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RESEARCH ARTICLE

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STUDY OF MERGERS AND ACQUISITIONS (M&A's) IN THE INDIAN BANKING SECTORS

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ABSTRACT

This research studies about the lizes financial parameters to assess the performance of merged institutions before and after the merger. The study indicates that most work in this field has mitigated negative effects on businesses from mergers and acquisitions. It uses statistical methods like the independent t-test to examine the impact of mergers on bank performance. The findings suggest that mergers and acquisitions have positively affected banks, enhancing efficiency, profitability, and the distribution of profits to equity shareholders.

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INTRODUCTION

The term "merger" refers to the joining of two or more businesses into a single One that has a new ownership and management structure. The 1856 Companies Act regulates mergers. Combining resources, strengths, and Weaknesses of the companies is made possible through merger. Reduced trade Barriers and more competition result from merger. "Acquisition" refers to the act of one entity buying another. This can be accomplished by either acquiring more than 51% of the company's share capital or by acquiring the company's assets. The purchased firm retains its name and organizational Structure while giving the purchasing corporation a controlling interest. In the past decade, the Indian banking sector has experienced positive changes, with frequent mergers and acquisitions. Regulatory bodies like the RBI and the Ministry of Finance have played a role in strengthening sector regulation, making the industry competitive in growth, profitability, and non-performing assets (NPAs). However, only a small part of the industry is currently innovating and creating value. The scope and complexity of banking organizations' operations have significantly increased in today's global economy, and they must contend with a regulatory environment that is always evolving and becoming more complicated. Since it is now widely acknowledged that M&A is the only means of getting a competitive edge both domestically and abroad, a wide range of businesses are searching for strategic acquisitions both

within India and beyond. Currently, one of India's Industries that is expanding quickly is banking. A paradigm shift in the financial Industry has occurred over the past 20 years. M&A helps the Indian banking sector's Relatively new dimension to grow faster. Consolidation of the Indian banking sector through M&A's on commercial considerations and business strategies are the fundamental pre-requisite for achieving economies of scale and combating unhealthful competition. The advantages of scale-economies, regional diversity, and lower costs through branch and staff rationalization, cross-border expansion, and market share concentration have made consolidation an important strategic instrument and a global phenomenon. Banks are now considering M&As as a result of the new Basel II regulations.

LITERATURE REVIEW

- BHAN AKHIL (2009) The study analysed eight Indian bank mergers from 1999 to 2006, finding benefits for both merging and acquiring institutions. It concluded that the impact of mergers in the Indian banking sector takes time to manifest.
- DR.S.MEENA, DR.PUSHPENDER K. (2014) In the global economy, banking operations have grown in complexity and are dealing with evolving regulations. Mergers and acquisitions are recognized as crucial for gaining a competitive edge, leading to significant growth in India's banking sector.

- DR. K.A. GOYAL, AND V. JOSHI (2012) The article discusses the path to success in a globalized economy, emphasizing the growth journey of ICICI Bank through mergers and acquisitions. It underscores the importance of planning in the pre-merger, acquisition, and post-merger phases.
- DEVARAJAPPA S.(2012) This paper investigates merger motives in the Indian banking sector and compares the financial performance of merged banks using various parameters. Most literature suggests that mergers have moderated their impact on companies. The study employs statistical tests, including an independent T-test, on pre- and post-merger data, concluding that mergers had a positive impact on the banks.
- PROF. R. PATEL & DR. D. SHAH (2016) The Economic value-added approach and other financial parameters such as net Profit margin, return on net assets, return on receivables, return on long-term Funds, interest return and balance sheet size, and EVA approach must not be Shared by all other banks. They stated that the bank's financial performance could improve after the merger. However, if past financials are reviewed Before the merger, it can make the merger fruitful.

Objective of the study

- To find out the needs and process of merger and acquisition in banking sector.
- To study the performance of selected banks in the pre and post stages of M&A's.
- Quantitative analysis of the impact of M&A's

- H1 (Alternative Hypothesis) – There is a significant difference between the pre and post-merger Net Profit Margin.
- H0 (Null Hypothesis) – There is no significant difference between the pre and post-merger Net Interest Margin.
- H1 (Alternative Hypothesis) – There is a significant difference between the pre and post-merger Net Interest Margin.
- H0 (Null Hypothesis) – There is no significant difference between the pre and post-merger Return on Assets.
- H1 (Alternative Hypothesis) – There is a significant difference between the pre and post-merger Return on Assets.

RESEARCH METHODOLOGY

The study is based on secondary data only. The financial and accounting information of the banks is collected from the annual reports of the selected banks to familiarize themselves with the results of the mergers and acquisitions of the selected banks in the pre- and post-stage. Data is also collected from Money control, National Stock Exchange, Reserve Bank of India and others websites for the study.

Analysis and Interpretation

Overview of selected banks:

1. Bank merger Bank of Baroda

Vijaya Bank and Dena Bank merged with Bank of Baroda in a three-way amalgamation in 2019. Integration of the branches from Dena Bank and Vijaya Bank was completed in December 2020 and

Table 1. Financial performance of Bank of Baroda

Financial Parameter	Pre merger		Avg.	Post merger		Avg.	t value	Significant
	2017- 2018	2018- 2019		2020- 2021	2021- 2022			
Operating profit margin	-21.50	-12.85	-17.18	-17.80	-9.12	-13.46	-9.12	Significant
Net profit margin	-4.15	2.05	-1.05	1.95	10.49	6.22	10.49	Significant
Net Interest Margin	2.15	2.48	2.315	2.58	2.57	2.575	2.57	Significant
Return on Equity	-4.05	2.20	-0.925	1.87	8.54	5.205	8.54	Significant
Return on Assets	-0.25	0.13	-0.06	0.12	0.58	0.35	0.58	Insignificant
Return on Capital Employed	1.88	1.96	1.92	1.97	1.88	1.925	1.88	Insignificant
Earnings Share Per	-8.17	4.16	-2.005	3.32	15.18	9.25	15.18	Significant

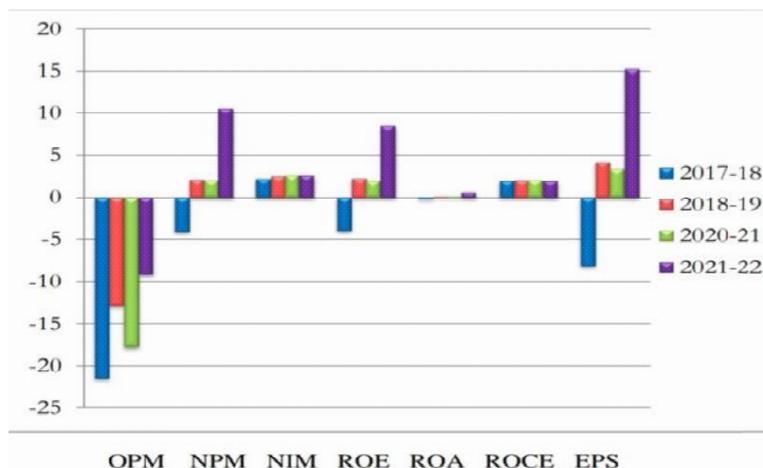


Fig. 1. Interpretation of the t-test results based on the critical value

Hypothesis

- H0 (Null Hypothesis) – There is no significant difference between the pre and post merger Operating Profit Margin.
- H1 (Alternative Hypothesis) – There is a significant difference between the pre and post merger Operating Profit Margin.
- H0 (Null Hypothesis) – There is no significant difference between the pre and Post merger Net Profit Margin.

September 2020, respectively, making Bank of Baroda the second-largest state-owned bank. The merger resulted in a combined entity with deposits and advances totalling over Rs. 15 lakh crore. The primary goal was to reduce non-performing assets (NPAs), as the gross NPA ratios of Bank of Baroda, Vijaya Bank, and Dena Bank were 12.4%, 6.9%, and 22% respectively at the time of the merger proposal. Customers would benefit from increased deposits, loans, and dividend offerings. After the merger, Bank of Baroda's revenue is expected to exceed Rs 15 trillion.

Operating Profit Margin:

Interpretation: Since the absolute value of the t-value (-9.12) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the operating profit margin between the pre-merger and post-merger periods.

Net Profit Margin:

Interpretation: Since the absolute value of the t-value (10.49) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the net profit margin between the pre-merger and post-merger periods.

Net Interest Margin:

Interpretation: Since the absolute value of the t-value (2.57) is slightly greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the net interest margin between the pre-merger and post-merger periods.

Return on Equity:

Interpretation: Since the absolute value of the t-value (8.54) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the return on equity between the pre-merger and post-merger periods.

statistically significant difference in the return on capital employed between the pre-merger and post-merger periods.

Earnings per Share: Interpretation: Since the absolute value of the t-value (15.18) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the earnings per share between the pre-merger and post-merger periods.

Bank merger of Punjab National Bank

The merger of Punjab National Bank, United Bank of India, and Oriental Bank of Commerce came into effect on April 1, 2020, creating the second-largest nationalized bank in India. The combined entity, known as PNB 2.0, aims to be globally competitive and considers all customers from the merged banks as PNB customers. However, the State Bank of India (SBI) remains the top Indian Commercial Bank. The merged bank will have an extensive network with over 11,000 branches, 13,000 ATMs, and a substantial business mix of more than INR 18 lakh crore. PNB 2.0 will initially offer interoperable services and employ Bank Sathi to assist customers in selecting products, emphasizing risk governance for safety and security in banking operations. Based on the provided financial performance data of Punjab National Bank, calculation of the t-tests at a 5% significance level. Considering the degrees of freedom as 6 (7-1), we can interpret the results. Following are the t-tests for each financial ratio:

Table 2. Financial performance of Punjab National Bank

Financial parameter	Pre merger		Avg.	Post merger		Avg.	t value	Significant
	2018-2019	2019-2020		2021-2022	2022-2023			
Operating profit margin	-33.35	-16.43	-24.89	-11.04	-10.55	-10.795	-10.55	Significant
Net Profit Margin	-19.22	0.66	-9.28	4.82	3.53	4.175	3.53	Significant
Net Interest Margin	2.21	2.10	2.155	2.19	2.34	2.265	2.34	Significant
Return on Equity	-22.51	0.74	-10.88	4.26	3.25	3.755	3.25	Significant
Return on Assets	-1.21	0.05	-0.58	0.28	0.22	0.25	0.22	Insignifi cant
Return on Capital Employed	1.69	1.81	1.75	1.60	1.56	1.58	1.56	Insignifi cant
Earning Per Share	-29.68	0.8	-14.44	3.53	3.04	3.285	3.04	Significant

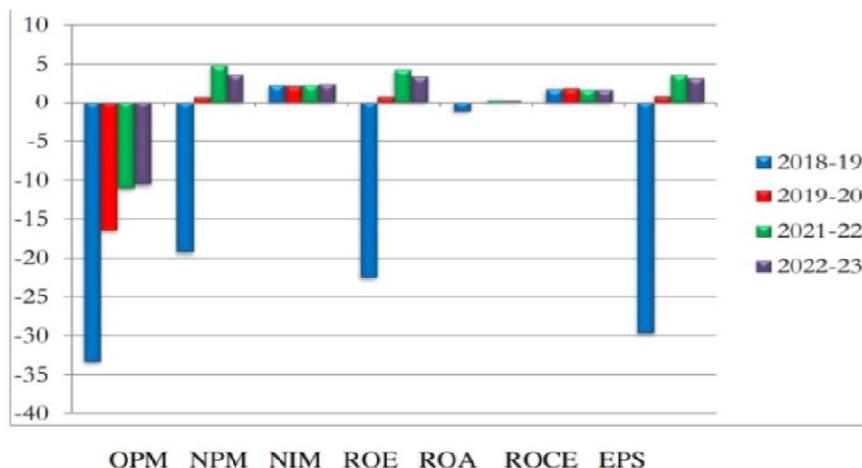


Fig. 2.

Return on Assets

Interpretation: Since the absolute value of the t-value (0.58) is smaller than the critical value (2.447), the null hypothesis cannot be rejected. There is not enough evidence to conclude a statistically significant difference in the return on assets between the pre-merger and post-merger periods.

Return on Capital Employed: Interpretation: Since the absolute value of the t-value (1.88) is than the critical value (2.447), we fail to reject the null hypothesis. There is not enough evidence to conclude a

Operating Profit Margin

Interpretation: Since the absolute value of the t-value (-10.55) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the operating profit margin between the pre-merger and post-merger periods for Punjab National Bank.

Net Profit Margin

Interpretation: Since the absolute value of the t-value (3.53) is greater than the critical value (2.447), we can conclude that there is a

statistically significant difference in the net profit margin between the pre-merger and post-merger periods for Punjab National Bank.

Net Interest Margin

Interpretation: Since the absolute value of the t-value (2.34) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the net interest margin between the pre-merger and post-merger periods for Punjab National Bank.

Return on Equity

Interpretation: Since the absolute value of the t-value (3.25) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the return on equity between the pre-merger and post-merger periods for Punjab National Bank.

Return on Assets

Interpretation: Since the absolute value of the t-value (0.22) is less than the critical value (-2.447), we fail to reject the null hypothesis. There is not enough evidence to Conclude a statistically significant difference in the return on assets between the pre-Merger and post-merger periods for Punjab National Bank.

merged with Canara Bank on April 1, 2020. The combined bank, known as Canara Bank, now has a vast network of 10,391 branches, 12,829 ATMs, and 91,685 employees. This merger enhances public access to banking services, promotes financial inclusion, and is expected to streamline operations due to cultural alignment and network optimization. Table 3. Calculation of the t-tests at a 5% significance level for the financial performance data of Canara Bank. Considering the degrees of freedom as 6 (7-1), we can interpret the results. Here are the t-tests for each financial ratio:

Operating Profit Margin

Interpretation: Since the absolute value of the t-value (-21.085) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the operating profit margin between the pre-merger and post-merger periods for Canara Bank.

Net Profit Margin

Interpretation: Since the absolute value of the t-value (10.39) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the net profit margin between the pre-merger and post-merger periods for Canara Bank.

Table 3. Financial performance of Canara Bank

Financial parameter	Pre merger		Avg.	Post merger		Avg.	t value	Significant
	2018- 2019	2019- 2020		2021 - 2022	2022- 2023			
Operating profit margin	-19.51	-27.77	-23.64	-25.27	-16.90	-21.085	-21.085	Significant
Net profit margin	1.14	-4.06	-1.46	8.20	12.58	10.39	10.39	Significant
Net Interest margin	2.19	1.88	2.035	2.19	2.38	2.285	3.28	Significant
Return on Equity	1.92	-5.69	-1.885	9.96	14.25	12.105	14.25	Significant
Return on Assets	1.61	1.36	1.485	1.93	2.12	2.025	2.12	Significant
Return on capital employed	0.08	-0.26	-0.09	0.48	0.81	0.645	0.81	Insignificant
Earning per Share	8.18	-23.55	-15.37	35.04	62.04	48.54	62.04	Significant

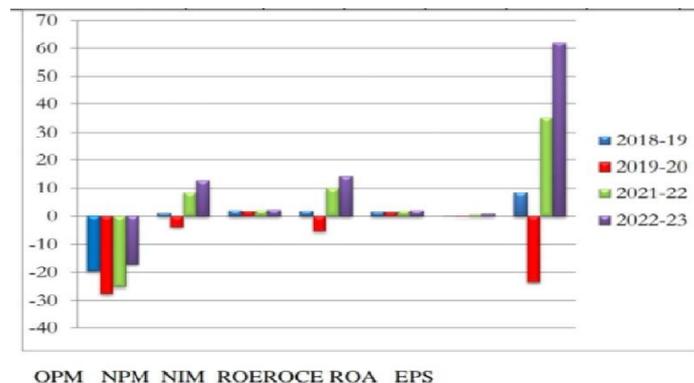


Fig. 3.

Return on Capital Employed

Interpretation: We are unable to reject the null hypothesis since the absolute value of the t-value (1.56) is smaller than the critical value (-2.447). There is not enough evidence to conclude a statistically significant difference in the return on capital employed between the pre-merger and post-merger periods for Punjab National Bank.

Earnings per Share

Interpretation: Since the absolute value of the t-value (3.04) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the earnings per share between the pre-merger and post-merger periods.

Note: The critical value of -2.447 is based on a two-tailed t-test at a 5% significance level with 6 degrees of freedom.

Bank merger of Canara Bank: Syndicate Bank one of India's oldest and largest commercial banks, was nationalized in 1969 and later

Net Interest Margin

Interpretation: Since the absolute value of the t-value (2.38) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the net interest margin between the pre-merger and post-merger periods for Canara Bank.

Return on Equity

Interpretation: Since the absolute value of the t-value (14.25) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the return on equity between the pre-merger and post-merger periods for Canara Bank.

Return on Capital Employed

Interpretation: Since the absolute value of the t-value (2.12) is greater than the critical value (2.447), we can conclude that there is a statistically significant difference in the return on capital employed between the pre-merger and post-merger periods for Canara Bank.

Return on Assets

Interpretation: Since the absolute value of the t-value (0.81) is less than the critical value (2.447), the null hypothesis cannot be rejected. There is not enough evidence to conclude a statistically significant difference in the return on assets between the pre-merger and post-merger periods for Canara Bank.

CONCLUSION

The merger of Bank of Baroda has notably affected several financial ratios, including operating profit margin, net profit margin, net interest margin, return on equity, and earnings per share, but no significant difference was found in return on assets and return on capital employed. The merger of Punjab National Bank has notably impacted various financial ratios, with significant changes in operating profit margin, net profit margin, net interest margin, return on equity, and earnings per share, while return on assets and return on capital employed remained unchanged. The merger of Canara Bank has significantly affected various financial ratios, with notable changes in operating profit margin, net profit margin, net interest margin, return on equity, return on capital employed, and earnings per share, while return on assets remained unaffected.

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