

**STRATEGIC CONSOLIDATION IN INDIAN BANKING: A COMPREHENSIVE ANALYSIS OF THE
MERGER BETWEEN KOTAK MAHINDRA BANK-ING VYSYA BANK**

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Abstract:

Mergers and Acquisitions (M&A) is a tool to restructure and consolidate multiple businesses to achieve increased efficiency and competitive advantage in the business. The world has seen numerous M&A for years and have identified few key benefits and risks over the years. The banking industry is a most vital part of the economy for development and stability. The banking industry of India has witnessed several forced and voluntary mergers in the past few years since globalization. In the paper, the research is focused on merger of Kotak Mahindra Bank and ING Vyasa Bank for the study and wherein have analyzed the pre and post-merger profitability ratios such as the net profit margin, operating profit margin, return on net worth, return on assets. Our findings reveal that the merger significantly influenced Kotak Mahindra Bank's financial performance and profitability. Analysis has been on comparative year-on-year growth percentage on the consolidated financials from the year of merger. Upon analysis it has been observed and concluded that the merger assisted in better financial growth rate. It has been observed and concluded that the merger gives the benefits of operation efficiency, economics of scale and scope of expansion.

Keywords: *Strategic Consolidation in Banking, Bank Mergers and Acquisitions (M&A), Financial Performance Evaluation, Post-Merger Integration*

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Introduction:

Merger is a consolidation of two or more entities and forms one single entity. Acquisition refers to the process where in a dominant entity takes over a struggling entity and emerges as the new owner of the acquired company as well as the existing. Mergers and Acquisition has been an important strategic tool to expand the business through expansion in different products, new markets, synergy creation and cost savings. Mergers and Acquisitions have financial and organizational difficulties but are done with the aim to have a long-term development or to ensure survival within the market.

Merger and Acquisition in the banking industry is seen as the method to restructure the bank, have better financial stability and have a better stand in the market against it's competitors by benefiting from the banks ongoing merger.

In the year 1991 globalisation was adopted in India. Globalisation opened up the market to outside players which brought in a new era for Mergers and Acquisition in the Indian Business model to boost their competitive capacity and face the giant players from various countries.

The roots for banking mergers to tackle the problem of balance of payments were from the Narsimham Committee back in 1991 and 1998. Private sector banks like HDFC Bank, ICICI Bank, Kotak Bank, etc were emerging post liberalization and that forced the existing players to reconsider their strategy and disproved the common belief that profit earning and societal development were contradictory.

History of Kotak Mahindra Bank and ING Vysya Bank:

Banking sector has been witnessing a mergers over the past 20 years. Amongst these the merger of Kotak Bank

and ING Vysya Bank is a milestone in the history of Bank mergers in India. The bank merger was announced in November 2014 and was in effect from April 01, 2015. The two banks brought together complementary characteristics and objectives, resulting in a strong synergy between the two.

The Kotak Mahindra Bank that entered this merger had established itself as one of India's most dynamic and innovative financial institutions since its conversion from a non-banking financial company to a commercial bank in 2003. Founded by Uday Kotak in 1985 as an automobile financing company, the organization had demonstrated remarkable adaptability and strategic vision in navigating India's changing financial landscape. By 2014, Kotak had built a strong presence in retail banking, corporate finance, and capital markets, with particular strength in urban markets across western and northern India. The bank's technology-forward approach, customer-centric culture, and aggressive growth strategy had established it as a formidable competitor to established players, despite its relatively recent entry into commercial banking.

ING Vysya Bank brought to this combination a rich heritage spanning eight decades and deep-rooted relationships across southern India, particularly in the economically vibrant states of Karnataka, Andhra Pradesh, and Tamil Nadu. Originally established as Vysya Bank in 1930, the institution had built its reputation on relationship banking, serving small and medium enterprises, and maintaining strong community connections. The partnership with ING Group, which began in 2002 when the Dutch banking giant acquired a significant stake, had introduced international best practices, sophisticated risk management systems, and global banking expertise while preserving the institution's local character and market knowledge.

The merit of this merger is more than its immediate impact on the two companies that it consolidated, since it is offering a template for bank consolidation successes in transition economies. The transaction demonstrated that strategic mergers had the potential to unlock huge value by being extremely selective in matching culture, operating synergies, and stakeholder alignment. Stressing the merger in maintaining the best of both companies and developing new strengths vindicated the potential for consolidation to actually be more than mere incremental change, but genuinely transformative.

This in-depth analysis examines the merger of Kotak Mahindra Bank and ING Vysya Bank through multiple lenses of analysis, gauging its strategic justification, execution process, performance in finances, and broader implications for banking in India. Both qualitative analysis of financial performance indicators Further in due course of time, in April 01, 2020, the government announced a merger plan that could enhance and improve cost efficiency and risk management. The bank mergers were aimed to lower the Non-Performing Assets (NPAs) and bring operational competencies to the weaker banks. This move consolidated several weaker banks and well capitalized banks to cut down on the overlapping costs, wasted efficiency and enhanced their ability to manage their bad loans and NPAs. For several years, few public sector banks were facing issues of rising NPAs resulting in controlled lending capabilities and instability.

Objective of the Study:

- i. To analyse the concept of strategic consolidation of Indian Banking
- ii. To study the key reasons behind the merger.
- iii. To evaluate the financial performance before and after merger.
- iv. To assess the impact of the merger on operational efficiency

v. To examine the benefits and challenges of the merger.

Review of Literature:

Kanharaju G. and Dr. Shubha A. (2024) in the study “Financial Performance Analysis of Pre- and Post-Merger of Kotak Mahindra Bank and State Bank of India- International Journal of Advance Research” highlights the impact on the financial performance of State Bank of India and Kotak Bank through its ratios. The author has concluded with the Indian banks did not see any significant impact on the profitability ratio of the banks pre and post-merger. The author opined that matching businesses have seen a decline in the performance. The banks did not see much or any change at all due to the merger between a strong and distressed bank, highly reducing the synergy achievable from the merger.

Manu H., Dr. Mahesha V., (2024) in the study “Financial Performance of Canara Bank: An Empirical Analysis of Pre and Post-Merger” has made various ratio comparisons on the financial aspects of Canara bank pre and post-merger. Upon ratio analysis the authors has arrived at the conclusion that the merger has mitigated the issue of high costs and low-income generation. The merger was a success for Canara Bank due to its ability to utilize the synergy efficiently and optimally utilize the resources and have better recovery mechanism. The author concludes with a statement praising the Canara Bank merger as a testament to the potential of strategic merger and performance enhancement and sustainable merger.

Snehal S. Herwadkar, Shubham Gupta and Vaishnavi Chavan, (2022) in the study “Do Bank Mergers Improve Efficiency? The Indian Experience” the researcher has made various financial analysis, event-based analysis in the banking sector for tenure of 23 years from 1997 to 2020. The research focused more on the efficiency of the acquirer and acquiree bank premerger and financial performance and managerial

efficiency of the bank post merger. Upon analysis the findings confirmed that the bank mergers have been beneficial to the banking sector due to the increase in financial performance and efficiency of the acquirers post merger. The researcher also stated that the lower managerial and organizational competencies did not have any negative effect on the efficiency of the merged entity. The productivity of the merged banks were significantly higher irrespective of the incompetencies of the acquired bank. Apart from the bank, the shareholders of the acquiree bank experienced wealth gains a day after the news of acquisition was published.

Madan Kandel and Dhundi Raj Bhattraai, (2024) in the study “Pre and post-merger financial performance analysis of commercial banks in Nepal”, the researcher has analysed the pre and post-merger of Nepalese banks. The researcher has looked into the financial performance of the banks and conducted statistical analysis on the same, upon analysis the researchers has concluded that the banks have benefitted from the merger since the Nepalese banks recorded a significant improvement on profitability indicators due to increased revenue and reduced costs.

Baburam Adhikari, Marie Kavanagh, Bonnie Hampson, (2023), the study “Analysis of the pre-post-merger and acquisition financial performance of selected banks in Nepal”, focused on the mergers and acquisition of the banks in Nepal. The study captures a time frame 3 years pre merger and 3 years post merger, in the paper it was noticed that the pre and post merger results were mixed in nature where the profitability and liquidity ratios showed a significant improvement while the DPS and MPS reduced in the post merger period for one bank and viceversa for the other bank. With these results the author concluded that the merger should be between to equal banks since that would ignite growth of the bank and economy. The absorption of weaker banks is not advised by the bank, and the

Government should promote commercial bank mergers or mergers of institutions directly or indirectly promoted by single-household or cross holding BFs for financial stability.

Dr. Syed Khaja Safiuddin, Dr. Shahana Jabeen, (2024), in the study “Financial Performance of Select Indian Banks with reference to Pre and Post Merger - A Study”, followed the CAMEL Model for analysis. The study focuses on the pre and post merger financial performance of the banks. Upon financial analysis of the data, the author came to a conclusion that financial performance of the banks with respect to the capital adequacy, management efficiency and earning capabilities was better than the pre merger scenario. The author stated that Net NPAs reduced and overall asset quality improved post merger. The banks have a government securities for most liquid form of asset, it was observed that these securities and interest income remained similar with no significant increase and mean while the managerial efficiency was maintained post merger.

Research Methodology:

The methodology focuses primarily on the quantitative analysis of financial reports and statistical analysis of the ratios. The research is based on the secondary data which includes the financial statements, annual reports of the Banks, Government publications and other available documents on the public portal. The research provides a detailed comparison of ratios and statistical analysis for 6-year timeframe, viz, 3 years pre-merger and 3 years post-merger.

To address the objectives. For testing of the hypothesis the analytical tools such as ratio analysis included profitability ratios like Profit Margins, Return on Equity and efficiency ratios. The analysis also includes

the asset quality review of the banks by analysis of the non-performing asset ratios and provision coverage ratios.

The measures for profitability are based on ratios such as listed below:

1. Profit Margin = Net Profit / Gross Revenue × 100
2. Operating Profit Margin = Profit from the operation / Gross Revenue from Operations × 100
3. Return on Net Worth = Profit after Tax / Net Worth
4. Earnings Per Share = Profit After Tax - Preference Dividend / Number of Equity Shares
5. Efficiency Ratio = Non-interest Expenses / Revenue

1. Hypotheses:

a) Hypothesis 1

H₀: The merger has no significant effect on profitability.

H₁: The merger has significantly improves profitability.

b) Hypothesis 2

H₀: The merger has no significant impact on liquidity position.

H₁: The merger improves the liquidity position.

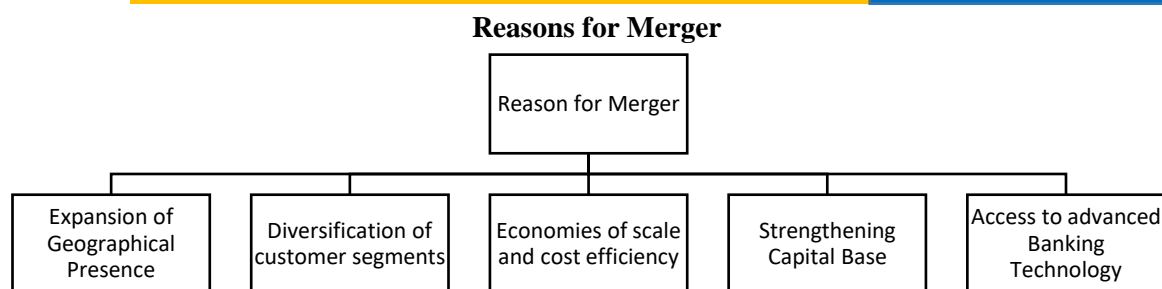
c) Hypothesis 3

H₀: There is no significant improvement in Asset Quality after the merger.

H₁: Asset Quality improves significantly post merger.

Limitations of the Study:

The analysis focuses on the financial performance of the target banks, while overlooking the parameters like organizational culture and employee turnover. The data analyzed in this paper is purely secondary through the published audited financial statements, news articles, websites.



1. Benefits of Merger or Acquisitions

Mergers and acquisition are usually done to pool resources and form a stronger front. Mergers and acquisitions in banks and financial institutions are carried out to increase the financial stability of the business, technological upgradation or enhancement, expand the market reach and achieve efficient market penetration in tough markets. The banks and financial institutions have a higher risk of non-performing assets and higher competition.

For any business the merger and acquisition are done to strengthen the financial standing by merging their assets and liabilities and face greater threats to the business. In BFSI the M&A is done with a target to achieve:

- i. **Economies to scale:** It refers to the situation where banks achieve optimal utilization of financial resources by lowering the cost of overlapping bank branch boundaries, reducing the personnel expenses and better allocation of resources, which leads to an increase in profitability percentage.
- ii. **Market Reach:** Mergers help the companies to increase the customer base by accessing the client details from both the banks. Mergers also helps the banks to plan their products and services more efficiently generating room to enter new geography and markets.
- iii. **Risk Management:** The banks have a main source of income from interest generated through lending activities. Larger banks have a bigger appetite for risk and have diligent risk management techniques.
- iv. **Technological advancements:** Mergers aid in better allocation of resources allowing the merged banks to adopt better technology or develop advanced technology to cater to their business needs in an efficient manner and positively affecting the operational efficiency.
- v. **Competitive advantage:** Mergers and acquisitions often reduce the competitors in the market and creates a larger merged entity with better reach, technology, lower costs per product.
- vi. **Increase in Profitability resulting in Revenue Growth:** the combined operations and access to new opportunities have a significant impact on profitability. This results in revenue growth and future prospects for higher revenues.
- vii. **Product Line Diversification:** The merger of banks give scope for utilizing specializations and existing set-up of other merging bank and expand with new diversified services.
- viii. **Scope for Capital expansion and better Financial Strength:** The combine force results in a better accumulation of capital for expansion. The limitation of financial resources are significantly influenced by the merger.
- ix. **Access to New products and Markets:** The scope for expansion is huge. The existing customers can be provided with new services from the services available from the other merged company. The initialization of new services and expansion is more practical to implement as compared to starting ne services by own.

Analysis of Financial Performance:

Table 1. shows the Audited Financial Results of Kotak Mahindra Bank Ltd pre and post merger.

(₹ in crore)

Standalone Profit & Loss account	PRIOR TO MERGER				POST MERGER		
	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
INCOME							
Interest / Discount on Advances / Bills	4,867	6,146	6,675	7,469	12,470	13,402	14,728
Income from Investments	1,306	1,870	2,050	2,216	3,456	3,681	3,933
Int on Balance with RBI & Other Inter-Bank funds	4	24	27	24	93	218	755
Others	2	2	15	11	365	397	332
Total Interest Earned	6,180	8,042	8,767	9,720	16,384	17,699	19,749
Other Income	977	1,161	1,400	2,028	2,612	3,477	4,052
Total Income	7,158	9,203	10,167	11,748	18,996	21,176	23,801
EXPENDITURE							
Interest Expended	3,668	4,837	5,047	5,496	9,484	9,573	10,217
Payments to and Provisions for Employees	902	1,075	1,172	1,467	2,817	2,769	2,950
Depreciation	117	133	165	193	287	291	303
Operating Expenses (excludes Employee Cost & Depreciatio)	816	1,002	1,205	1,595	2,367	2,559	3,173
Total Operating Expenses	1,835	2,210	2,543	3,255	5,472	5,619	6,426
Provision towards Income Tax	493	633	742	896	1,036	1,800	2,134
Provision Towards Deferred Tax	22	-22	28	71	-2	-64	0
Provision Towards Other Taxes	0	0	0	0	0	0	0
Other Provisions and Contingencies					0	837	940
Total Provisions and Contingencies	570	796	1,075	1,131	1,951	2,573	3,074
Total Expenditure	6,073	7,842	8,664	9,882	16,907	17,765	19,716
Net Profit / Loss for The Year	1,085	1,361	1,503	1,866	2,090	3,412	4,084

Source: Moneycontrol.com- Kotak Mahindra bank Financials FY2012 to FY2018

Table 1.

The merger between Kotak Mahindra Bank and ING Vysya Bank announced in 2014-2015 is one of the most notable mergers in the banking sector. The merger aimed at leveraging strengths, expanding customer base, and achieving economies of scale.

Table 2 shows the Audited Financial Results of ING Vysya Bank Ltd

(₹ in crore)

Standalone Profit & Loss account	Mar 12	Mar-13	Mar-14
INCOME			
Interest / Discount on Advances / Bills	2,868	3,550	3,788
Income from Investments	982	1,307	1,400
Interest on Balance with RBI and Other Inter-Bank funds	1	2	2
Others	7	3	15
Total Interest Earned	3,857	4,862	5,205
Other Income	670	727	867
Total Income	2,868	5,588	6,072
EXPENDITURE			
Interest Expended	2,648	3,323	3,452
Payments to and Provisions for Employees	651	751	903
Depreciation	50	51	57
Operating Expenses (excludes Employee Cost & Depre)	409	471	532
Total Operating Expenses	1,110	1,273	1,493
Provision Towards Income Tax	198	288	347
Provision Towards Deferred Tax	-	-	-28
Provision Towards Other Taxes	0	0	0
Other Provisions and Contingencies	114	91	150
Total Provisions and Contingencies	312	380	470
Total Expenditure	4,070	4,976	5,414
Net Profit / Loss for The Year	456	613	658

Source: Moneycontrol.com- ING Vyasa Bank Financials FY2012 to FY2014

Table 3 shows the Analysis of Audited Financial Results of Kotak Mahindra Bank Ltd Post Merger with ING Vysya Bank Ltd

(₹ in crore)

Standalone Profit & Loss account	Consolidated	POST MERGER		
	Mar-14	Mar-16	Mar-17	Mar-18
INCOME				
Interest / Discount on Advances / Bills	10,463	12,470	13,402	14,728
Income from Investments	3,450	3,456	3,681	3,933
Interest on Balance with RBI and Other Inter-Bank funds	29	93	218	755
Others	30	365	397	332
Total Interest Earned	13,972	16,384	17,699	19,749
Percentage Change in Interest Earned		117.26%	126.67%	141.35%
Other Income	2,267	2,612	3,477	4,052
Total Income	16,239	18,996	21,176	23,801
EXPENDITURE				
Interest Expended	8,499	9,484	9,573	10,217
Payments to and Provisions for Employees	2,076	2,817	2,769	2,950
Depreciation	222	287	291	303
Operating Expenses (excludes Employee Cost & Depreciation)	1,737	2,367	2,559	3,173
Total Operating Expenses	4,035	5,472	5,619	6,426
Provision Towards Income Tax	1,089	1,036	1,800	2,134
Provision Towards Deferred Tax	0	-2	-64	0
Provision Towards Other Taxes	0	0	0	0
Other Provisions and Contingencies	150	0	837	940
Total Provisions and Contingencies	1,544	1,951	2,573	3,074
Total Expenditure	14,079	16,907	17,765	19,716
Net Profit / Loss for The Year	2,160	2,090	3,412	4,084
Percentage Change in Net Income	100.00%	96.76%	157.96%	189.07%

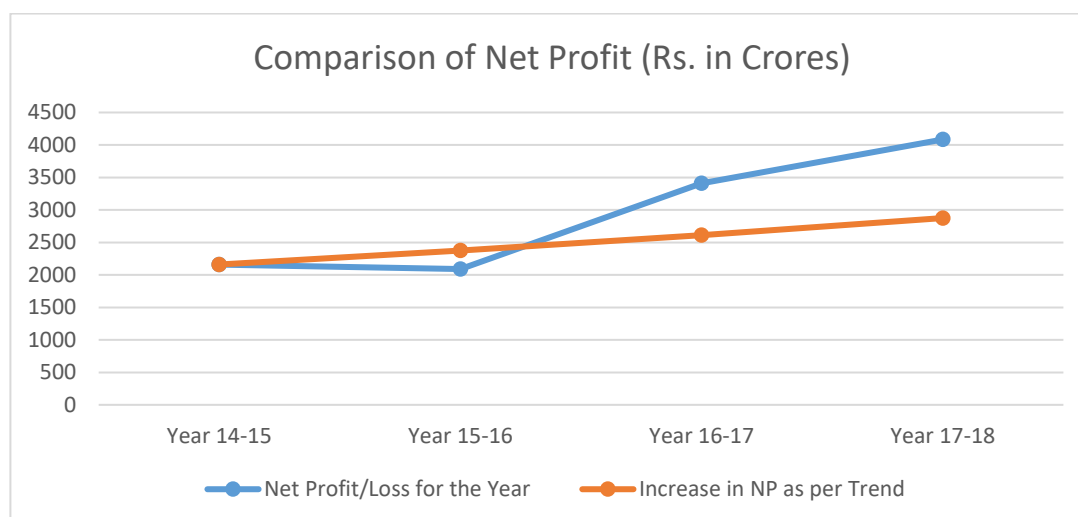


Chart 1. Pre and Post Merger comparison of Net Profit.

Table 4 Ratio Analysis

in %	FY2014	FY2016	FY2017	FY2018
Profit Margin	13.3	10.99	16.1	17.16
Operating Profit Margin	5.75	4.93	7.45	7.82
Return on Net Worth	NA	6.26	6.63	6.57
Efficiency Ratio	24.84	28.83	26.53	26.97

1. Analysis of Financial Performance - Pre and Post merger

i. Pre-Merger Analysis

- Moderate Profitability
- Limited Market reach of ING Vyasa Bank
- Strong growth of Kotak Mahindra Bank

ii. Post Merger Analysis

- Increase in total assets and deposits
- Improved profitability ratio
- Enhanced Branch network and Customer base.

Findings of the Research Study:

After the merger, it could be observed from the data that networking and various resources have been effectively utilised for better performance in terms of raising financial strength and profitability of the combined organization. Initially for the 1st year after merger the results were just the combined effects of separate banks and immediately after that it was noticed that a substantial growth in earning of profit and financial stability.

The effects of merger are analysed in post merger period and data is well comparable to the period prior to the merger. The merger gives the benefits of operational efficiency, economies of scale and scope of expansion. This results in an overall growth in the merged organization to achieve long term financial growth.

Suggestions:

- Banks should focus on smooth integration planning.
- Employee training programs should be enhanced.
- Technological alignment should be prioritized.

d) Continuous performance monitoring post merger.

Conclusion:

The Merger between Kotak Mahindra Bank and ING Vyasa Bank stands as a successful example of strategic consolidation in Indian Banking. It demonstrates how mergers can enhance financial strength, operational efficiency and market competitiveness, strategic consolidation when executed effectively can contribute significantly to the growth and stability of the banking sector.

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