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# **TRANSFORMING INDIAN ECONOMY: CHALLENGES & OPPORTUNITIES**

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*(An Overview of Changing Dynamics in Business, Economy & Society)*

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Transforming Indian Economy: Challenges & Opportunities  
*(An Overview of Changing Dynamics in Business, Economy & Society)*

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**ISBN: 978-3-96492-301-1**

**EDITION: 1<sup>st</sup>**

**Price: € 30.00**

Published By:

*Weser Books*

*Head Office: Weser Books, No. 79737, Äussere Weberstr. 57 02763 Zittau, Germany*

**Email: [weserbooks@gmail.com](mailto:weserbooks@gmail.com)**

**Website: [www.weserbooks.com](http://www.weserbooks.com)**

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## MERGER AND ACQUISITION IN INDIAN BANKING SECTOR: A STUDY OF BANK OF BARODA

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### ABSTRACT

Indian banking sector is no stranger to the phenomenon of merger and acquisition across the banks. Since the beginning of modern banking in India, the most significant merger in the pre-independence era was of three presidency banks in 1935 to form the Imperial Bank of India (renamed as State Bank of India in 1955). Since 1961 till date, there have been as many as 88 bank mergers in the Indian banking system, of which 46 took place before nationalization of banks in 1969 while the remaining 42 occurred in the post-nationalization era. The purpose of the study is to make a comparative assessment of status of BOB after the merger and acquisition (M&A). In this study mean pre-and post-merger ratios for BOB have been calculated and the results are found out on the basis of level of significance of t-test. The study has attempted to examine the performance of bank that has gone through merger, in the post-reforms period, and analyses if merger had a significant impact on financial performance of the bank.

**Key Words-** Mergers, Acquisitions, Banking, Efficiency, Performance, Profitability.

### INTRODUCTION

In India, there are marked disparities in income, industrial growth and development among its regions. The policy makers, in order to address the issues of equitable growth and development of all the regions as well as the people, have combined both Socialistic and Capitalistic features in the country's economic policy framework since independence. This is evident from the large investments of the public sector in infrastructure, manufacturing and the services sectors and also from the role assigned to the banking sector. Significantly, the Indian banking sector had been assigned the role of providing support to their economic sectors such as agriculture, small-scale industries, exports, etc.

Banks remained occupied with domestic priorities, especially massive branch expansion, attracting more people to the system and ensuring elimination of economic disparities. Thus, with the emphasis on social and development banking, margins on loans and advances had narrowed down and profitability of commercial banks declined. Apart from this, during this period, many Indian banks also remained internationally isolated (few Indian banks had presence abroad in international financial centers). The reason for which the banking system remained isolated from the international arena, however, can be attributed to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity was required for any Indian bank to open an office abroad. Unfortunately, all these resulted in low profitability for Indian commercial banks. In view of low profitability of banks, the Government of India had initiated a series of reforms since early 1990s.

Indian banking sector is no stranger to the phenomenon of merger and acquisition across the banks. Since the beginning of modern banking in India, the most significant merger in the pre-independence era was that of three presidency banks in 1935 to form the Imperial Bank of India (renamed as State Bank of India in 1955). Since 1961 till date, there have been as many as 88 bank mergers in the Indian banking system, of which 46 took place before nationalization of banks in 1969 while the remaining 42 occurred in the post-nationalization era. Of the 42 mergers, in 29 cases, the private sector banks were merged with a public sector banks while in the remaining 13 cases both the banks were private sector banks.

### MERGERS IN INDIA

Since the onset of reforms in 1991, there have been 29 bank mergers. It has been observed that prior to 1999; the mergers of banks were primarily triggered by the weak financials of the bank being merged, whereas in the post-1999 period, there have also been mergers between healthy banks driven by the business and commercial