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Title of the thesis : Post- reform Mergers, Acquisitions and Performance of Indian Banking Sector

Abstract

The focus of the research study has been to find whether mergers and acquisition in Indian banking sectors spins out some concrete financial gains to the banks involved in the merger as well as to its shareholders. One of the objectives of this research study has been to find out whether any synergies are associated and get evolves as a result of banks mergers in India. The perceived operational synergies were expected to transform into improved financial performance of the merged entity, in comparison to their combined financial performance as stand alone, banks before merger. Another objective stems out from the *agency problem* and has been intended to find out whether bank mergers announcements, brings out any beneficial gains to the one of the most important stakeholders in the bank i.e. its shareholder. Study attempts to probe whether the shareholders' of merging banks drive any benefit from merger decision.

Six banks mergers have been considered in this study to test the hypothesis of merger synergies and shareholder's wealth maximisation. The study has considered only those bank mergers where both partners were of significant clouts in terms of deposit mobilization, lending , technologically updated and offering various fee based services besides having good branch network in specific geographies and of course potentially capable of generating synergies and producing beneficial gains to shareholders and quality multi product services to its customers.

In order to measure the synergy associated with bank mergers, the performance variables that have been chosen are Economic Value Added (EVA), Market Value Added (MVA), Economic value Added as Percentage of Capital Employed (EVCE), Market Value Added as a Percentage of Capital Employed (MVCE), Return on Capital Employed (ROCE) & Return on Net Worth (RONW). The research investigation is focused at studying pre and post merger performance of EVA & MVA of group of bidder banks as well as that of target bank to find any significant changes. Similarly with the help of other performance variables, i.e. EVCE, MVCE, ROCE and RONW investigation is made to find weather these significant financial ratios are showing any increasing or decreasing trends during the post merger observation period.To test the hypothesis of shareholders of banks involved in mergers, gaining from the banks mergers, the Event Study Analysis has been conducted using the econometric model of Abnormal Returns as well as other based on Mean Adjusted Return Method on bank stocks.

The findings of five measures i.e. time adjusted incremental EVAs, EVACEs, MVACEs, RONWs & ROCEs have shown negative results and only two performance measures i.e. incremental EVA and MVA, have shown the synergies i.e. positive synergies as a out come of the bank mergers. As in majority of the cases the financial performances of the banks have declined over the post merger observation period, this can be inferred from the findings that banks mergers fails to evolve any positive synergies based on its financial performances.

Concerning the shareholder’s gain hypothesis, sampled bidder banks have shown increasingly negative growth of cumulative abnormal returns over the different event windows. Test of significance has been conducted on the CAR values calculated for different event windows and were found to be statistically significant. This has been observed that bank mergers in India have failed to create any wealth for the shareholders of bidder banks, in form of positive impact on the share prices of bidder banks, which has been inferred from the negative growth of combined CARs of all sampled bidder banks over varying event windows. Sampled target banks have shown increasingly positive growth of cumulative abnormal returns over the different event windows.