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"IMPACT OF MERGER AND ACQUISITIONS IN THE INDIAN BANKING SECTOR; A CASE STUDY OF UNION BANK &KOTAK MAHINDRA BANK – PROFITABILITY PERSPECTIVE"

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ABSTRACT

This research study delves into the profound impact of mergers and acquisitions (M&A) in the Indian banking sector, focusing on a specific case study involving Union Bank and Kotak Mahindra Bank. The analysis primarily focuses on the profitability perspective of this strategic alliance. Mergers and acquisitions have become integral strategies for banks to enhance their market presence, operational efficiency, and overall competitiveness. Through a comprehensive examination of financial indicators, performance metrics, and key financial ratios, this study aims to assess how the Union Bank and Kotak Mahindra Bank merger has influenced the profitability of the combined entity. The research employs both quantitative and qualitative methodologies, leveraging financial data, expert opinions, and industry trends to provide a holistic understanding of the implications of this merger on the financial landscape of the Indian banking sector. The findings of this study contribute valuable insights to the existing body of knowledge on M&A dynamics in the banking industry, with a specific focus on profitability considerations in the context of the Union Bank and Kotak Mahindra Bank merger.

Key words: Mergers & Acquisition, Financial Performance, Market Share, Banking Sector Development, Profitability perspective, Operational efficiency, financial indicators.

1. INTRODUCTION

Merger and acquisitions (M&A) have become integral strategic tools in the dynamic landscape of the Indian banking sector, shaping the industry's structure and competitive dynamics. This case study focuses on the impact of the merger between Union Bank and Kotak Mahindra Bank, delving into the implications from a profitability perspective. The Indian banking sector has witnessed a surge in M&A activities in recent years, driven by various factors such as regulatory changes, market competition, and the pursuit of synergies to enhance operational efficiency.

Union Bank, a stalwart with a rich legacy in the Indian banking arena, and Kotak Mahindra Bank, a prominent private sector bank known for its innovative approaches, entered into a merger, raising significant interest and expectations within the financial community. The decision to merge reflects a strategic response to the evolving economic and regulatory landscape, as well as a quest for increased market share and enhanced profitability.As we embark on this exploration, it is imperative to understand the broader context of the Indian banking sector, the rationale behind mergers and acquisitions, and the specific factors that influenced the Union Bank and Kotak Mahindra Bank merger. Moreover, a thorough analysis of the impact on profitability will shed light on whether the merger has fulfilled its intended objectives, examining financial metrics, operational efficiency, and market positioning.

This case study aims to provide a comprehensive examination of the Union Bank and Kotak Mahindra Bank merger, unravelling the intricacies of the process and evaluating its repercussions on the profitability of the newly formed entity. By delving into the financial nuances, operational changes, and market dynamics post-merger, we seek to glean insights into the broader implications for the Indian banking sector and offer valuable lessons for industry stakeholders and policymakers.

2. REVIEW OF LITERATURE

In order to get insight into the work linked to mergers and acquisitions, the following undertook a review of research publications as part of this project. Growth can come from both internal and external sources for a company. Expansion of operations or the creation of additional units are examples of internal growth, while takeovers, mergers and acquisitions, joint ventures, amalgamations, and other forms of external expansion are examples of external growth. In order to examine the impact of mergers and acquisitions on the Indian financial services industry, numerous research have examined the different causes of M&As.

- **DrAshok Jhawar, Prof. Deepesh Mahajan, (2019)**, provided a summary of the Indianbanking system and emphasized the changes that have taken place. Mergers and acquisitions play a crucial role in the growth and expansion of the Indian banking sector, allowing weaker banks to survive by merging with larger institutions. This study examines the impact of mergers and acquisitions in the Indian banking sector, specifically focusing on the pre- and post-merger performance of ICICI Bank and SBI. While ICICI Bank showed improvements in net profit and return on assets after the merger, SBI did not exhibit significant performance improvements, as the merger was primarily driven by public interest. Initial challenges may hinder immediate improvements, but future enhancements are possible.
- **Bisma Shah, Dr Khursheed Ahmad Butt, (2016),** examined the Impact of Mergers & Acquisitions on Operating Performance, Financial Performance & Shareholders Wealth by analysing Centurion Bank and Bank of Punjab. It was believed that the Bank of Punjab and Centurion Bank combination was an ideal fit. The goal of the merger was to have a significant national footprint because Bank of Punjab had a strong presence in the North and Centurion Bank in the West and the South. According to Centurion Bank chairman Rana Talwar, the two companies were a perfect match when it came to establishing scale and regional presence, which is why they merged. Given the aforementioned synergies, it was anticipated that the merger of the two banks would have had a favorable effect on the financial and operational aspects of the merged company, Centurion Bank of Punjab, increasing wealth for the new entity's shareholders.
- **Ms. Sohini Ghosh, DrSraboni Dutta, (2015)**, discovered that mergers have a favorable effect on the profitability of Indian banking and finance companies. Indian financial institutions have benefited from overall expansion. One of the best achievers in the Indian market has been the banking industry. Banks choose M&A as a strategic tool for business restructuring. This study's goal is to examine the sector's M&A activity's overall strategic impact. In this essay, they have focused on 10 M&A transactions that took place in the Indian banking industry during the years of 2000 and 2010. The study's main goal is to compare banks' performance levels during the post and pre-merger phase in order to determine if there has been any change. To do this, theyused a few HR and financial parameters. The results show that performance did not change much after the merger.
- **Somenath Sarkar, Prof. Bhagaban Das, (2018),** this article aims to compare the financial performance of a few chosen banks before and after the merger. Comparing a few chosen banks' pre- and post-merger financial results is the main objective of this essay. The use of information from money control and Yahoo Finance. An examination of six banks that merged between 2004 and 2010 is the focus of this preliminary research. The financial performance before and after the merger is compared using the economic value-added technique. The analysis demonstrates that there have been notable improvements in post-merger financial performance.
- **Bhattacharyya, Surajit and Chatri, Ankit, (2012),** examine the impact of mergers during the second decade of reforms (2000–2010), they look at how M&A affected the technical efficiency of Indian commercial banks. They compared the pre- and post-amalgamation technical efficiency of 13 commercial banks that participated in M&A activities in the first decade of the 21st Century. Utilizing DEA, we can estimate the relative technical effectiveness of the banks that took involved in M&A activity. The assumption of constant and variable returns to scale is used to calculate technical efficiency under both common and distinct frontiers. According to their findings, banks that are merging or acquiring other banks would likely experience increased efficiency. There are banks that have seen a decline in their post-M&A average efficiency levels at the same period.

3. OBJECTIVES

- To study the mergers and acquisitions of selected banks in India.
- This study's primary goal is to compare the financial performance of a chosen group of banks before and after a merger.
- To investigate how a merger affects profitability ratios and how it affects equity owners using EPS and market share price.

HYPOTHESIS

H_0= There is no significant impact on the profitability of Union Bank following the merger and acquisition process.

H_1 = There is a significant positive impact on the profitability of Union Bank following the merger and acquisition process.

H_0 = There is no significant impact on the profitability of Kotak Mahindra Bank following the merger and acquisition process.

H_1 =There is a significant positive impact on the profitability of Kotak Mahindra Bank following the merger and acquisition process.

4. TOOLS FOR ANALYSIS

Ratios and percentages are used for the analysis of data and for better understanding. Bar Diagrams are used for the presentation of the data. To test the hypothesis, `t' test is employed. The performance of the banks before and after the mergers and acquisitions has been compared. For the pre-merger, the combined ratios of both the banks are considered and for the post-merger the ratios of acquiring bank were used.

Source: Compiled from Report on Trend and Progress, RBI, Various Issues since Nationalization, various Banks have been either merged or acquired.

Table 1: Sample Banks

S. No	Acquirer Bank	Merged Bank
1	Union Bank	Andhra Bank
2	Kotak Mahindra Bank	ING Vysya Bank

In table 1, the selection of two cases by the researcher for the study is presented. First, the merger of the Union bank with Andhra bank, which was done in 2020,and the second, the merger of the Kotak Mahindra bank with ING Vysya Bank. Union Bank is from public sector and Kotak Mahindra Bank from private sector.

To analyse the financial performance of the Banks before and after merger, a few ratios likeNet Profit margin, Operating Profit margin, Operating Profit, Operating Expenses, Net Profit have been calculated and the same are presented in Table 2 and Table 3 for union Bank and the Kotak Mahindra Bank respectively.

Ratios

Net Profit margin= Net Profit/Sales × 100

Operating Profit Margin = Operating Profit/Sales × 100

Operating Profit = Revenue – Operating Expenses –Cost of Goods Sold –day to day cost

Operating Expenses = Salaries +Sales Commissions + Promotional & Advertising Cost + Rental Expenses + Utilities.

Net Profit = Revenue/Sales + Income from other sources – Cost of Goods Sold – Operating Expenses – Other Expenses – Interest – Depreciation – Taxes.

Table 2: Financial Performance of Union Bank

union bank (2020)										
	before				after					
	17-18	18-19	19-20	Avg.	20-21	21-22	22-23	Avg.	t-value	sig.
Net Profit Margin (%)	-16.02	-8.65	-7.78	-10.82	4.22	7.7	10.44	7.48	0.946	0.07
Operating Profit Margin (%)	-31.26	-21.78	-21.91	-24.98	-12.26	-10.73	-7.67	-10.22	0.937	0.08
Operating Profit (%)	-2.1	-1.5	-1.48	-1.69	-0.78	-0.61	-0.48	-0.62	0.833	0.22
Operating Expenses (%)	1.38	1.45	1.36	1.4	1.56	1.55	1.71	1.61	0.813	0.25
Net Profit	-44.9	-16.72	-8.47	-23.36	4.54	7.66	12.34	8.18	0.794	0.27

(Source: Compiled from the Financial Statements of Banks**)**

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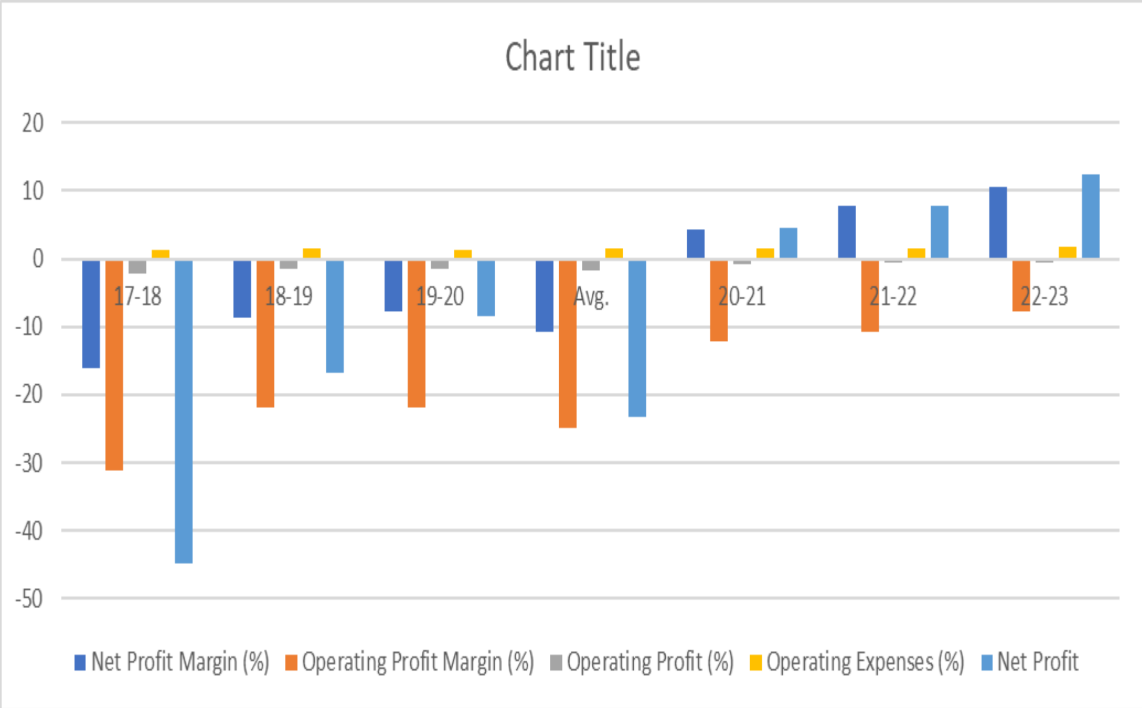

Figure1: Graphical presentation of Table 2

Table 2 shows the analysis of the financial performance of Union Bank before and after the merger of Andhra Bank with Union Bank. The evaluation is made on the basis of the financial ratios. It is found that there is a difference in the performance after the merger.

There is an increase in the average Net Profit Margin (-10.82% to 7.48), Operating Expenses (1.4% to 1.61%), net profit (-23.36% to 8.18%), Operating Profit (-1.69% to -0.62%), Operating Profit Margin (-24.9% to -10.22%) in the post-merger period. There is no decline in the post-merger period.

The result of the `t' test states that the difference in the Operating Profit Margin, Operating Profit, Operating Expenses; is statistically not significant therefore, the $\mathbf{H_0}$ is accepted, which says that there is no significant difference between the pre- and post-merger in case of the Union Bank, though there is a difference in absolute terms. The performance of the Union bank in terms of the Net Profit Margin and Net Profit has improved significantly after the merger - $\mathbf{H_1}$is accepted.

Table 3: Financial Performance of Kotak Mahindra Bank

Kotak Mahindra bank (2015)										
	17-18	**18-19**	**19-20**	**Avg.**	**20-21**	**21-22**	**22-23**	**Avg.**	**t-value**	**sig.**
Net Profit Margin (%)	20.68	20.32	22.08	21.03	25.94	31.7	31.93	29.86	0.636	0.51
Operating Profit Margin (%)	0.16	1.09	2.13	1.13	5.6	8.2	11.25	8.35	0.645	0.49
Operating Profit (%)	0.01	0.08	0.15	0.08	0.39	0.51	0.78	0.56	0.649	0.49
Operating Expenses (%)	2.42	2.4	2.45	2.42	2.23	2.58	2.81	2.54	0.677	0.48
Net Profit	21.43	25.49	31.09	26	35.14	43.19	55.07	44.47	0.746	0.35

(Source: Compiled from Financial Statements of Banks**)**

Table 3 shows the analysis of the financial performance of Kotak Mahindra Bank before and after the merger with ING Vysya.

It is founded that there is a lot of difference in Operating Profit Margin (1.13% to 8.73), Net Profit (26% to 44.47%), Net Profit Margin (21.03% to 29.86%). There is a slight difference in Operating Expenses (2.42% to 2.54%), and Operating Profit (0.08% to 0.56%).

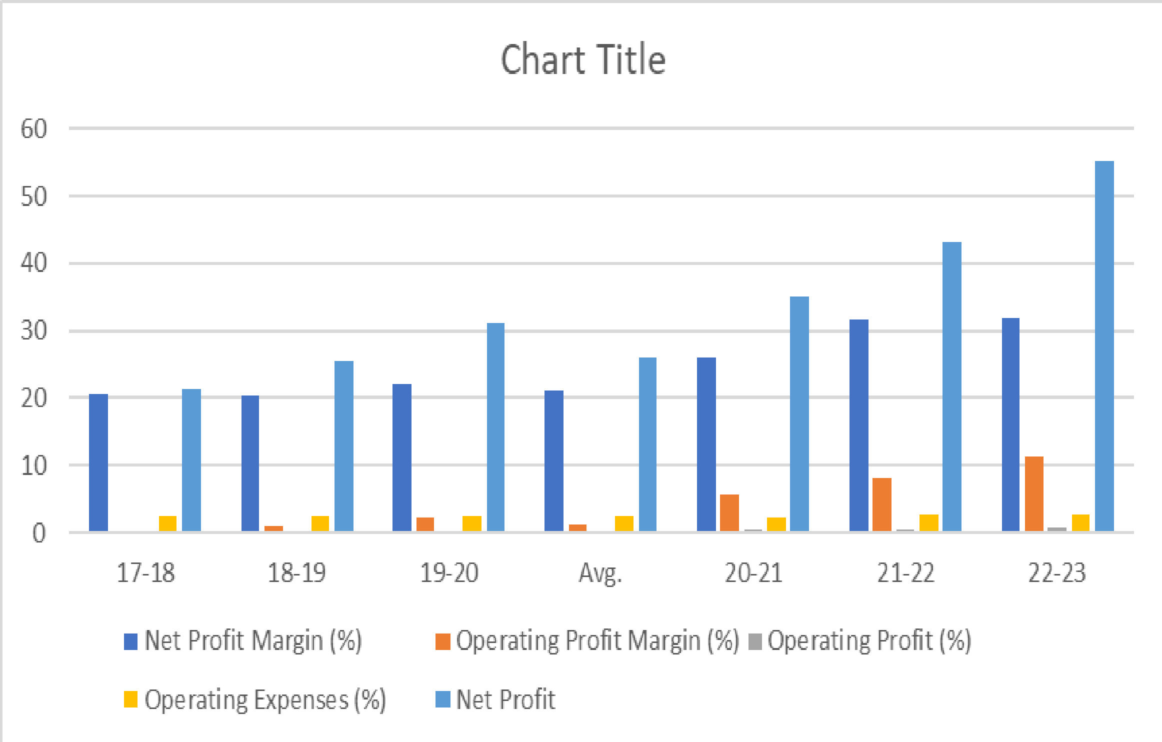

Figure1: Graphical presentation of Table 3

The results states that the performance of the Kotak Mahindra Bank has improved after it acquired with the ING Vysya Bank. **H$_1$** (Alternative Hypothesis) is accepted in terms of all the financial parameters viz., Operating Profit Ratio, Net Profit Ratio, Operating Profit Margin, Operating Expenses Ratio, Net Profit Margin. There is significance Difference in the performance of Kotak Mahindra Bank before and after the merger with Ing Vaisha Bank.

5. CONCLUSION

Based on the analysis of the financial performance of Union Bank and Kotak Mahindra Bank before and after their respective mergers, the following conclusions can be drawn:

Union Bank (Merger with Andhra Bank):

- **Net Profit Margin:** There is a significant improvement in the Net Profit Margin after the merger.
- **Operating Profit Margin:** Although there is an improvement, the difference is not statistically significant.
- **Operating Profit:** No significant difference in the Operating Profit before and after the merger.
- **Operating Expenses:** A slight increase in Operating Expenses, but the difference is not statistically significant.
- **Net Profit:** There is a significant improvement in Net Profit after the merger.

Conclusion for Union Bank: The performance of Union Bank has shown a significant improvement in terms of Net Profit after the merger with Andhra Bank. While there are positive trends in other financial parameters, the differences are not statistically significant.

Kotak Mahindra Bank (Merger with ING Vysya Bank):

- **Net Profit Margin:** There is a significant improvement in Net Profit Margin after the merger.
- **Operating Profit Margin:** A substantial improvement in Operating Profit Margin is observed, and the difference is statistically significant.
- **Operating Profit:** A significant increase in Operating Profit after the merger.
- **Operating Expenses:** A slight increase, but the difference is not statistically significant.
- **Net Profit:** A significant improvement in Net Profit after the merger.

Conclusion for Kotak Mahindra Bank: The performance of Kotak Mahindra Bank has shown significant improvements across all financial parameters after the merger with ING Vysya Bank. In summary, both Union Bank and Kotak Mahindra Bank experienced positive changes in their financial performance after the mergers, with Kotak Mahindra Bank showing more significant improvements across various ratios. These findings suggest that mergers, if planned and executed effectively, can lead to positive financial outcomes for the acquiring banks.

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6. SCOPE FOR FURTHER RESEARCH

Numerous directions for further investigation are presented by the examination of the "Impact of Merger and Acquisitions in the Indian Banking Sector; A Case Study of Union Bank & Kotak Mahindra Bank – Profitability Perspective." First, more investigation into the particular elements that influence the noted variations in profitability following the merger would be instructive. A thorough examination of the operational and strategic modifications made by the combined companies may be necessary for this. Furthermore, a more comprehensive knowledge of the ramifications would come from looking at the long-term impact of mergers on important financial metrics outside of profitability, such market share, customer happiness, and staff morale. Subsequent studies might also examine how government regulations and policies influence the results of mergers and acquisitions in the Indian banking industry.

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