Emperor International Journal of Finance and Management Research

ISSN: 2395-5929	**Mayas Publication®**	**www.mayas.info**
Volume-XI	**Issue-XII**	**December 2025**

Analysis on Shareholder Value Growth of Pre and Post Merged Banks in India

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Abstract

This paper attempts to analyze the financial growth of merged banks in India. Merged form major part of total banking system in India so there is a need to evaluate the performance of these banks. The study is based upon secondary data covering the period from 1990-2010. The study is selected 10 commercial merged banks in India. The Merger & Acquisition also have become the focus of public and corporate policy issues. To facilitate development of policy, it is necessary to measure the outcome of the M&A process on the basis of the growth of the merged banks in terms of financial variables like Deposit, Advances, Investment, Interest income, Revenue, Profit, and Total asset by comparing the growth with pre-merger period. So, this chapter analyzes the growth of merged banks. For the purpose of analysis the Mean, Standard Deviation (SD), and Co - Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of the financial variables selected for the sample banks have been calculated separately for each bank for the pre-merger and post-merger period.

I.INTRODUCTION

Growth is the basic objective of every firm and banks are not an exception to this. To meet the extend of severe competition that the Indian banks are exposed to on account of the development of private sector banks and invasion of foreign banks on account of globalization process initiated by the government in the year 1991 and to with stand in the competitive market, it is necessary for the banks to expand their activities by increasing their capabilities of carrying out wide range of activities and services to meet the modern requirements of business enterprise and thereby enabling it to have cost reduction. For this purpose, the Indian banks have opted for M&A as a strategic tool for fast-track technology led companies. In the rapidly changing environment where technology is embedded in people and process, well planned M&A are recognized as critical which adopt technology and provide services ensuring success and even for survival.

Review of Literature

Ranjan Mujarjee (2007) Carried out a study on "An overview of pre and post M&A deals" with the objective of analyzing the need for the attention of professional in finance, law, strategy etc. the study revealed the danger areas and pit falls of the integration process and due diligence.

Dr. K. Srinivas (2010) Carried out a study on "Pre and Post Merger Performance of Merged Banks in India – A Select Study" with the objective of analyzing the financial performance of spread ratios, burden ratios, profitability ratios, liquidity ratios, solvency ratios, and asset quality ratios need for the attention of professional in finance.

Objective

1. To examine the Shareholder Value Growth of selected Banks between Pre and Post Merger Period.

Hypothesis

1. There is no significant difference between Pre and Post Merger Shareholders Value growth of Selected Banks for the study.

Methodology

The study is analytical in nature, and it is based on secondary data. The information has been collected from the official directory and data base of Centre for Monitoring Indian Economy (CMIE) namely PROWESS. The published annual reports of the selected banks related websites, magazines and journals on finance have also been used as data source. The growth of the merged banks in terms of financial variables like Deposit, Advances, Investment, Interest income, Revenue, Profit, and Total asset by comparing the growth with pre-merger period. So, this chapter analyzes the growth of merged banks. For the purpose of analysis the Mean, Standard Deviation (SD), and Co - Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of the financial variables selected for the sample banks have been calculated separately for each bank for the pre-merger and post-merger period.

Analysis and Findings

1. Growth of Deposit of Merged Banks

The important function of traditional banking business is to accept deposit from the customers. The deposit, which are collected firm the public, include term deposit, saving bank deposit, demand deposit, miscellaneous deposit and deposit from outside India. Deposits are the main source of funds available to the banks to carry out their function and meeting the requirements of business enterprises. The growth in deposits indicates increased avenues available to the banks during post-merger period. The table 1 describes the changes in deposit Mean, Standard Deviation (SD), Co-Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of deposit for the sample banks selected for the study for the pre-merger and post-merger period.

Table No 1
Growth of Deposit

BANKS	PRE-MERGER				POST MERGER				T-VALUE	MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)		
SBI	2071.76	1198.60	57.85	46.30	118470.40	33077.80	27.92	18.29	07.86	5618.34
UBI	2105.88	1134.50	53.87	35.99	35674.31	6619.23	18.25	12.38	11.18	1594.03
HDFC	2534.61	1222.45	48.23	43.92	18014.79	8732.63	48.23	37.97	03.95	610.75
ICICI	2579.19	838.943	32.53	23.98	52911.89	32488.90	61.40	27.77	03.46	1951.49
HKSBC	6278.72	1353.25	21.55	11.49	37891.26	13843.50	36.53	19.75	05.08	503.49
SCB	3229.69	713.49	22.09	09.82	21039.15	10226.60	48.60	28.14	08.88	551.43
BOB	1448.77	502.92	34.71	24.48	55641.21	8627.76	15.50	10.33	14.02	3740.57
PNB	1352.61	363.49	26.87	16.24	105247.50	25356.40	24.09	16.55	09.16	7681.06
OBC	4276.86	2148.65	50.24	29.83	17338.52	6086.88	35.10	26.14	04.52	305.40
IDBI	5657.86	710.25	26.63	30.68	28152.53	10074.90	35.79	14.17	04.82	397.58

It is revealed that all sample merged banks have shown tremendous upwards growth in total deposit after merger. The result indicates that PNB (7681.06%) achieved high growth followed by SBI (5618.34%), BOB (3740.57%), ICICI (1951.49%), UBI (1594.03%), HDFC (610.75%), AXIS (503.78%), IDBI (397.58%) and OBC (305.40%). The consistency of deposit mobilized by the merged bank reflects that HDFC and PNB shown greater consistency in their deposit mobilization. As against this SBI, OBC and UBI with above 50% have shown larger inconsistency in their deposit mobilization program. The application of t-test shows that all merged banks have shown significant change in the average deposit after merger. Thus, it is concluded that the deposit mobilization of merged banks was significantly higher than the pre-merger period.

2. Growth of Advances of Merged Banks

Advances refer to use of deposit in lending to the business enterprises and others. The main purpose of providing advances is to earn returns to meet its cost and earn profit from the main activity of the bank. The advance is provided in the form of loan, cash credit, overdraft, discounting of the bills etc. The increase in advances shows the growth of merged banks. The table 2 describes the changes in advances Mean, Standard Deviation (SD), Co Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of total advances for the sample banks selected for the study for the pre-merger and post-merger period.

Table No 2

Growth of Advances

BANKS	PRE-MERGER				POST MERGER				t-Value	MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)		
SBI	8986.78	12059.70	134.19	90.74	65437.25	13147.40	20.09	13.58	07.06	628.15
UBI	841.19	426.13	50.66	38.80	18065.47	5640.47	31.22	22.78	06.81	2047.60
HDFC	1462.33	469.72	32.12	23.97	8862.40	5906.85	66.65	53.07	02.79	506.04
ICICI	1256.50	188.46	14.99	10.12	148183.70	217155.00	146.54	71.88	01.51	11693.40
HKSBC	3229.69	713.49	22.09	09.82	21039.15	10226.60	48.61	28.14	08.89	551.43
SCB	4276.86	2148.65	50.2	29.83	17338.52	6086.88	35.11	26.14	04.53	305.40
BOB	11581.53	1068.59	09.23	04.84	28383.23	6049.84	21.31	14.51	06.12	145.07
PNB	709.96	142.44	20.06	12.37	63827.90	22540.70	35.31	24.80	06.26	8890.30
OBC	3915.47	1794.96	45.84	44.36	7862.88	2435.92	30.98	22.46	02.92	100.82
IDBI	3631.35	2381.58	65.58	48.83	53541.09	6050.51	11.30	03.50	17.16	1374.41

The analysis indicates that ICICI (11639.40%) achieved high growth followed by PNB (8890.30%), UBI (2047.60%), IDBI (1374.41%), SBI (628.15%), AXIS (551.43%), HDFC (506.04%), BOB (145.07%) and OBC (100.82%). The similar pattern of consistency is also evident with regard to the total advance generation of the banks. The BOB has shown greater consistency and reliability in its advances, SBI and OBC have shown greater inconsistency. The t-Test brought out the fact that all merged banks except ICICI have achieved significant growth of advance. From the above result, it may be pointed out that the Merger &Acquisition have brought out significant growth in the level of advances which resulted in increased return to the banks.

3. Growth of Investment of Merged Banks

Investment refers to the deployment of funds in the securities of another bank including RBI. The main purpose of such investment is to earn a return and to control another company. The banks may make investment in government securities, approved securities, subsidiary companies / associates mutual fund and others. The growth investment gives a confidence that the income received from such investments add to the revenue of the banks. The table 3 describes the changes in deposit Mean, Standard Deviation (SD), Co- Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of total investment for the sample banks selected for the study for the pre-merger and post-merger period.

Table No 3

Growth of Investments

BANKS	PRE-MERGER				POST MERGER				t-Value	MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)		
SBI	4083.10	2802.18	68.63	27.27	51717.81	12049.70	23.30	43.89	08.61	1166.63
UBI	8216.52	1537.34	18.71	12.75	14414.29	3158.15	21.91	13.08	03.95	75.43
HDFC	1832.42	772.96	42.18	31.99	11529.80	5424.38	47.05	35.76	03.96	529.21
ICICI	987.32	476.96	48.31	35.41	34554.09	15959.10	46.17	46.42	04.70	3399.79
HKSBC	3915.47	1794.96	45.84	44.36	7862.88	2435.92	30.98	22.46	02.92	100.82
SCB	2761.67	706.56	25.58	03.53	17816.32	7147.88	40.12	25.04	04.69	545.12
BOB	7534.17	1182.52	15.69	10.22	21666.29	5552.04	25.63	16.55	05.57	187.57
PNB	499.08	155.63	31.18	18.92	35151.98	18353.50	52.12	33.25	04.22	6943.36
OBC	431.80	303.95	70.39	30.98	8428.53	3444.22	40.86	31.31	05.17	1851.93
IDBI	2666.66	710.51	26.63	12.75	20760.18	10110.60	48.70	00.25	03.99	678.51

The table 3shows that all sample merged banks have shown tremendous increasing growth in total investment after merger. The result indicates that PNB (6943.36%) achieved high growth followed by ICICI (3399.79%), OBC (1851.93%), SBI (1166.63%), IDBI (678.51%), AXIS (545.12%), HDFC (529.21%), BOB (187.57%) and UBI (75.43%). On the basis of co-efficient of variation of investment, it is that identified that all banks UBI, HDFC and ICICI have shown greater of consistency. The analysis indicates that BOB and UBI showed more consistency as compared to highly volatile trend of SBI AXIS and IDBI. The analysis of "t" shows that out of 9 merged banks taken for this study, all of them have significant' values.

From the above findings, it may be generated that the investment pattern has significant growth. Hence, it is concluded that the investment of all merged sample banks in the post-merger period is significantly higher than the pre-merger period.

4. Growth of Interest Income of Merged Banks

Interest income is the main source of income of a bank from lending which is the purpose of a bank. It shows the efficiency of the banks in using the deposit mobilized by them effectively. The merged banks are expected to earn a high profit and this interest income fulfills the objective of merger. The table 4 describes the changes in deposit Mean, Standard Deviation (SD), Co-Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of total interest income for the sample banks selected for the study for the pre-merger and post-merger period.

Table No 4
Growth of Interest Income

BANKS	PRE-MERGER				POST MERGER				t-Value	MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)		
SBI	539.15	128.84	23.90	15.92	14709.56	3173.97	21.58	14.70	09.98	2628.31
UBI	604.17	151.03	24.99	16.69	3647.79	568.59	15.59	10.56	11.57	503.77
HDFC	152.84	24.35	15.93	09.84	1640.97	713.50	43.48	36.51	04.66	973.68
ICICI	281.91	70.14	24.88	17.72	6234.88	4157.96	66.69	73.00	03.20	2111.67
HKSBC	669.69	161.42	24.11	02.30	2742.97	1151.57	41.98	21.44	03.99	309.62
SCB	255.64	476.96	48.31	35.41	34554.09	15959.10	46.19	46.42	04.70	3399.79
BOB	476.15	108.45	22.78	15.69	5561.95	542.21	09.75	06.29	20.57	1068.12
PNB	152.39	21.16	13.89	07.26	9769.03	3324.20	34.03	18.71	06.47	6310.71
OBC	253.62	120.75	47.61	38.32	1959.65	642.05	32.76	23.43	05.84	672.68
IDBI	559.98	116.88	20.87	13.00	1003.94	217.24	21.64	05.72	04.02	79.28

The result indicates that PNB (6310.71%) achieved high growth followed by SBI (2628.31%), ICICI (2111.67%), BOB (1068.12%), HDFC (973.68%), OBC (672.68%), UBI (503.77%), AXIS (309.62%) and IDBI (79.28%). On the basis of co-efficient of variation of total interest income, it is identified that SBI and IDBI have shown greater consistency in their asset formulation. The t-test was used to test the significance of average change in the total interest income of the merged banks. The application of t-test revealed that all merged banks have got significant 't' value in the asset growth. From the above analysis, it may be inferred that the

Merger &Acquisition have generated significantly interest income for all the sample merged banks.

5. Growth of Revenue of Merged Banks

Revenue refers to the return for the resources employed by a concern. Here, the term revenue includes interest earned, commission, exchange, brokerage received, profit on the sale of investment, profit on sale of fixed asset, gain on foreign exchange transaction, dividend income and other miscellaneous receipts of a bank. The growth of revenue represents the growth in the banks and ensures success and survival to the banks. The growth in the revenue during the period post-merger period is analyzed here and it is found that there is a greater increase is revenue during the post-merger period.

Table No 5
Growth of Revenue

BANKS	PRE-MERGER				POST MERGER					MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)	t-Value	
SBI	397.09	170.781	43.008	29.97	17617.29	3709.61	21.057	14.59	10.369	4336.6
UBI	2938.138	407.525	13.87	7.29	4092.162	777.671	19.004	12.87	2.939	39.2774
HDFC	681.058	249.731	36.668	4.88	1982.062	858.304	43.304	36.75	3.254	191.027
ICICI	359.872	92.383	25.671	18.44	8356.704	5724.04	68.496	79.09	3.124	2222.13
HKSBC	853.738	170.517	19.973	3.65	3422.888	1364.23	39.856	19.72	4.178	300.93
SCB	152.386	21.160	13.886	7.26	9769.028	3324.2	34.028	18.71	6.469	6310.71
BOB	1350.716	515.515	38.166	28.63	6448.058	795.689	12.34	8.17	12.022	377.381
PNB	189.38	49.974	26.389	18.69	8429.966	4068.47	48.262	-30	4.529	4351.35
OBC	392.96	237.217	60.367	52.42	2149.66	720.605	33.522	24.04	5.178	447.043
IDBI	685.938	178.248	25.986	17.34	5777.892	1574.87	27.257	10.87	7.184	742.334

The analysis indicated that PNB (4351.35%) achieved high growth followed by SBI (4336.6%), ICICI (2222.13%), IDBI (742.334%), OBC (447.043%), BOB (377.381%), AXIS (300.93%), HDFC (191.027%) and UBI (39.277%). On the basis of co-efficient of variation of total revenue, it is identified that UBI and IDBI have shown greater consistency in their revenue. The growth of revenue is stable with consistent increase throughout the period. The t-test was used to test the significance of average change in the total revenue of the merged banks. The application of t-test revealed that all merged banks have got significant‘t’ value in their revenue growth. From the above analysis, it may be pointed out that the

Merger &Acquisition have generated significantly higher revenue for all the sample merged banks.

6.Growth of Profits of Merged Banks

The profit of any organization is an indication of the efficiency in carrying out its operations. The good operational performance may result in increased sales leading to good profit. The merged firm ensures economies of scale of operation through elimination of overlapping activities, cutting costs by increased number of transactions, optimum utilization of facilities, raising funds at lower cost etc. The merged banks are expected to fulfill the stakeholder of both acquiring and merged banks. To ensure this, the growth in profit is analyzed. The profit used in this analysis refers to profit before tax. The table 6 describes the changes in profit, Mean, Standard Deviation (SD), Coefficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of profits for the sample banks selected for the study for the pre-merger and post-merger.

Table No 6
Growths of Profits

BANKS	PRE-MERGER				POST MERGER					MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)	t-Value	
SBI	34.788	6.944	19.962	12.39	1157.05	461.092	39.851	16.53	5.442	3226
UBI	74.21	17.409	23.46	16.58	256.748	183.463	71.456	43.46	2.2150	245.975
HDFC	102.224	13.453	13.161	8.51	304.86	151.59	49.725	41.96	2.977	198.227
ICICI	29.36	12.572	42.821	34.66	4000.378	6956.41	173.89	50.73	1.2760	13525.3
HKSBC	5.474	157.408	2875.6	-	439.25	147.7	33.625	17.24	4.494	7924.3
SCB	51.646	17.002	32.92	18.48	220.316	37.153	16.864	5.30	9.231	326.589
BOB	88.638	24.702	27.869	16.90	503.514	182.629	36.271	13.83	5.034	468.057
PNB	-7.31	34.1392	-467	-	1268.08	287.34	22.659	15.81	9.856	-17447
OBC	51.646	17.002	32.92	18.48	220.316	37.153	16.864	5.30	9.231	326.589
IDBI	67.264	41.2869	61.38	33	499.488	120.246	24.074	8.94	7.602	642.578

It clear that all sample merged banks have shown tremendous positive growth in profits after merger. The analysis indicates that ICICI (13525.3%) achieved highest growth followed by AXIS (7924.3%), SBI (3226%), IDBI (642.578%), BOB (468.057%), OBC (326.589%), UBI (245.975%), HDFC (198.227%) and PNB (17447%). On the basis of co-efficient of variation of profit, it is clear that all the banks except OBC and PNB have shown greater consistency in their profit fluctuation. The t- test clearly shows that the all merged bank except ICICI have an increase in the profit earned by them. This shows that growth of profits of all merged banks except ICICI is statistically significant while growth of profit of ICICI is not.

From the above, it may be concluded that the profitability performance of all sample banks except ICICI has witnessed a fairly satisfactory growth.

7. Growth in Total Assets of Merged Banks

Asset is required for a bank to generate earnings. It represents economic resources owned by a firm. The total asset refers to net value of fixed asset and current asset. The growth in total assets indicates the firm's ability to produce large volume of sales and thereby earn large revenue. It is one of the aims of a merged organization to increase its ability to produce large volume of sales through increased asset. The table 7 describes the changes in total assets, Mean, Standard Deviation (SD), Co-Efficient of Variation (CV), Compound Growth Rate (CGR) and Mean Growth Rate of total assets for the sample banks selected for the study period.

Table No 7
Growth of Total Assets

BANKS	PRE-MERGER				POST MERGER					MEAN GROWTH RATE
	MEAN	SD	CV (%)	CGR (%)	MEAN	SD	CV (%)	CGR (%)	t-Value	
SBI	808.38	362.471	44.839	33.30	160810.6	44816.7	27.869	19.71	7.983	19792.9
UBI	5676.946	7244.88	127.62	42.57	40130.43	7812.52	19.468	12.97	7.231	606.902
HDFC	2721.08	898.037	33.003	22.50	24791.122	41.2	49.378	38.41	4.021	811.077
ICICI	3187.732	961.643	30.167	21.60	105408.2	54194.1	51.413	56.39	4.217	3206.68
HKSBC	7400.01	1512.97	20.445	7.14	46261.07	18059.1	39.037	21.68	4.795	525.149
SCB	51.646	17.002	32.92	18.48	220.316	37.153	16.864	5.30	9.231	326.589
BOB	1525.472	857.993	56.244	42.73	64302.32	9611.39	14.947	9.98	14.547	4115.24
PNB	1464.868	361.351	24.668	13.94	124560.4	30961	24.856	17.55	8.890	8403.18
OBC	1410.744	518.959	36.786	27.10	19547.66	6701.92	34.285	25.22	6.033	1285.63
IDBI	7231.666	3610.24	49.923	33.27	91339.1	8139.53	8.911	2.63	21.121	1163.04

From the above table, it is clear that all sample merged banks have shown tremendous upward growth in total assets after merger. The analysis indicates that SBI (8403.18%) achieved highest growth, followed by PNB (8403.18%), BOB (4115.24%), ICICI (2306.68%), OBC (1285.63%), IDBI (1163.04%), HDFC (811.077%), UBI (606.902%) and AXIS (525.149%). On the basis of co-efficient of variation of total assets, it is identified that OBC and PNB have shown greater consistency in their asset formation. The t-test was used to test the significance of average change in total asset of the said banks after merger. The application of t-test revealed that all merger banks got significant't' values in their asset growth. From the above, it may be inferred that the M&As have fairly helped to maximize/optimize total assets of the merged banks.

IMPACT OF t- TEST

The use of t-test revealed the fact that whether the merged banks have significant growth after merger. The impact of the merger on the selected variables for the study is shown in the following table.

Table No 8
IMPACT OF t- TEST

Banks	Asset	Profit	Income	Investment	Deposit	Advance	Interest Income
SBI	S	S	S	S	S	S	S
UBI	S	S	S	S	S	S	S
HDFC	S	S	S	S	S	S	S
ICICI	NS	S	S	S	S	S	S
HKSBC	S	S	S	S	S	S	S
SCB	NS	S	S	S	S	NS	S
BOB	S	S	S	S	S	S	S
PNB	S	S	S	S	S	S	S
OBC	S	S	S	S	S	S	S
IDBI	S	S	S	S	S	S	S

S= Significant **NS= Not Significant**

From the table 8 shows it is found that, the growth of the selected variables is significant in all the cases except total assets of UBI and ICICI. It is concluded that the growth of merged banks in terms of selected variable is more prominent.

Findings

1. The study discloses that the merged banks show upward growth in total deposits having highest growth achieved by PNB (7861.06).
2. It is inferred from the study that the merged banks have increased level of advances during post-merger compared to the pre-merger period with the highest growth achieved by ICICI (11639.4%).
3. It is concluded from the study that the merged banks achieved marginal growth in their total investment registering a highest growth by PNB with 6943.36%.
4. The study reveals that there is greater increase in revenue during post-merger period with the highest growth by PNB (4351.35%).
5. It is understood from the study that there is good increased in profits of all banks registering a highest growth by ICICI.

6. The study indicates that the merged banks have increased level of interest income during post-merger period to the extent of 6310.71% by PNB.
7. It is a telling fact that the merged banks have tremendous upward growth in total assets after merger with highest growth by SBI (8403.18%)
8.

Findings from the analysis of using statistical tools Use of t-Test in analyze

It is inferred from the study that the growth of the selected variables is more prominent in case of all the financial variables selected for the study except the total assets of UBI and ICICI and the advances of ICICI.

Suggestions

1. The growth of deposits not on remarkable level of all the selected banks. Hence, the banks most make all the measurement to improve deposits of all kinds. The banks most accept all kinds of deposits for the purpose of enhancing the total amount in deposits.
2. The growth of investments of banks shows the marginal growth, It is not enough. The high growth of investment all one earn more interest income. The bank may able to pay to its deposits any by way of increasing their investment. Hence investment should be increased at the maximum possible.
3. The deposit of the selected banks increased but not an remarkable level. Hence it is suggested that the profitability of the banks may be increased at the maximum possible level.
4. The total investment of the selected banks is marginally increased. The banks should take steps to increase their total investment. Because without earrings the banks cannot pay operating expenses. So, at for maximum, all the banks must improve its total investments.

II.CONCLUSION

The new economic environment of the 1990s has facilitated Merger & Acquisition between banks. The present study indicated average performance of acquiring banks based on all indicators during the study period was relatively better. But it could not be concluded as evidence of improvement in terms of various parameters. With supported relative information a correct position can be identified. The policy makers can use the findings of the study as a base for framing policies relating to Merger & Acquisition in service sector. Also, it identifies the areas of improvement for better profitability and performance for the banks. The investors could decide their investments in the service sector and the researchers can base this study for their future research activities in the area of Merger & Acquisition.

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