
Abstract:

The banking sector plays an all-encompassing role of a catalyst towards the socio-economic development of a country. 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.

Over the past decade, the banking industry has experienced an unprecedented level of consolidation as mergers and acquisitions among large financial institutions have taken place at record levels. Merger and acquisition is one amongst the various modes of restructuring resorted by banks to ensure better growth prospects.

Although there is adequate research literature on banking mergers and acquisitions, most of the studies have been done for the proficient markets of the developed world particularly US and UK. In India, very inadequate research has been done in the area of banking mergers and acquisitions. Very few studies conducted in India have explored the performance of banking mergers and acquisitions empirically in terms of their pre-merger versus post-merger performance using the CAMEL’s Framework.

It is therefore important to understand and study the impact of mergers and acquisitions on the performance of the acquiring Indian banks during the pre-merger versus post-merger period, as well as to study the impact of mergers and acquisitions on the post-merger performance of acquiring public sector banks vis-à-vis acquiring private sector bank with reference to bank mergers in India.

Under this backdrop the present study attempts to fill these voids and proposes to analyze whether mergers and acquisitions have contributed towards the enhancement of performance of Indian banks. The primary objective of this research is to evaluate the impact of mergers and
acquisitions on the performance of the acquiring Indian banks during the pre-merger versus post-merger period by analyzing the variables explicated in the CAMEL model, with reference to bank mergers in India during the period 1993-94 to 2004-2005 and to study the impact of mergers and acquisitions on the post-merger performance of acquiring public sector banks vis-à-vis acquiring private sector bank by analyzing the variables explicated in the CAMEL model, with reference to bank mergers in India during the period 1993-94 to 2004-2005. The period is so chosen so as to have a post-merger period of 10 years ending 2014-2015.

During this period there was a mix of both public sector bank acquirers as well as private sector bank acquirers as well as a blend of both voluntary as well as forced mergers and acquisitions.

In order to analyze if there is any significant difference in the pre-merger versus post-merger performance of the acquiring banks under study for the period of study, the Paired t test is applied to the CAMEL performance evaluation parameters of the acquiring banks during the pre-merger and post-merger period at 95% level of confidence. The pre-merger period and post-merger period consists of a period of five years before and five years after the merger. In order to analyze if there is any significant difference in the post-merger performance of Public Sector acquiring banks vis-à-vis Private Sector acquiring banks on the CAMEL parameters, the Independent-samples t-test was applied at 95% level of confidence to check for the significant difference. The post-merger period consists of a period of ten years after the merger or acquisition.

It is proposed that the present research will be beneficial to the Indian banks and Indian banking officials and banking regulators, as, the results and conclusions drawn could be used to evaluate whether mergers and acquisitions in Indian banks have been an effective tool to improve the performance of the acquiring Indian public sector banks and acquiring Indian private sector banks and achieve the desired objectives set in the deal. The study would also enable the banking officials to evaluate whether mergers and acquisitions can be an effective tool for improving performance for both types of banks – public sector as well as private sector banks and in both the cases of forced acquisitions as well as voluntary acquisitions. The findings of this research could create a base, as to whether mergers and
acquisitions can be considered as a viable mechanism to improve performance by both public sector banks as well as private sector banks, so that banks can adapt this mechanism to positively influence their performance based on CAMEL Parameters.