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Bank Mergers in India and Their Effect on Performance: A Public Sector Bank Perspective

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Abstract: Mergers and acquisitions (M&A) represent a strategic approach to business consolidation, wherein companies seek to enhance their market position, operational efficiency, and financial strength through structural integration. A merger typically involves the unification of two entities into a single, jointly governed organization, often with the aim of achieving mutual growth and synergy. In contrast, an acquisition entails one company assuming control over another, either through asset purchase or equity transfer, thereby absorbing its operations and resources.At the core of M&A strategy lies the principle of value creation—where the combined entity is expected to generate greater economic and strategic benefits than the individual firms could achieve independently. This includes realizing economies of scale, expanding market reach, optimizing resource allocation, and improving competitive advantage. The overarching objective is to maximize shareholder wealth, not merely through short-term financial gains, but by fostering long-term sustainability, innovation, and resilience in a dynamic business environment.

Introduction - Indian banking industry has witnessed a wave of mergers and amalgamations, driven by strategic imperatives aimed at strengthening institutional resilience, expanding market reach, and enhancing financial performance. Mergers and acquisitions (M&A) are increasingly employed as tools for rapid consolidation, allowing banks to achieve scale economies, diversify product portfolios, and enter new geographic markets. While the theoretical rationale behind M&A is largely financial centred on improving profitability, operational efficiency, and shareholder valuethe practical motivations often extend to regulatory compliance, competitive positioning, and long-term sustainability.

The growing use of mergers as a swift and effective consolidation strategy reflects broader shifts in India's economic landscape, particularly in response to globalization, digital transformation, and policy reforms. Indian banks are not only consolidating domestically but also exploring cross-border opportunities to expand their global footprint.

Major Public Sector Bank Mergers in 2020

Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), and United Bank of India (UBI):

1. On **1**st April 2020, Punjab National Bank acquired OBC and UBI, forming India's second-largest public sector lender in terms of business volume and branch network.
2. The merger created a next-generation banking entity with over 11,000 branches, significantly enhancing its geographical reach and customer base.
3. A unified brand identity was introduced, incorporating distinctive visual elements from all two legacy institutions to reflect their shared heritage and future vision.
4. The synergy from this amalgamation aimed to improve operational efficiency, reduce duplication, and position the bank for global competitiveness.

Canara Bank and Syndicate Bank:

1. Also effective from 1st April 2020, Syndicate Bank was merged into Canara Bank, elevating the latter to the position of India's fourth-largest public sector bank.
2. The integration led to a reduction in operating costs, primarily due to the elimination of overlapping branch networks and streamlined administrative functions.
3. Post-merger, the combined entity operated approximately 10,342 branches and 12,289ATMs, enhancing service delivery and customer access.
4. Shareholders of Syndicate Bank received 158 shares for every 1,000 shares of Canara Bank, reflecting the agreed swap ratio and valuation terms.

Review Of Literature

Mergers in the banking sector are strategic tools aimed at enhancing competitiveness, expanding market reach, and improving operational efficiency (Patel, 2018).

Public Sector Banks (PSBs) in India have undergone significant consolidation, especially post-2019, with the government's push to create stronger, more resilient institutions (Hosapeti& Rathi, 2023).

A systematic review by Poojari & Hebbar (2023) highlights that most merger studies focus on efficiency gains, shareholder value, and financial performance, but often lack granularity in operational metrics.

Prabhu & Mahesha (2025) conducted a pre- and post-merger analysis of five major PSBs, revealing mixed outcomes. While some banks showed improvement in asset quality and operational metrics, others struggled with integration challenges.

Gaps And Limitations In Existing Literature:

1. Many studies rely on financial ratios without dissecting operational processes such as IT integration, HR restructuring, and service delivery changes.
2. There is limited longitudinal data on post-merger operational efficiency beyond 5 years, making it difficult to assess sustained impact.
3. Comparative studies between merged and non-merged PSBs are scarce, which could help isolate merger effects from broader sectoral reforms.

Research Gap Identified: While existing literature provides insights into financial performance and asset quality post-merger, there is a clear gap in:

1. Granular operational metrics (e.g., turnaround time, service quality, digital adoption).
2. Comparative efficiency analysis across merged vs. non-merged PSBs.
3. Longitudinal studies capturing medium- to long-term operational outcomes.

Objective Of Study : To Evaluate the Effects of Bank Mergers on Operational Efficiency: A Study of Selected public sector banks.

Hypothesis

H_0 (Null Hypothesis)

Statement: The financial performance of the chosen banks did **not** significantly change before and after the mergers.

Interpretation: Suggests that mergers had no measurable impact on financial metrics.

H_1• (Alternative Hypothesis)

Statement: The financial performance of the chosen banks **significantly changed** before and after the mergers.

Interpretation: Indicates that mergers led to statistically significant changes in performance.

Research Methodology: This study is entirely grounded in secondary data sources. Relevant information has been systematically gathered from a range of credible platforms, including academic journals, financial periodicals, industry reports, books, and banking-related publications. Key data repositories such as Prowess, Yahoo Finance, and the official websites of the selected banks—particularly their annual reports—have been utilized to ensure comprehensive and reliable coverage of financial performance indicators.

Sample Composition And Merger Timeline: This study focuses on evaluating the impact of mergers on operational efficiency across selected public sector banks in India. The sample includes two major acquiring banks: Punjab National Bank (PNB), Canara Bank, alongside their respective merger counterparts.study focuses on a selected sample of public sector banks involved in major consolidation initiatives undertaken by the Government of India. The sample includes:

Acquiring Banks	Acquired Banks	Effective Date of Merger
Punjab National Bank (PNB)	United Bank of India, Oriental Bank of Commerce	April 1, 2020
Canara Bank	Syndicate Bank	April 1, 2020

The study utilizes a set of key efficiency indicators to assess the operational performance of the selected public sector banks. These include Return on Equity (ROE), Operating Profit Ratio, Gross Profit Margin, Earnings Per Share (EPS), and Asset Turnover Ratio. To evaluate changes in performance, financial ratio analysis has been employeda widely recognized technique that establishes quantitative relationships between financial variables, offering insights into operational efficiency and profitability.

To statistically validate the impact of mergers on the acquiring banks' efficiency, a paired t-test has been conducted. This test compares pre- and post-merger performance metrics to determine whether the observed differences are statistically significant. By applying this method, the study aims to rigorously assess whether mergers have led to measurable improvementsor declinesin operational efficiency over time.

Limitation Ofthe Study:

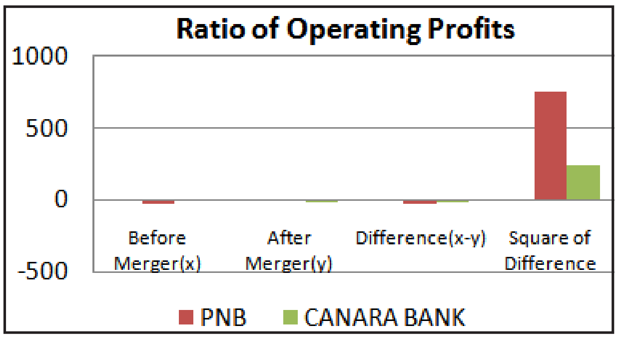
1. **Restricted Sample Scope**: The analysis is confined to two selected public sector bank mergers, which may not fully represent the broader spectrum of consolidation activities across the Indian banking sector. As such, the results may not be extrapolated to private banks or other merger contexts without caution.
2. **Temporal Boundaries**: The study relies on pre- and post-merger financial data from a defined time window. While this allows for focused comparison, it may overlook long-term integration effects or delayed operational shifts that emerge beyond the immediate post-merger period.
3. **Dependence on Secondary Data**: All data utilized in the study are sourced from secondary platforms such as financial databases, annual reports, and institutional websites. This introduces inherent limitations, including potential inconsistencies in reporting standards, data availability gaps, and lack of access to internal operational metrics or qualitative insights.
4. **Lack of Qualitative Dimensions**: The study emphasizes quantitative efficiency ratios and statistical testing, which may not capture softer dimensions of merger success—such as cultural integration, employee morale, or customer satisfaction—that also influence operational outcomes.
5. **External Influences Not Isolated**: Broader economic

factors, regulatory changes, and sector-wide reforms occurring concurrently with the mergers may also affect bank performance, making it challenging to attribute observed changes solely to the merger event.

Analysis And Findings

Ratio of Operating Profits: Operating Profit/ Netsales* 100 is the Operating Profit Ratio.It typically measures the operating performance and the efficiency o fthe company.

Bank name	Before Merger(x)	After Merger(y)	Difference (x-y)	Square of Diffe -rence
PNB	-31.71	-15.51	16.2	262.44
CANARA BANK	-12.4	-19.42	-7.02	49.28

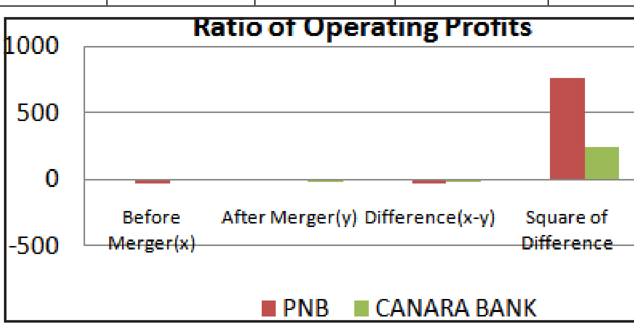


PNB has the ratio (-31.71) before merger and it has lower ratio after merger (16.21). Canara Bank has the ratio(-1240) after merger and it has lower ratio (-19.42) before the merger.

Return on Equity Ratio

Income from equity is calculated by= Net income/ shareholder's equity It measures the profitability. Higher the number, higher the return

Bank name	Before Merger(x)	After Merger(y)	Difference (x-y)	Square of Diffe -rence
PNB	-22.31	0.41	-21.9	471.61
CANARA BANK	1.18	-5.42	-4.24	17.97



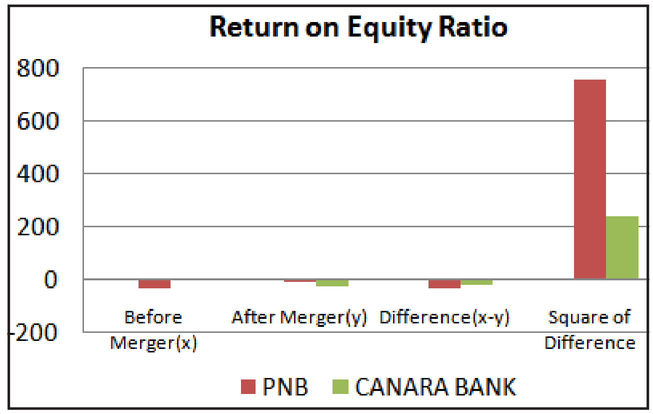
There turn equity ratio of Punjab National Bank increased following the merger from- 22.31 to 0.41 from-24.20. Canara Bank has a lower ratio following the merger from1.18 to-5.42.

Ratio of Earnings per Share (EPS Ratio)

Ratio of Earnings per share is the net income of the company divided by the weighted average number of outstanding shares.

It also serves as an indicator of the company's profitability.

Bank name	Before Merger(x)	After Merger(y)	Difference (x-y)	Square of Diffe -rence
PNB	-29	1.5	-27.5	756.25
CANARA BANK	8.29	-23.8	-15.51	240.56



Punjab National Bank has a higher ratio following the merger as compared to the ratio before the merger. Canara Bank has a lower EPSratio followingthe merger as compared tobefore themerger. Other ratios were also calculated such as the ratio of asset turnover which takes into account both the fixed as well as the current assets to measure the overall financial performance of the company. Punjab National bank has an equal ratio (0.07) both before to and following the merger. Canara Bank has an equal ratio (0.07) both before to and following the merger

Analysis of t-test in selected units under the study of Net Profit Ratio

N	Mean		SD		DF	t-test	p-values	Re-sult
	X	Y	X	Y				
10	-8.17	-4.01	6.98	10.03	5	-1.29	0.24	H_0

Statistical Interpretation

In this analysis, the t-statistic was calculated as **t = -1.29**, with a corresponding **p-value of 0.24**. Since the absolute value of the t-statistic is less than the p-value (|t| < p), we fail to reject the null hypothesis (**H_0**). This implies that there is **no statistically significant difference** in the mean scores of the selected banking units before and after the merger. In other words, the mergers did not lead to a measurable change in the overall profitability ratios of these banks.

Conclusion: The Indian banking sector has undergone a wave of mergers and acquisitions (M&A) in recent years, driven by regulatory reforms, strategic consolidation, and the entry of global financial players. This study examined the financial performance of selected Indian banks pre- and post-merger, focusing on key profitability indicators.

Profitability Ratios: The comparative analysis revealed that the pre- and post-merger profitability ratios of the selected banks did not exhibit statistically significant variation. This suggests that, on average, mergers did not drastically alter the financial outcomes in the short term.

Earnings Per Share (EPS): Notably, Punjab National Bankincreasein EPS following their respective mergers. This improvement may reflect enhanced operational efficiency, better asset utilization, or successful integration strategies.

Cost Efficiency: The post-merger institutions appeared to benefit from greater cost efficiency, likely due to economies of scale, streamlined operations, and reduced redundancies.

Shareholder Value: Despite gains in EPS, the Return on Equity (ROE) ratios declined across the board after the mergers. This indicates that while earnings may have improved, the overall return generated on shareholders' equity diminished—possibly due to increased capital bases or transitional inefficiencies.

Strategic Implications: In the broader context of the banking industry, mergers often serve as a mechanism for strengthening weaker banks by aligning them with more robust institutions. This not only stabilizes the financial system but also enhances competitiveness and resilience.

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