MERGERS AND ACQUISITIONS WITH REFERENCE TO BANKING SECTOR: A REVIEW OF LITERATURE

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ABSTRACT

The paper provides a comprehensive overview of the impact of Mergers and Acquisitions (M&A) in the banking sector. The discussion begins about the corporate restructuring strategies, emphasizing how M&As serve as pivotal tools for companies, including banks, to enhance efficiency and competitiveness. The research methodology employed is a qualitative literature review focusing on scholarly articles, books, and academic sources. The study includes a summary of literature related to the performance impact of M&As, showcasing various financial metrics such as profitability, liquidity, and leverage ratios. The findings indicate that while M&As can lead to improved profitability and operational efficiency, the outcomes can vary significantly across different contexts and mergers. The research highlights the importance of careful post-merger integration and management to realize the anticipated benefits and enhance overall financial performance.

Keywords: *Acquisitions, Banking Sector, Financial Metrics, Financial Performance, Mergers*

1. Introduction:

1.1. Corporate Restructuring Strategy through Mergers and Acquisitions:

Corporate restructuring involves reorganizing a company's structure, operations, or finances to enhance efficiency and profitability. This can include mergers, acquisitions, divestitures, or realigning departments to better meet business goals. The process aims to streamline operations, reduce costs, and improve overall performance. Indian companies have also turned to mergers and acquisitions as a strategic approach to thrive and expand amid the rising competition in the global market (Leepsa & Mishra, 2012).

Mergers happen when two or more companies combine to form a single entity. This can involve merging into an existing company or creating a new one. On the other hand, an acquisition occurs when one company takes control of another and becomes its new owner.

1.2. Types of Mergers:

Mergers can be divided into four types: vertical, horizontal, conglomerate, and concentric. Horizontal M&As happen between companies in the same industry to boost competitiveness, market share, and cost efficiencies like economies of scale. Vertical M&As involve companies at different supply chain stages, with forward integration meaning

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a firm buys its customers, and backward integration meaning a firm acquires its suppliers. Conglomerate mergers involve companies from different, unrelated industries coming together. Concentric mergers, on the other hand, involve companies with different types of operations.

1.3. Mergers and Acquisitions in the Banking Sector:

A bank is a financial institution that accepts deposits from the public, provides credit, and offers various financial services such as loans, investment products, and payment processing. Banks play a crucial role in the economy by facilitating money flow, managing risk, and supporting economic growth. In response to consolidation, banks employ mergers and acquisitions strategies to create synergy, improve financial performance, and enhance internal growth (Tamragundi & Devarajappa, 2016).

2. Research Methodology:

The research methodology for the paper is a qualitative literature review that involves a review of existing scholarly articles (preferably Scopus), books, and relevant academic sources. The selection process focused on identifying reputable and peer-reviewed publications that discuss key themes related to M&A.

Table 1: Summary of literature associated with the impact of Mergers and Acquisitions on the performance of banks

Author	Sample of study	Variables	Methodology	Findings
Puja Aggarwal, Sonia Garg	68 Non-Banking Public Limited Firms in India	1. Profitability position 2. Liquidity position 3. Solvency position	1. Accounting Ratios Analysis 2. Paired Sample T- Test	• Return on Equity (ROE): improved in 19 firms (28%) within 3 years and in 35 firms (51.5%) within 5 years. • Return on Capital Employed (ROCE): increased in 21 firms (31%) within 3 years and in 39 firms (57%) within 5 years. • Return on Assets (ROA): Improved in 20 firms (29%) within 3 years and in 45 firms (66%) within 5 years. • Debt-to-Equity (D/E) Ratio: Remained unchanged from 3 to 5 years, with about 50% of firms showing an increase in both periods. • Interest Coverage Ratio (ICR): Improved in 22 firms (32%) within 3 years and in 26 firms (38%) within 5 years. • Current Ratio: Improved in 13 firms (19%) within 3 years and in 36 firms (53%) within 5 years. • Liquid Ratio: Improved in 12 firms (17.5%) within 3 years and in 42 firms (62%) within 5 years.

Author	Sample of study	Variables	Methodology	Findings
Yusuf Ali AL-HROOT, Laith Akram AL-QUDAH, Faris Irsheid ALKHARABSHA	Jordan Ahli Bank (AHLI bank) with Philadelphia Bank	1. Profitability position 2. Liquidity position 3. Leverage 4. Cash Flow	1. Financial Ratios Analysis 2. Shapiro-Wilk Test of Normality 3. Kolmogorov Smirnov Test	Profitability ratios like ROA, ROE, and Interest Margin (IM) increased significantly, while the IS ratio only slightly increased. Liquidity ratios worsened significantly after the merger. The Inventory Turnover Ratio (ITA) ratio also declined, and the Net Cash Flow to Debt (NCFD) ratio saw a minor increase. Leverage ratios (Equity Ratio (ER) and Total Debt to Total Equity (TDTE)) increased significantly, and the Cash Flow from Operating Activities had a small rise.
Baburam Adhikari, Marie Kavanagh, Bonnie Hampson	Bank of Kathmandu and PRVU Bank Limited	1. Profitability parameters 2. Liquidity parameters 3. Leverage parameters 4. Wealth of shareholders parameters	1. Accounting Ratios Analysis 2. Paired Sample T- Test	Commercial banks should merge with other strong commercial banks instead of weaker development banks and finance companies, as mergers with weaker institutions offer little benefit. Nepal Rastra Bank should enforce mergers among banks linked to single families or business groups and those with cross-holdings to ensure financial stability and maintain good corporate governance.
Peter Wanke, Andrew Maredza, Rangan Gupta	South African Banks with a final size of 90 units, involving the combination of 9 banks	1. Inputs (Production Approach): employees, fixed assets, and operational expenses. 2. Outputs (Production Approach): deposits and loans. 3. Inputs (Intermediation Approach): deposits and loans. 4. Outputs (Intermediation Approach): interest and non-interest income	1. Data Envelopment Analysis (DEA) combined with Network DEA (NDEA) to assess the relative efficiency of the Decision Making Units (DMUs).	Traditional DEA CCR (Charnes–Cooper–Rhodes) estimates identified 22 efficient companies as bidders and 67 less efficient companies as targets. Mergers help banks reduce costs and improve efficiency, both in resource allocation and production. M&A can significantly boost efficiency, and the industry might benefit from some firms merging or others splitting up.

Author	Sample of study	Variables	Methodology	Findings
Neeraj Sengar, Gaurav Kumar Badhotiya, Ritvik Dobriyal, Desh Bandhu Sing	Two Indian Banks of Repute	Strengths, Weaknesses, Opportunities, and Threats	1. SWOT Analysis	M&A is used to stabilize companies and help them compete by absorbing weaker ones. The merged bank became the largest in the country; the merger had a positive impact on the acquirer bank.
Isha Gupta, T. V. Raman, Naliniprava Tripathy	70 Indian companies in the construction and real estate sector	1. Profitability Ratios 2. Liquidity Ratios 3. Leverage Ratios 4. Efficiency Ratios	1. Accounting Ratios Analysis 2. Paired T- Test	• ROCE significantly improved, indicating better resource utilization and increased profits. • ROE showed significant improvement in some periods, reflecting enhanced performance. • OPMA marginally improved, while OPMS showed a positive mean difference but not consistently. • Net Profit Margin (NPM) significantly improved, indicating successful synergy from the merger. • Efficiency ratios varied; FATR improved significantly, but TATR and CATR showed no significant change. • The liquidity ratio improved post-M&A, aiding short-term obligations, although long-term liquidity management needs attention. • The leverage ratio did not improve post-M&A, contrary to expectations.
M. Shanmugavel, Dr. N. Ragavan	Listed Indian Banks that were involved in the M&A process only once during the pre and post-liberalization period.	1. Profitability Ratios 2. Liquidity Ratios	1. Accounting Ratios Analysis 2. Paired Sample T- Test	Post-merger, most banks experienced an increase in Quick Ratio, EPS, and Gross Profit Ratio but a decrease in (ROCE), indicating improved liquidity and profitability but potentially less efficient use of capital.

Author	Sample of study	Variables	Methodology	Findings
Dr. P. Roopa, Dr. K. Uday Gowri Shankar	10 Indian Public-Sector Banks	1. Capital Adequacy 2. Asset quality 3. Management Efficiency 4. Earnings Ability 5. Liquidity 6. Sensitivity	1. CAMEL Rating System	The merger of public sector banks is expected to enhance their scale of operations and competitive position if the challenges are addressed by the government.
Dr Sarfaraz Javed	Punjab National Bank (PNB) AND Nedungadi Bank	1. Profitability position 2. Operational efficiency and Asset utilization capacity 3. Solvency 4. Enterprise Value 5. Business performance	1. Accounting Ratios Analysis 2. Independent t-test	• Profitability: increase in NPM and EPS post-merger, but no significant changes in P/E or EV/PBIDTA. • Asset Utilization and Operational Efficiency: total asset turnover ratio (TATR) and ROA improved significantly post-merger. • Solvency: PNB's solvency, measured by the Interest Coverage Ratio (ICR), improved significantly. • Enterprise Value (EV): PNB's EV increased significantly post-merger. • Business Parameters: Various business metrics such as TI, TE, MCap, IE, NS, NP, and TL showed significant improvement.
T R Bishnoi, Sofia Devi	22 Merged Banks	1. Profitability Ratios 2. Solvency Ratios 3. Growth 4. Efficiency Ratios	Paired Sample T- Test	The study finds mixed results for the impact of mergers on bank performance. Mergers have the potential to improve efficiency and performance, but results vary depending on the specific context and nature of the merger.

3. Findings and Conclusion:

The review of existing literature suggests that M&A in the banking sector impacts the financial performance of banks post-merger. In certain cases, it leads to improved profitability and efficiency. However, the extent of the effect, whether positive or negative, will vary from one merger to another. To study the financial impact through the ratio analysis, the most common ratios identified are:

Parameter	Ratio	Parameter	Ratio
Profitability Analysis	Return on Assets (ROA)	**Liquidity Analysis**	Current Ratio
	Return on Equity (ROE)		Quick Ratio
	Net Profit Margin (NPM)		Liquid Ratio
	Interest Margin (IM)	**Leverage Analysis**	Equity Ratio (ER)
Efficiency Analysis	Fixed Assets Turnover Ratio (FATR)		Debt-to-Equity Ratio (D/E)
	Total Assets Turnover Ratio (TATR)		Total Debt to Total Equity (TDTE)
	Current Assets Turnover Ratio (CATR)	**Cash Flow Analysis**	Cash Flow from Operating Activities (CNOA)
	Inventory Turnover Ratio (ITA)		Net Cash Flow to Debt (NCFD)
Solvency Analysis	Interest Coverage Ratio (ICR)	**Enterprise Value Analysis**	Enterprise Value to EBITDA (EV/PBIDTA)

The key accounting ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) often show positive trends post-merger, indicating better operational performance and resource utilization. However, the impact on liquidity ratios and leverage ratios can be mixed, necessitating careful post-merger integration and management to realize the anticipated synergies.

By systematically applying the analysis, banks can evaluate the effectiveness of their M&A activities and identify areas requiring improvement to enhance their overall financial performance.

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Declaration: The research work is original and has not have been published or submitted for publication elsewhere.

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