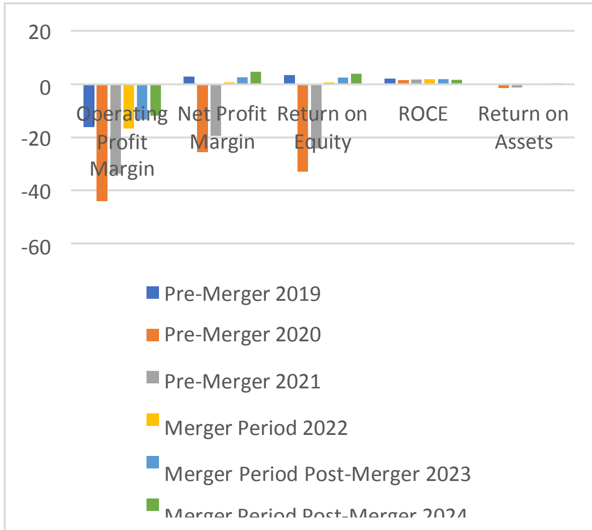
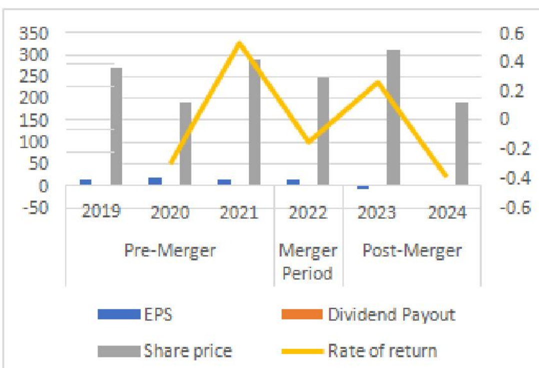
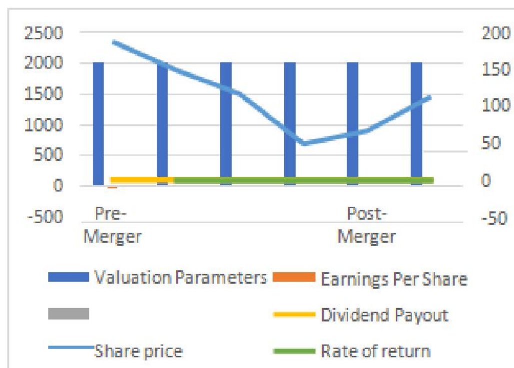
3. Punjab National Bank merger with Oriental Bank of Commerce and United Bank of India



4. Showing the Financial Performance parameter SBI bank 5. Showing the shareholders valuation





V. FINDINGS AND IMPLICATIONS

- **Operational Performance**: M&A can enhance operational efficiency, but integration challenges may delay benefits.
- **Profitability**: Improved profitability post-merger depends on effective cost management and synergy realization.
- **Shareholder Value**: Short-term declines in EPS and dividends are common but can recover with successful integration strategies.
- **Sectoral Impact**: Consolidation strengthens competitive positioning and enablescompliance with regulatory reforms.

VI. RECOMMENDATIONS

Companies should conduct thorough pre-merger assessments to anticipate integrationchallenges.
Transparent communication with stakeholders, including employees and shareholders, iscritical for smooth transitions.
Governments and regulatory bodies should support M&A activities by streamliningapproval processes.
Post-merger management should focus on achieving operational synergies and rebuildingshareholder confidence

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VII. CONCLUSION

The study concludes that mergers and acquisitions can be effective tools for enhancing financial performance and shareholder value in the banking sector. However, success depends on careful planning, execution, and post-merger integration. The findings highlight the importance of balancing short-term disruptions with long-term strategic goals to maximize the benefits of M&Aactivities.

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