International Journal of Trade and Commerce-IIARTC
January-June 2025, Volume 14, No. 1, pp. 107-118
ISSN-2277-5811 (Print), 2278-9065 (Online)

COSMOS (Germany) JIF: 5.135; ISRA JIF: 7.249; ISI JIF: 3.721

An Analytical Study of Impact of Merger and Acquisition on the Financial Performance of Selected Indian Banks

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Abstract
This research paper compares pre-merger financial performance of selected public sector banks with that of post-merger financial performance. The financial performance is measured by nine different variables that are business per employee (BPE), profit per employee (PPE), net interest margin (NIM), return on assets (ROA), return on equity (ROE), CASA ratio, capital adequacy ratio (CAD), gross non-performing asset(GNPA) and earning per share (EPS). The research is purely based on data collected from annual reports of selected banks. This data is analyzed by using paired t-test and the two tailed significance value is taken for hypothesis testing. The study found a negative impact of merger on financial performance of State Bank of India. While the financial performance of Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India and Indian Bank more or less improved post-merger.

All the banks except SBI showed a better utilization of human resource as the business per employee is increased significantly. Only Union Bank of India showed improvement in profit per employee variable and return one quity. Net interest margin of four banks namely Bank of Baroda, Canara Bank, Punjab National Bank and Union Bank of India improved post-merger. It is observed that overall funding cost benefits that are measured by CASA ratio is seen in State bank of India and Indian Bank. The capital adequacy ratio increased in case of Indian Bank, Punjab National Bank and Union Bank of India. No major benefit of merger is seen on gross NPA except in case of Canara Bank. Earnings per share of all six banks did not show any significant impact of merger.

Key Words: *Merger and Acquisition, ROA, ROE, Financial Performance.*

PAPER/ARTICLE INFO
RECEIVED ON: 20/05/2025
ACCEPTED ON: 28/06/2025

Reference to this paper should be made as follows:

Verma, Deepak & Agarwal, M.K. (2025), "An Analytical Study of Impact of Merger and Acquisition on the Financial Performance of Selected Indian Banks", *Int. J. of Trade and Commerce-IIARTC*, Vol. 14, No. 1, pp: 107-118.

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DOI: 10.46333/ijtc/14/1/7

1. INTRODUCTION

Merger and acquisition is commonly used by organizations as a tool for growth, market expansion, and increased efficiency. The merger and acquisition activities have increased on a large scale in today's world. It is easy to start a business but sustaining it is a tougher job after it reaches to a certain level (**Sonwani, 2024**). Organizations use merger and acquisition as one of the methods to strengthen and expand their organization. History of corporate world shows how the organizations have become bigger by adoption the inorganic route for expansion that is called merger and acquisition. Sometimes M&A also used to help sick organization by merging it with stronger organizations. The wave of mergers in banking industry started first in United States in the eighties and later it reached to Europe in the nineties (**Dario Focarelli et al., 2003**).

In India, the Narsimhan committee on banking sector reforms proposed that number of public sector banks must be merged to make large public sector banks in India. In 1991, total 20 public sector banks along with 7 subsidiaries of State Bank of India (SBI) were in existence in India. In the opinion of the committee mergers can help to increase the size and strength of operations of each bank **(NC, 1991)**. The committee was of the view that the large banks should be merged with the banks of equil size but not with the weaker banks. This recommendation is reiterated in second committee on banking sector reform formed under the chairmanship of M. Narshmhan in 1998. Later Leeladhar committee (2008) and P.J. Nayak committee (2014) had also recommended government to merge or privatize state-owned banks.

Post libralisation first merger of nationalized bank took place in 1993 when government merged Punjab National Bank with New Bank of India. After a long period since it was first suggested, the major step was taken in year 2017 when seven associate banks of SBI were merged into SBI. In 2020 many PSBs were merged and consequently the total tally of PSBs decreased to 12 which were 27 in 2017. While announcing merger finance minister said that they were building next generation banks, big banks with the capacity to enhance credit **(BS, 31, Aug.2019)**. She further added that scaling up would allow banks to have a lot more resources and lending cost reduction and growth opportunity. Even after merger only two Indian banks SBI and HDFC bank got rank 47 and 74 respectively in the world's 100 largest banks in 2024 list (**S&P global list**). Where as 20 banks from China and 8 banks from Japan got place in this list. This depicts a large gap between banking sector development of India and other Asian countries.

The major mergers of banks in India started only in 2017 therefore there is a need of considerable investigation of different aspects of mergers of banks. The empirical research regarding effect of mergers on banks' efficiency all over the world showed mixed results. Some researchers found the mergers contribute in efficiency gains but there are other researchers also who did not confirm any relation between merger and efficiency gain. Most of such research is done in other countries because the mergers in banking sector were started in eighties and nineties in last century. As far as banks are concerned merger and acquisition activities are increasing in India because of competition and NPAs. How these mergers of PSBs resulted in terms of banks performance must be investigated as a guideline for further mergers in banking sector particularly in India. This research paper has tried to measure the effect of merger of PSBs in India done in 2017 and 2020 on their financial performance.

Table 1: Acquirer Banks and Acquired Banks with the date of Merger

S. No.	Acquirer Bank	Acquired Bank	Date of Merger
1.	State Bank of India	State Bank of Bikaner	1st April, 2017
		State Bank of Jaipur	1st April, 2017
		State Bank of Hydrabad	1st April, 2017
		State Bank of Mysore	1st April, 2017
		State Bank of Patiala	1st April, 2017
2.	Bank of Baroda	Dena Bank	1st April, 2019
		Vijaya Bank	1st April, 2019
3.	Punjab National Bank	Oriantal Bank of Commerce	1st April, 2020
		United Bank of India	1st April, 2020
4.	Canara Bank	Syndicate Bank	1st April, 2020
5.	Union Bank of India	Andhra Bank	1st April, 2020
		Corporation Bank	1st April, 2020
6.	Indian Bank	Allahabad Bank	1st April, 2020

Source: Website of RBI and Press Information Bureau

2. REVIEW OF LITERATURE

Banks decide to merge due to various objectives like market share gain, geographical expansion, resource maximization, faster growth and becoming more competitive through economies of scale. Earlier research done to know the impact of merger and acquisition on financial performance of merged banks has revealed different conclusions. Some demonstrated improvement in financial performance while others have shown negative or no effect of merger.

Harrisonetal. (1991) in their research did not support the argument that acquisition based on similarities between acquiring and target firm produce synergy and thereby enhance value. Whereas they supported the argument that differences in resource allocation patterns may produce unique and valuable synergy. They argued that different but complementary resources flows are more likely to create private and unique synergy than similar resource flows.

Ayadi and Pujals (2005) examined the effect of merger and acquisitions on efficiency and profitability of European banks by break down them into domestic and cross-border mergers. They found mergers and acquisitions in European banking are more inclined to cut cost whereas the cross border mergers are more prone to revenue enhancement. The study suggests universal banking model which combines retail, investment and insurance activities for European banks.

Mantravadi and Reddy (2008) analyzed the pre and post-merger operation performance of acquiring Indian firms during the post reform period from 1991 to 2003. The study also tries to see among horizontal, vertical and conglomerate which type of mergers have been more successful in improving the performance of merging firms. The result did not shows any change in mean operation gross profit ratio and profit margin but there is significant decline in net profit margin, return on capital employed and return on net worth in post-merger period. Overall, the result suggests that operating performance either stagnate or deteriorate after merger for merging firms.

Kar and Soni (2008) through their study verified the fact that the Indian companies adopted merger and acquisition for expansion and growth during the period of 1990-91 to 1995-96 and 1996-97 to 2000-01. Mergers and acquisitions have been found beneficial in growth of Indian companies and also to acquire better market share. The nature and pattern of merger and acquisition have been horizontal and vertical in most cases. The Indian companies are emphasizing on their core areas and expanding themselves in related area for strength.

Goyal and Joshi (2011) have said that evidences prove that merger and acquisitions is the useful tool for survival of weak banks as they are merged with larger and profitable bank. Some private banks also used merger as their expansion strategy.

Patel and shah (2016) in their empirical research used pre and post-merger financial performance of acquirer banks using Economic Value Added (EVA). The result revealed that financial performance improved in most of cases.

Patel (2017) in his research found mix impact of merger on financial variables of selected Indian Banks. In case of all four banks except State Bank of India there was negative impact in most of variables whereas some variables showed positive impact. The impact of merger on financial variables was more towards the positive side for State bank of India. The equity, advances, assets, and investment of all banks increased but yield and profitability of some banks decreased post-merger. After the mergers, profit per employee and business per employee in all banks increased due to proper utilization of human resource.

Singh and Das (2018) studied the post-merger financial performance of selected Indian banks on the basis of current ratio, return on capital employed, net profit margin, working capital turnover ratio, assets turnover ratio. The average ratio of six years of pre and post-merger is compared and the results have been mixed. Some ratios have improved after merger some showed downward trend and some remained same. The results also indicated that the effect of merger largely depends on the working of acquiring bank as a particular ratio improve in one bank but decline in another bank.

Gandhi et al. (2020) divided banks in two groups' public sector banks and private sector banks and used different parameter of CAMEL model to see post-merger effect on banks performance. On some parameters private sector banks have done better than public sector while in others, the public sectors have performed better. It is found that impact of merger and acquisition may not necessarily positive in all the parameters.

Upadhyay and Kurmi (2020) used CAMELS framework to investigate pre and post-merger financial position of State Bank of India. The findings revealed that there was no significant impact of merger on the financial performance of SBI. Capital adequacy ratio deteriorated and Assets quality did not improve due to NPA. The entire management efficiency ratios have not gained enough except business per employee. Liquidity and Earning of the bank has also declined after merger.

Erel et al. (2024) found several factors which contribute in cross border merger and acquisition. The acquirer motivated by regulatory arbitrage takes advantage of weaker regulations (banking, labor, and climate) of target country. Sometimes firms are acquired in tax heaven countries which help acquirer firm in tax avoidance. A technology firm must consider about acquiring a firm in a country that does not protect intellectual property well otherwise it may lose valuable secrets. Valuation of target firm also plays important role in cross border acquisition.

The insights from previous researches give different views on benefits of merger and acquisitions on the financial performance of acquiring company. Some research found positive, some found negative and there are also some findings which found no impact of merger and acquisition. Since merger and acquisition activities are increasing day by day in Indian economy it is necessary to do extensive research work in this area. There are not much research is done on merger of public sector banks which took place four year back. This research work tried to find how these banks have performed in financial terms after the merger.

3. Objective of the research

To measure the impact of merger and acquisition on financial performance of selected Indian Banks.

4. Research methodology

This research compared before and after merger financial performance of banks that are merged. Financial performance during four years before the merger is compared with financial performance of four years after the merger. Post-merger performance should reflect strength in financial performance as the resources of the banks increased. In order to find out the benefits of mergers the changes in financial performance must be tested appropriately. In this research, one hypothesis is formed for one variable to test the effect of merger.

After that two tailed paired t-test is applied to accept or reject hypotheses. Paired t-test is used by many researchers in the past, for example Upadhyay and Kurmi (2020), Harrison et al. (1991), and Patel (2017). Four years ratios of pre-merger period are compared with the four years ratios of post-merger period.

For this research six banks namely Punjab National Bank, Bank of Baroda, State Bank India, Canara Bank, Union Bank of India, and Indian Bank are selected. These banks were merged with other banks in 2017, 2019 and 2020. This merger is recognized as one of the prominent mergers in the history of Indian banking sector because after it the number of PSBs shrank to 12 from 27.

The data consist of ratios representing solvency, profitability, and efficiency of these banks. This study used secondary data collected from the annual reports of the banks. The accounting ratios selected for this research after going through the several researches done in past on merger and acquisition in India and abroad.

The ratios selected for research are Business per Employee (BPE), Profit per Employee (PPE), Return on Assets (ROA), Net Interest Margin (NIM) and Return on Equity (ROE), Current Account Saving Account ratio (CASA), Gross NPA Ratio (GNPA), Capital Adequacy Ratio (CAR) and Earnings per Share (EPS).

To test the objective the following hypotheses were formulated:

I. **Business Per Employee (BPE)**

Ho: BPE (Pre Mer.) = BPE (Post Mer.) **H1:** BPE (Pre Mer.) ≠ BPE (Post Mer.)

II. **Profit Per Employee (PPE)**

Ho: PPE (Pre Mer.) = PPE (Post Mer.) **H1:** PPE (Pre Mer.) ≠ PPE (Post Mer.)

III. **Net Interest Margin (NIM)**
Ho: NIM (Pre Mer.) = NIM (Post Mer.) **H1:** NIM (Pre Mer.) ≠ NIM (Post Mer.)

IV. **Return on Assets (ROA)**
Ho: ROA (Pre Mer.) = ROA (Post Mer.) **H1:** ROA (Pre Mer.) ≠ ROA (Post Mer.)

V. **Return on Equity (ROE)**
Ho: ROE (Pre Mer.) = ROE (Post Mer.) **H1:** ROE (Pre Mer.) ≠ ROE (Post Mer.)

VI. **CASA**
Ho: CASA (Pre Mer.) = CASA (Post Mer.) **H1:** CASA (Pre Mer.) ≠ CASA (Post Mer.)

VII. **Capital Adequacy Ratio (CAR)**
Ho: CAR (Pre Mer.) = CAR (Post Mer.) **H1:** CAR (Pre Mer.) ≠ CAR (Post Mer.)

VIII. **Gross NPA Ratio (GNPA)**
Ho: GNPA (Pre Mer.) = GNPA (Post Mer.) **H1:** GNPA (Pre Mer.) ≠ GNPA (Post Mer.)

IX. **Earnings per Share (EPS)**
Ho: EPS (Pre Mer.) = EPS (Post Mer.). **H1:** EPS (Pre Mer.) ≠ EPS (Post Mer.)

(**Pre Mer.** = Pre Merger, **Post Meg.**= Post Merger)

5. DATA ANALYSIS AND RESULTS

Data of four year before the merger is collected and the average of each variable is calculated. Similarly, the average value of four year post-merger data is calculated. After that the t-value and significance value is found out for testing the hypothesis. The following tables displayed the calculated values of selected banks.

5.1. State Bank of India

Table 2: Financial Performance of State Bank of India before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	13.33	20.06	-6.73	0.6219	0.3109	-21.6404	0.0002
PPE	5.17	2.99	2.18	5.0852	2.5426	0.8573	0.4577
NIM	2.61	2.46	0.15	0.3229	0.1614	0.9290	0.4214
ROA	0.53	0.17	0.36	0.4201	.2101	1.7254	0.1829
ROE	9.16	3.59	5.56	8.1885	4.0942	1.3598	0.2670
CASA	41.02	44.94	-3.91	1.8985	0.9492	-4.1268	0.0258
CAR	13.31	13.09	0.21	0.4739	0.2369	0.9072	0.4311
GNPA	2.97	3.11	-0.14	2.5862	1.2931	-0.1082	0.9206
EPS	14.91	8.10	6.81	15.6449	7.82	0.8705	0.4480

Source: Calculated by Author

Table 2 shows the before and after merger profitability situation of the State Bank of India. While using paired t-test for testing, significance level of 0.05 is chosen and two tailed test is opted. After comparing significance value of all variables it is found that the significance value of business per employee, CASA ratio is less than 0.05. This indicates that the impact of merger is found significant on these two variables hence null hypothesis is rejected. The significance value of profit per employee, net interest margin, capital adequacy ratio, return on assets, and return on equity, gross NPA and earning per share did not show significant impact of merger on these variables.

After overall inspection, out of nine variables only two have shown improvement. On the basis of averages of variables it can be said that the impact of merger of its associate banks with SBI have not been beneficial for SBI.

5.2. Bank of Baroda

Table 3: Financial Performance of Bank of Baroda before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	17.70	21.76	-4.05	2.7224	1.3612	-2.9789	0.0586
PPE	-2.83	7.20	-10.03	8.1982	4.0991	-2.4481	0.0918
NIM	2.34	2.94	-0.59	0.0655	0.0327	-18.2413	0.0003
ROA	-0.21	0.43	-0.65	0.5251	0.2625	-2.4851	0.0888
ROE	-4.89	8.23	-13.12	10.8153	5.4076	-2.4271	0.0935
CASA	38.60	40.59	-1.99	3.8720	1.9360	-1.0291	0.3791
CAR	7.23	2.41	4.82	6.2756	3.1378	1.5369	0.2219
GNPA	10.58	7.16	3.41	2.7135	1.3567	2.5151	0.0865
EPS	-6.69	11.12	-17.81	14.6963	7.3481	-2.4244	0.0937

Source: Calculated by Author

Table 3 is showing the financial situation of Bank of Baroda before and after the merger. On the basis of significance value of variable significant improvement is recorded only in net interest margin hence null hypothesis is rejected. Business per employee, return on equity, profit per employee, return on assets, CASA ratio, capital adequacy ratio, gross NPA and earning per share did not experience significant changes post-merger.

Except one variable mean value of all eight variables showed improvement after the merger. After analyzing the data it is seen that there is a positive impact of merger on financial performance of Bank of Baroda.

5.3. Punjab National Bank

Table 4: Financial Performance of Punjab National Bank before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	15.97	20.93	-4.95	0.4546	0.2273	-21.8088	0.0002
PPE	-7.05	3.94	-10.99	8.8513	4.4257	-2.4844	0.0889
NIM	2.31	2.93	-0.62	0.1279	0.0639	-9.7341	0.0023
ROA	-0.65	0.28	-0.93	0.8641	0.4321	-2.1697	0.1184
ROE	-13.24	6.36	-19.60	17.1559	8.5779	-2.2858	0.1063
CASA	44.32	43.80	0.51	3.0803	1.5401	0.3359	0.7590
CAR	11.18	15.07	-3.89	1.9389	0.9694	-4.0124	0.0277
GNPA	15.15	10.09	5.06	4.5159	2.2579	2.2420	0.1107
EPS	-19.81	3.75	-23.56	27.6414	13.8207	-1.7050	0.1867

Source: Calculated by Author

Table 4 contains the ratios of financial performance of Punjab National Bank pre and post-merger. Null hypothesis is rejected in case of business per employee, net inter margin, and capital adequacy ratio as there is a significant change is seen post-merger. While profit per employee, return one quity, return on assets, CASA, gross NPA and earning per share of banks improved but the change was not significant.

The mean value of all variables increased after merger indicated sign of benefited taken by Punjab National bank.

5.4. Canara Bank

Table 5: Financial Performance of Canara Bank before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	16.51	22.52	-6.01	2.2919	1.1459	-5.2400	0.0135
PPE	-2.09	9.86	-11.96	8.4693	4.2347	-2.8249	0.0665
NIM	2.39	2.89	-0.50	0.1922	0.0961	-5.2276	0.0136
ROA	-0.20	0.63	-0.83	0.5933	0.2966	-2.8144	0.0670
ROE	-4.81	15.27	-20.08	12.9278	6.4638	-3.1065	0.0530
CASA	31.37	33.99	-2.62	2.0648	1.0324	-2.5377	0.0848
CAR	12.90	15.26	-2.35	1.8755	0.9377	-2.5086	0.0870
GNPA	9.62	6.50	3.12	1.6522	0.8261	3.7797	0.0324
EPS	-17.90	47.02	-64.92	51.7415	25.8707	-2.5096	0.0869

Source: Calculated by Author

Table 5 shows the pre and post profitability of Canara Bank. After the merger business per employee, net interest margin, and gross NPA revealed significant change and this result rejected null hypothesis. Profit per employee, return on assets, return on equity, CASA, capital adequacy ratio, and earning per share did not show significant impact of merger.

On the basis of average variable of all variables it can be said that the merger has shown positive impact of merger on the financial performance of Canara Bank.

5.5. Union Bank of India

Table 6: Financial performance of Union Bank of India before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	18.27	22.05	-3.77	1.2784	0.6392	-5.9096	0.0096
PPE	-7.03	9.95	-16.99	10.2490	5.1246	-3.3154	0.0452
NIM	1.99	2.85	-0.85	0.3435	0.1717	-4.9773	0.0155
ROA	-0.51	0.61	-1.13	0.6722	0.3361	-3.3620	0.0436
ROE	-13.30	12.58	-25.88	15.2596	7.6297	-3.3930	0.0426
CASA	35.05	35.42	-0.37	2.1520	1.0760	-0.3508	0.7489
CAR	11.97	15.01	-3.04	1.6155	0.8077	-3.7696	0.0326
GNPA	14.00	9.28	4.72	5.2413	2.6206	1.8020	0.1693
EPS	-24.73	10.89	-35.62	33.0729	16.5364	-2.1543	0.1202

Source: Calculated by Author

Table 6 reveals the before and after merger profitability situation of Union Bank of India. Business per employee, return on assets, profit per employee, net interest margin, return on equity and capital adequacy ratio shows significant impact after merger. These results rejected null hypothesis. Profit per employee, CASA, gross NPA and earning per share indicated insignificant impact of merger.

The average mean value of all variables showed that Union Bank of India get the benefits of merger.

5.6. Indian Bank

Table 7: Financial performance of Indian Bank before and after the Merger

Variables	Pre-Merger Mean	Post-Merger Mean	Paired Differences			t-value	Sig. (2 tailed)
			Mean	Standard Deviation	Standard Error		
BPE	19.95	25.95	-6.00	1.1464	0.5732	-10.4799	0.0018
PPE	4.68	12.52	-7.84	7.0922	3.5461	-2.213	0.1138
NIM	2.83	3.14	-.0315	0.2452	0.1226	-2.5684	0.0826
ROA	0.3925	0.7425	-0.35	0.4621	0.2310	-1.5148	0.2270
ROE	6.21	14.18	-7.96	6.7893	3.3946	-2.3463	0.1006

CASA	36.20	42.56	-6.35	0.9642	0.4821	-13.1870	0.0009
CAR	13.38	16.29	-2.91	0.8823	0.4411	-6.6019	0.0070
GNPA	7.20	7.05	0.15	2.3562	1.1781	0.1273	0.9067
EPS	19.12	40.90	-21.78	23.9254	11.9627	-1.8206	0.1662

Source: Calculated by Author

Table 7 depicts the pre and post profitability situation of Indian Bank. On the basis of significant value of these variables null hypothesis is rejected because CASA, business per employee, capital adequacy ratio improved significantly after the merger. While profit per employee, net interest margin, return on assets return on equity, gross NPA and earning per share of the banks did not show significant change post-merger.

On the basis of average value of variables it is seen that Indian bank's performance improved after the merger in all the variables.

6. SUMMARY AND CONCLUSION

After analyzing the result of tests of all six banks it is seen that all the banks except State Bank of India get benefited by the merger. Changes in almost all variables of five banks have been positive but these changes are further tested on the basis of their significance value.

The impact of merger on business per employee of all five banks except Bank of Baroda has been significant. The improvement in BPE indicates better utilization of human resource in banks. Change in profit per employee has increased significantly only in Union Bank of India after the merger. Net interest margin of four banks, Punjab National Bank, Canara Bank, Bank of Baroda and Union Bank of India increased significantly after the merger. Return of assetsof all five banks increased marginally but ROA of Union Bank of India increased significantly. Net interest margin and ROA indicate about the improved profitability of these banks.

Return on Equity which measures the return to investors on their investment improved significantly only in the case of Union Bank of India. CASA ratio of State Bank of India and Indian Bank improved significantly which point out the lower overall funding cost for these banks after merger.

Capital adequacy ratio of three banks namely Punjab National Bank, Union Bank of India and Indian Bank improved significantly after merger. The increase in CAR is positive sign for financial strength of these banks. While impact of merger on Gross NPA has been positive on all bank except State Bank of India, it improved significantly only in case of Canara Banks.

Earnings per share ratio improved in all banks except State Bank of India but it did not disclosed any significant change in financial performance of any bank. This ratio is crucial for stock market return from the investment in share of banks.

Overall, the result suggests that the impact of the merger and acquisition is not compulsorily positive for every bank. Further the study also implies that merger and acquisition not necessarily improved all the parameters of financial performance.

7. Further Scope of Study

This research has a scope of further research if tested by taking data of more years and with different variables. Moreover, if research is done on the basis of different methodology, the result may give more insights.

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