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A Case Study on Merger and Acquisition on Indian Bank since 1991

Research Methodology (GTBM203)
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Content

ABSTRACT

A major standpoint of the Reserve Bank of India's banking strategy is to promote competition, merge and streamline the system for financial steadiness. Mergers and acquisitions have become one of the widespread techniques of consolidation, restructuring and amplification of banks growth. There are several theoretical explanations to investigate the M&A activities, like alteration of management, change in control up to the mark, major purchase, resilience of the firms, amalgamation, or absorption of subsidiaries for volume and competence etc. The main intention is to visualize the achievement of banks after mergers. The suggestion that there's no noteworthy improvement of banks after mergers are accepted in majority of cases—but some exceptions are also running behind. It is for this the main motive of merger and acquisition is for the betterment for the bank and it makes it competitive in nature. One can make any long-lasting policy.(Trebing, 1981)

CHAPTER 1

INTRODUCTION

In the Apex Bank (RBI) First two times in a month Monetary Policy Statement, 2014–15, Raghuram Rajan (2014) the governor evaluated the prosperity of a variety of value-added programmes and also embarked on a new controlled procedure. On augmenting the banking structure, the number 2 of five columns, he figured out the Top-level Advisory Committee, administered by Bimal Jalan. The committee laid down its proposal in February 2014 to RBI for the purpose of granting license to new banks. RBI has started taking initiatives for on-tap licensing as well as distinguished bank licenses. "The aim is to diversify the soundness of players while preserving banks financial sustenance. The apex bank will also be ready to launch mergers, but not at the cost of competition, efficiency, and stability." (Dr.Navneet Joshi, Sanjive Saxena and Shobha, 2021)

Financial reconstructions like (M&A) is duly regarded as one of the ideal approaches of cohesion reshuffle and collaboration of banks. Most of the banks in the banking sector wants to enlarge their size of operations in order to strike economies of scale, or protecting bank collapse. Motives of bank mergers and amalgamations differs from ownership efficiency and gaining maximum returns on their investment. Thus, M&A in Indian banking needs to be scrutinized in the context of the changing banking scenario and global economic uncertain environment. This study examines RBI's rules of M&A of banking sector from the angle of well-organized banking structure. (Dr.Navneet Joshi, Sanjive Saxena and Shobha, 2021)

ISSN No:-2456-2165

CHAPTER 2

THEORY OF MERGERS AND ACQUISITIONS

There are various authors who have identified M&A behaviour. According to Marris (1964), and Manne (1965), the takeover approach is a practice to restrain managers who moves away from profit maximization strategy. Grossman and Hart (1981) argue that a company has been taken over by a profitable company when the former company's share is downgraded in the market owing to economic and geopolitical uncertainties. Linter (1971), Levy and Sarnat (1970), and Lewellen (1971) have looked at takeovers and mergers to minimize the business risks of the firm by operating in widely diversified ways instead of adopting the initial stages in framing a new company. Hay and Morris (1991: 686) have categorized the aim of mergers and takeovers by firms among the various transactions and market activities and their nature. The transactions can be segregated further into four groups: Agreed merger, Contested takeovers, Divestment and Management Buyouts. Viewed from the viewpoint of markets, mergers can be grouped into three categories: Horizontal mergers, Vertical Mergers and Conglomerate mergers. (Aggarwal, 2014)

- A horizontal merger takes place among 2 organizations that struggle in the same business and market based on geography.
- A vertical merger is a blend of two or more concerns dealing in various stages of production or distribution of the same product, and can be either frontward or rearward merger.
- A conglomerate merger in which several firms combined in unmatched field of business connection. The type of M&A also speaks out the acquisition logic, the edifice, or the structure for the appraisal of targets, the getting hold of target profile and the post-acquisition integration.

The goal of the firms that adopted mergers strategy may be endorsed to: (i) Variation in management, (ii) Variation in control, (iii) Enlarged purchase, (iv) Joining of the more firms, (v) Merger or purchase of subsidiaries for size and efficient growth, etc. **The current paper elucidates the achievement of banks that has adopted for mergers during and after the financial sector restructuring and modification. The main focal point is to see whether M&As from the point of view of banking scenario have added to overall development and economies of scale and competence of the banks.** (Aggarwal, 2014)

ISSN No:-2456-2165

CHAPTER 3

REGULATORY FRAMEWORK IN INDIA

The Banking Regulation Act (BRA), 1949 gives way to the controlled framework for M&A in India's banking scenario. The act makes available for two patterns of incorporation: (i) voluntary, and (ii) compulsory. RBI has the unrestricted powers to give consent to the deliverable amalgamation of two banking companies under Section 44(A) of the BRA. Mandatory amalgamations are intentionally adopted by RBI under Section 45 of the BRA, in common interest or in favour of the depositors of a distraught bank, or to protect right supervision, control and coordination of a banking company, or in the good turn of the banking system. In this juncture the amalgamation will become result oriented on the date mentioned in the announcement declared by the Government authorities. The act does not make it mandatory for acquiring RBI approval in case of intentional mergers or acquisitions of monetary businesses by banking institutions. Instructions regarding the methodology of merger scheme, calculation of swap ratios, revelations, buying/selling norms of shares prior to and when the merger takes place are put down by RBI for voluntary mergers dealing with banking companies, as well as lying between banking and non-banking companies.

Till 1960, amalgamations of banks mainly happened on arbitrary basis under Section 44A of the relevant banking statute as there was absence of other provision. Though there was an imperative need to reinforce the banking system by do away with the petty and the loss-making banks, the result of arbitrary bank amalgamation was very worse and full of criticism. In prospect of this, RBI got hold of legislative powers through a revision and adjustment in the Banking Protection act in 1960 for re-enactment or compulsory renovation of banks. Since then, amalgamations were carried on voluntary basis with RBI approval (Section 44A of BRA) wherever possible, and obligation whenever necessary (Section 45 of BRA). Section 45 of the act brings circumstances under which a bank can be rebuild or merged together with another mandatorily by RBI, through negotiations with the central government. (Gandhi, Mehta and Chhajer, 2020)

This section points out that banks that are ailing can be joined with those that are on the sounds of prosperity. RBI's course of action is to inspire amalgamation to save the interests of the customers specifically and reinforce the banking structure from general interest's point of view. RBI also cheers up the banking assimilation through the reassign of assets and liabilities of petty and unhealthy, frail, and small units into strong banking units.

Section 36AE of the BRA provides central government power—RBI consent is genuinely required—to purchase any banking unit in favour of the depositors, in the interest of banking rules and regulations, or for the improved stipulation of credit to any community of people (nationalization of banks). Thus, 14 big banks were able to function under the umbrella of the Government in 1969 to augment and enhance the dominance of the public sector units. It is self-implied that all these processes lead to a dynamic and effective banking institutions. These restructuring process of the ailing PSUs and adoption of methodology of M&A is a never-ending process heal the conditions of the banking systems and make those units render optimum performance in terms of size, ownership, and diversity of organizational groups. (Gandhi, Mehta and Chhajer, 2020)

CHAPTER 4

LITERATURE SURVEY

Numerous research on the consequences of bank mergers on their achievements have been laid down in many countries. Cost–benefit analyses revealed bank M&A yields varied results. Diverse tools and banking financial metrics were applied by analysts for gauging bank performance. Some studies have disclosed that mergers can advantageously lower costs and sharpens profit effectiveness (Shaffer 1993; Akhavein et al 1997), while others expressed that merger have not produced profitable results every time (Berger and Humphrey 1994; Rhoades 1993). A study by Rhoades (1993) found that straight (in-market) mergers during 1980–86 unable to reduce the cost structure and its efficiency.

Previous study, **Alhadeff and Alhadeff (1955)** examined bank mergers of 208 United States (US)-based banks between January 1953 and mid-1954. They experimented the causes of amalgamation and merger movements. A cluster of banks data demonstrates that internal management policies and matters relating to cost and profitability ratios, branch banking expansion, development rates, legal aspects, antitrust laws, and pattern of market structures were behind the mergers. The study examines that gigantic bank acquired the smaller and frail banks on the prevalent periods.

Rhoades and Yeats (1974) analysed a sample full of layers of 600 US commercial banks over 1960–71. An attempt was made to bring-up –to-date the findings of f Alhadeff and Alhadeff (1955). They wanted to prove if Alhadeff and Alhadeff findings holds true, and also to calculate how much growth resulted for mergers. The results matched with the supposition that bigger banks achieve less growth than the system as a whole. The relation between the dependent variable and the independent variable built-in for bank consolidation produced desired results and concluded that separation occurred in the banking industry over 1960–71.

Peristiani (1997) scrutinized the result of bank mergers on the competency and monetary results of the merger surviving companies This study makes the most use of '**transcendental logarithmic** supple functional shape to determine the costing structure of banks and find out measures of SPECIAL ARTICLE 52 SEPTEMBER 12, 2015 vol L no 37 EPW Economic & Political Weekly efficiency. Experimental studies elucidated that X-efficiency moderately remains same across all other sizes, without including large banks. Unlikely, scale efficiency greatly varies across the different size groups. Therefore, it resulted that during the 1980s reign, mergers were not profitable to banks in terms of X-efficiency.

Focarelli et al (2002) analysed all the M&A—as separate events—among Italian banks during 1985–96. Profitability for mergers enlarged because of the efficient use of capital, although the increase in income from services is counterbalanced by the higher staff costs. For purchases, the enhancement in profitability for the acquired banks was associated with the development in the Excellency and superiority of their loan collection and assortment. Their findings are same year to year with the supposition that increasing revenues from financial services is a tactical objective for the mergers.

Kalhöfer and Badreldin (2010) experimented the growth and accomplishment of Egyptian banks that had undergone M&A during 2002–07. The study reveals that M&A unable to produce favourable results on profits of the Egyptian banking sector. For the credit risk position there were very small positive sign.

So, all the above studies have reached diverse conclusions. While various readers gave their opinions that mergers provide immense value addition and enhances profitability of the banks and firms, on the other hand critics provided their explanations that mergers diminish growth, trim down return on investments and makes the credit position riskier for the merged banks. The ongoing project is an attempt to explore the mergers of Indian banks from the early 1990s, when the globalization and liberalization measures affected the Indian economy which leads to acceleration of FDI, till 2010. There are very few experiments on bank consolidation in India. Further, the study pinpoints all the nationalized banks that has adopted amalgamation

ISSN No:-2456-2165

since 1991, and each merger case has been experimented and scrutinized. (Bank Crisis: the Current Scenario of Merger and Acquisition in India, 2020)

ISSN No:-2456-2165

CHAPTER 5

TRENDS IN INDIA

From 1960 to June 1982, 20 deliberate amalgamations, 49 mandatory mergers, 18 combinations with State Bank of India (SBI) and its associates, and 130 separations of assets and liabilities were completed. Prior to 1969, the Indian banking scenario was very lopsided by small unsuccessful banks controlled by private business houses. So, in 1960, RBI was authorized to produce obligatory mergers and integrations. In the post-1960 period, there were numerous mandatory mergers (particularly 30 in 1961) and integrations (transfer of assets/liabilities; 62 in 1964). The exclusion of economical weak banks bolsters **financial prudency and fiscal solidarity**, leading to the growth of dynamic banking structure. It is noteworthy that RBI policy is quite purposeful in that it permits the spread of strong and weak banks and small and large banks at the same time dueto the fact that small and large banks are equally dominant. The M&A activities in Indian banking are heading towards unity of the system to attain best advantageous structure for the banking units: downsize, spread out retransfer and rearrange. (Bishnoi and Devi, 2015).

***Table no. 1** highlights that the list of banks associated together after the banks were under the Govt's control in 1969 up to the economic liberalization takes place during 1991. Twelve examples of mergers were coming into existence during the period. From Table 1, it can be observed that consolidation and harmony of banks was executed by the apex bank before the globalization period to remove the existence loss making units by undertaking amalgamation. All the integrated banks are nationalized ones. The principal object is to fortify the banking segments through mandatory joining in order to remove out unprofitable banks by liquidation or absorption, or by the transfer of ownership of the assets and liabilities of the unsound banks by other stronger banks.

Table 1: Banks Amalgamated since Nationalisation of Banks in India, 1969–90

Sr No	Date of Merger	Merging Bank	Merged With	Motive of Merger	Type of Merger
1	08/11/1969	Bank of Bihar	State Bank of India	Restructuring of Weak Bank	Compulsory
2	20/02/1970	National Bank of Lahore	State Bank of India	Restructuring of Weak Bank	Compulsory
3	29/07/1985	Miraj State Bank	Union Bank of India	Restructuring of Weak Bank	Compulsory
4	24/08/1985	Lakshmi Commercial Bank	Canara Bank	Restructuring of Weak Bank	Compulsory
5	26/08/1985	Bank of Cochin	State Bank of India	Restructuring of Weak Bank	Compulsory
6	19/12/1986	Hindustan Commercial Bank	Punjab National Bank	Restructuring of Weak Bank	Compulsory
7	13/05/1988	Traders Bank	Bank of Baroda	Restructuring of Weak Bank	Compulsory
8	31/10/1989	United Industrial Bank	Allahabad Bank	Restructuring of Weak Bank	Compulsory
9	20/02/1990	Bank of Tamilnadu	Indian Overseas Bank	Restructuring of Weak Bank	Compulsory
10	20/02/1990	Bank of Thanjavur	Indian Bank	Restructuring of Weak Bank	Compulsory
11	20/02/1990	Parur Central Bank	Bank of India	Restructuring of Weak Bank	Compulsory
12	29/08/1990	Purbanchal Bank	Central Bank of India	Restructuring of Weak Bank	Compulsory

Source: *Report on Trend and Progress of Banking in India*, Reserve Bank of India, various issues.

Table 1

ISSN No:-2456-2165

***Table no. 2** displays the list of banks that has undergone during 1991–2022. 22 banks undergone mergers, of which the number of mandatory mergers was 11 and the rest 11 mergers were arbitrary and optional. A good instance of an optional merger is that of ICICI Bank**,** where the aim was of reverse merger, an example of core banking system. During economic liberalization times Mergers and amalgamation was the most fruitful strategy of the banking sector. (Bishnoi and Devi, 2015).

Table 2: Mergers, Amalgamations in Indian Commercial Banks from 1991 to 2010

Sr No	Date of Merger	Merging Bank	Merged With	Motive of Merger	Type of Merger
1	04/09/1993	New Bank of India	Punjab National Bank	Restructuring of Weak Bank	Compulsory
2	01/01/1996	Kashi Nath Seth Bank	State Bank of India	Restructuring of Weak Bank	Compulsory
3	08/04/1997	Bari Doab Bank	Oriental Bank of Commerce	Restructuring of Weak Bank	Compulsory
4	08/04/1997	Punjab Co-operative Bank	Oriental Bank of Commerce	Restructuring of Weak Bank	Compulsory
5	03/06/1999	Bareilly Corporation Bank	Bank of Baroda	For Economies of Scale & Scope	Voluntary
6	22/12/1999	Sikkim Bank	Union Bank of India	Restructuring of Weak Bank	Compulsory
7	26/02/2000	Times Bank	HDFC Bank	For Economies of Scale & Scope	Voluntary
8	10/03/2001	Bank of Madura	ICICI Bank	For Economies of Scale & Scope	Voluntary
9	30/03/2002	ICICI	ICICI Bank	Universal Banking	Voluntary
10	20/06/2002	Benares State Bank	Bank of Baroda	Restructuring of Weak Bank	Compulsory
11	01/02/2003	Nedungadi Bank	Punjab National Bank	Restructuring of Weak Bank	Compulsory
12	25/06/2004	South Gujarat Local Area Bank	Bank of Baroda	Restructuring of Weak Bank	Compulsory
13	14/08/2004	Global Trust Bank	Oriental Bank of Commerce	Restructuring of Weak Bank	Compulsory
14	02/04/2005	IDBI	IDBI Bank	For Economies of Scale & Scope	Voluntary
15	01/10/2005	Bank of Punjab	Centurion Bank	For Economies of Scale & Scope	Voluntary
16	02/09/2006	Ganesh Bank of Kurundwad	Federal Bank	Restructuring of Weak Bank	Compulsory
17	03/10/2006	United Western Bank	IDBI Bank	Restructuring of Weak Bank	Compulsory
18	31/03/2007	Bharat Overseas Bank	Indian Overseas Bank	For Economies of Scale & Scope	Voluntary
19	19/04/2007	Sangli Bank	ICICI Bank	For Economies of Scale & Scope	Voluntary
20	29/08/2007	Lord Krishna Bank	Centurion Bank of Punjab	For Economies of Scale & Scope	Voluntary
21	23/05/2008	Centurion Bank of Punjab	HDFC Bank	For Economies of Scale & Scope	Voluntary
22	12/08/2010	The Bank of Rajasthan	ICICI Bank	For Economies of Scale & Scope	Voluntary

Source: *Report on Trend and Progress of Banking in India*, Reserve Bank of India, various issues.

Table 2

ISSN No:-2456-2165

CHAPTER 6

PROFILE OF ICICI AND BANK OF RAJASTHAN

A. ICICI Bank

ICICI Bank is India's second largest bank and the largest in the private sector. As a new generation private sector bank, it began operations in 1994. ICICI Bank is the first Indian bank to be listed on the New York Stock Exchange using US GAAP accounting, and it has a global presence that includes the United Kingdom and Canada.

B. Merger experience:

Since the year 2000, the bank has used mergers to extend its geographical reach, improve its client base, and meet regulatory requirements. The current merger with BoR is ICICI Bank's fourth acquisition. Other mergers include ICICI Bank's acquisition of Bank of Madura in 2000, ICICI Bank's acquisition of ICICI Ltd in 2002, and ICICI Bank's acquisition of Sangli Bank in 2006.

C. Focus:

ICICI Bank's 'Cs' strategy of Current Account Savings Account (CASA) growth, cost control, credit quality, and capital preservation aim to create long-term wealth.

D. Size and distribution reach:

At the closing of fiscal year 2010, there were 1709 branches and 5219 ATM counters, respectively. As of 31.03.2010, the bank had a total business of Rs 3832222 million and 37000 workers, with a business per branch of Rs 304 crore. (Pombarla, 2020).

E. Bank of Rajasthan

Bank of Rajasthan is an established private sector bank with a strong presence in northern India, with its registered office in Udaipur, Rajasthan. It first opened for business in 1943.

F. Branch Network

With 4000 employees, the bank has a branch network of 466 branches, 280 of which are in Rajasthan. Furthermore, the bank is a sponsor of the Mewar AanchalikGramin Bank (MAGB), which was founded in 1983 under the RRB Act of 1976.

- **Asset Base:** As of March 31, 2010, the bank's asset base and customer base stood at 173000 million and 3 million, respectively.
- **Business:** The total amount of business was 233918 million, and the amount of business per branch was Rs 47 crores. • Efficiency: In 2009-10, BOR reported a net loss of 102.13 crore, compared to a profit of Rs 117.71 crore the previous fiscal year. (Pombarla, 2020).

ISSN No:-2456-2165

CHAPTER 7

PURPOSE OF ICICI JOINING WITH BANK OF RAJASTHAN

ICICI bank is the second biggest private sector bank in India, started its operation in 1994 as a new age bank. It is the first bank to be listed in New York stock exchange and has presence across European and American continents. To expand its operations in other states it planned to occupy Bank of Rajasthan in the year 2010. This was its fourth acquisition which shows its strategies to occupy the rural Indian market which is yet to be tapped.

Bank of Rajasthan was control by Tayal group who had a share of 28% in the year 2009, the RBI officials asked the owners to reduce the shareholding as there were a lot of irregularities in the functioning of the bank, still the owners remain unresponsive towards the order of RBI, due to this RBI had to impose a penalty of 25 lakhs for various violation done by the bank. The violation includes:

- Irregular deals among high-net-worthcustomer
- Violation of money laundering norms
- Deletion of records from the bank servers
- Manipulation of the accounts in the corporate groups
- Extensions given in the E-payments beyond the permissible limits and the overdraft limits.
- For not disclosing the exact NPA.

ICICI bank as per their future planning strategy has come forward to indicate that they want to occupy the Bank of Rajasthan. Though the competition was tough they agreed to pay more than the present market value of the bank and managed to acquire the bank. The board of directors of the bank approved the deal in May, 2010 as they got the green signal from RBI, which is the controlling authority of Indian banks. (Kansara, Panchal, Chandrani and Joshi, 2021).

ISSN No:-2456-2165

CHAPTER 8

ANALYSIS OF MERGER

ICICI approved the merger on 18th May, 2010 with Bank of Rajasthan and it was a no cash deal, ICICI bank had agreed to give 25 of their bank's share for every 118 shares of Bank of Rajasthan. It shows that the SWAP ratio was turned out to be 25:118. Following the rules of amalgamation, the bank of Rajasthan started operating its all branches as a new entity with effect from 13th of august. The value was calculated to be 30.41 billion and this gave ICICI bank a decent presence in the state of Rajasthan, which is a sizable market share in the northern part of the country.

VALUE OF THE DEAL

Particulars	Market capitalization	Swap ratio (Crores)	Deal Value (Crores)	Outstanding Share (Crores)
BOR	99.5	118	1597	16
ICICI	889.35	25	3041	111

Analysis of Merger

Pre-Merger	Return on Equity	Net Profit Margin	Returns on Assets
2007-2008	13.4	31.10	1.10
2008-2009	11.1	41.58	1.10
2009-2010	7.70	37.58	1.00
Total (A)	**32.2**	**3.2**	**3.2**

Post-Merger	Return on Equity	Net Profit Margin	Returns on Assets
2010-2011	7.9	40.25	1.1
2011-2012	9.58	51.15	1.34
2012-2013	11.09	64.65	1.5
2013-2014	12.94	83.25	1.66
2014-2015	13.73	98.1	1.76
2015-2016	14.3	111.75	1.86
2016-2017	11.32	97.26	1.49
Total (B)	**69.54**	**546.77**	**10.71**
Grand Total (A+B)	**101.74**	**657.07**	**13.91**

The table shows that, the return on equity of the bank was recorded as 13.4:1 in 2007-08 and 7.7:1 in 2009-10, which is the lowest recorded return in equity in the last decade. Further the highest return on equity was recorded in the year 2014-15 as 13.73:1, against the lowest return on equity was recorded in the year 2010-11 as 7.9:1. This compression very clearly shows that the financial performance of the ICICI bank post-merger is improved as compared to the pre-merger financial performance(Kansara, Panchal, Chandrani and Joshi, 2021).

	Bank of Rajasthan	ICICI Bank
SWAP Ratio	1:4.72 (25:118)	
Price before the merger announcement day	82.85	901.10
Price on the merger announcement day	99.45	809.20
Price after the merger announcement day	119.35	824.45
Total	301.65	2534.75

It can be concluded from the above data that the financial performance of the bank is better after the merger took place than in comparison with pre-merger performance. The shareholders of the bank were more bullish or optimistic towards the future of the bank, as a result the positive recovery of the shares shows the bright future of the bank.

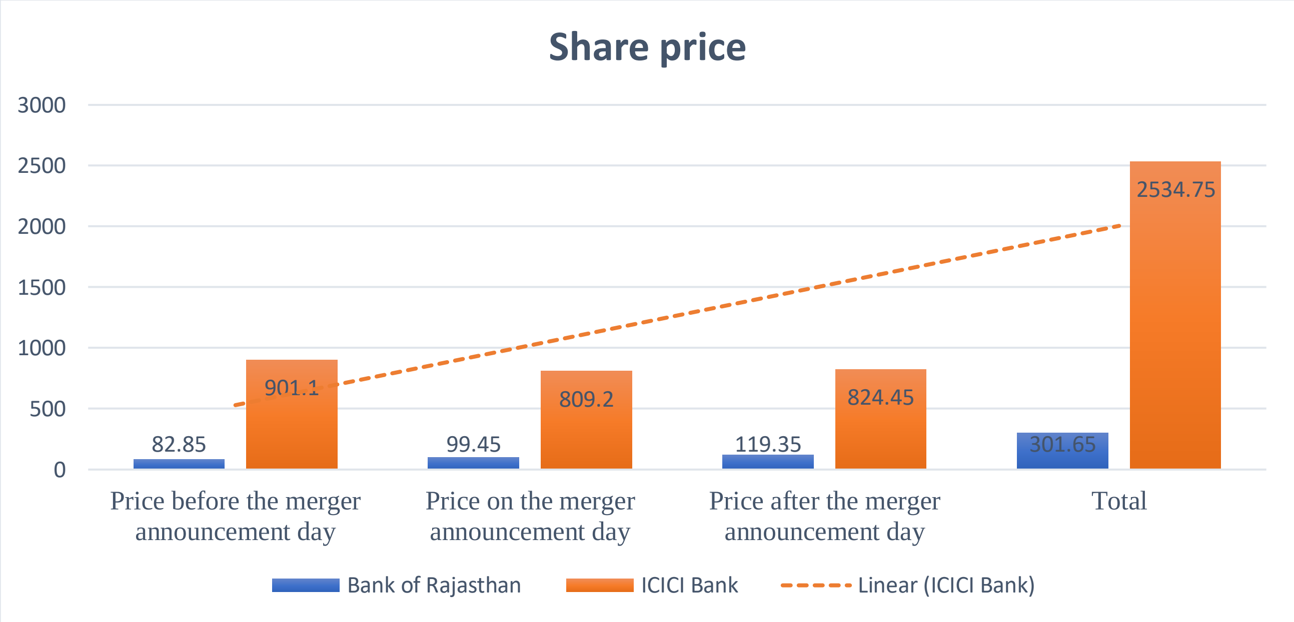

Fig. 1: Change in share price before and after the merger was announced

*Values in crore

Total Income	32,999.36**	1,489.48**
Profit	4,024.98**	(102.13)**
Total Assets	363,399.71**	17,300.06**
CRAR (Capital to Risk Asset Ratio)	19.41*	7.52*
Net NPA Ratio	2.12*	1.60*

- **ANALYSIS OF THE ABOVE TABLE**
  - The profit after tax of the year 2009 was 3758.13 crores and it has increased by 7.1% in 2010 which was 4028.98 crores.
  - The net non-performing assets of the bank was 4553.94 crore which has decreased to 3841.11 crores in march, 2010.

ISSN No:-2456-2165

- It has shown improved capital adequacy ratio of 19.14% and Teir-1 capital adequacy ratio of 13.48%, which is also called as equity capital and disclosed reserves.
- The shareholders were also getting benefited by the dividend of Rs. 12 approximately per share, which was higher than the previous dividend which was given(Kansara, Panchal, Chandrani and Joshi, 2021).

CHAPTER 9

CONCLUSION

The larger the bank's capital adequacy ratio the bank has larger risk management capabilities. In order to cope up with the growing competition in the market, the banks in India must be large enough in terms of global operations. Here as per the above analysis, the Bank of Rajasthan from sinking and keeping guards of all sort of interest which includes internal as well as external stakeholders, merger seems to be a wise decision a bank can take. The ICICI bank or any other bank doesn't matter much, what matters is the survival of Bank of Rajasthan and to do that merger becomes and inevitable option that must be done appropriately and in a timely manner.

The continues bad performance of the Bank of Rajasthan due to weak management and the desire of ICICI bank to acquire grater market share or market strength within a least time span and their vision of fast expansion forced both the banks to come up with the decision to be merged. this gave strength to core competencies, leverage large volume and reducing the operating cost of both parties. The issues like working culture or work environment, HR issues, Integration of technology was given a priority at the time doing the merger of the both the companies. The more affective consolidation will be, the more synergy and technical gain it will give to bank and that will help them to go a long way and sustain in the competitive environment of not only Indian banking sector but also in the global business environment.

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