

WILL MERGERS AND ACQUISITION VACILLATE THE PERFORMANCE OF BANKS? STUDY WITH REFERENCE TO PUBLIC SECTOR BANKS OF INDIA

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Abstract

The recent change that the banking sector saw, was the Mergers and Acquisitions that took place among the public sector banks. Merger and Acquisitions in the banking sector is the part and parcel of the reform strategies in order to improve financial stability, to gain smooth operational flow and gain the advantages of the synergy. The study focuses on the aspects of profitability, solvency, investment and liquidity aspects of the banks pre and post-merger period. The main objective of the study is to understand the impact of the synergy on the performance and profitability of banks. The analysis of the study is done through ratio analysis and paired t-test. It was found that the Merger and Acquisition is a positive move for some but there are certain banks who are coping at a slow pace for the synergy.

Keywords : Mergers & Acquisition, Profitability, Performance, Ratios, Banks, Solvency

Introduction

Banks play a major role in the development of any country's economy. In India the banking sector plays a crucial role in every aspect like GDP, DFI, Import & export and mobilization of wealth in the country. When the banking sector play such propelling role in the making of an economy it becomes essential for them to perform well. The banks need to have a stable financial performance in order to provide a better support to the growing economy like India. In the cases where the financial performances of the banks are not up to the mark it becomes essential for the authorities to gear a reform process in order to forestalling the banks which are in distress. The most common remedies to help the banks which are under the distress situation is mergers and acquisition. The intention behind the merger scenario is to build a strong financial back up by grouping the weaker banks with the relatively stronger ones in the sector. There are several criterias which are analyzed before the merger decision such as the NPA's of the banks, Profitability aspect of the banks, liquidity of the banks and many more aspects.

Reasons for the banks mergers

There are several reasons for the mergers between the banking sector. Few of the main reasons are listed below



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