Escalating Relationship between NPAs and Mergers and Acquisitions of Indian Commercial Banks

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ABSTRACT: *The Indian banking sector in general and the public sector banks, is facing a serious problem of mounting NPAs. In fact, NPAs serve as an indicator of the performance of banks, financial institutions, and country. Banks and financial institutions face various risk viz., operating risk, credit risk, management risk etc. Of these, credit risk is chiefly responsible for causing the problem of NPAs in the financial system of a country. NPA not only exists in the Indian scenario, but it also exists in foreign countries. Though there is legal framework and regulatory mechanism in India, still huge NPAs occur in Indian commercial banks. This shows that it is difficult to eliminate NPAs entirely, which can only be kept under control with the help of identifying the causes, impact and ways and means of managing NPAs. Therefore, there is a need for identifying the reasons for mergers and acquisitions in commercial banks, the impact of M&A towards the banking performance; and also to find out the relationship between NPAs and mergers and acquisitions of select commercial banks.*

Keywords: *NPAs, mergers and acquisitions, rapid expansion of commercial banks, banking performance.*

INTRODUCTION

India's banking business is a fast-expanding industry in the present day. The Indian banking system must be merged through mergers and acquisitions that are driven by business goals and commercial considerations. Mergers and acquisitions enhance a relatively recent phenomenon in the Indian banking sector. It enables banks to attain a position of global prominence and provide higher value to their stakeholders. In general, a merger will have an equal impact on a company's stock and a shareholder's equity share of capital. The bank's pre- and post-merger performance is typically positive and enhanced. Most data and research indicate that M&A have been partially effective in the Indian banking sector. In today's rapidly expanding global economy, organizations employ mergers and acquisitions to expand their businesses into new territories and overcome financial difficulties. The Companies Act of 2013, the Securities Contract Regulation Act of 1956, the SEBI Act of 1992, the Insolvency and Bankruptcy Code of 2016, the State Bank of India Act of 1955, and the Banking Regulation Act of 1949 are a few of the recognized laws applicable to various modes of corporate restructuring in India. The elimination of bank competition is another facet of bank mergers. By doing so, a substantial portion of the cash allocated to encourage competition can be shifted to the business of growth banking (Wadhwa & Syamala, 2015).

Due to outdated technology, insufficient funding, unsuccessful marketing initiatives, and a weak financial structure, the economic climate for small and medium-sized banks is fraught with difficulties. Without new approaches and innovations, their continued survival is in question, and they face competition from larger institutions. Their reformation through merging could provide respite and aid in their revitalization. So far, bank mergers have given protection against failure and closure for weak institutions. Sometimes smaller banks would merge to increase their market share and protect themselves from an aggressive purchase by a larger bank. Though, the Reserve Bank of India (RBI) has acted in this regard, with the primary purpose being to achieve strategic growth in terms of size and client base (Goyal & Joshi, 2011).

The government's strategy plan to reposition and integrate the Indian banking sector into the global financial system includes the reform of the banking sector or industry. The Indian banking sector has undergone several reforms, and several successful mergers and acquisitions have aided in its rapid expansion. The most popular strategy used by banks (or any organization) to improve and preserve their market position is mergers and acquisitions. M&A are thought to be a reasonably rapid and efficient way to grow into new markets and incorporate cutting-edge technology. For instance, in 1993, Punjab National Bank bought New Bank of India. The only other nationalized bank to merge with another bank besides State Bank of India and its member banks was Bharatiya Mahila Bank in 2017. In August 2019, the government merged 27 public sector banks, leaving only 12. To become the second-largest bank in India, PNB combined with Oriental Bank of Commerce, United Bank of India, and Bank of India.

To survive, a bank with a huge portfolio of bad debts and little earnings will sometimes merge with another bank. In India, the number of mergers between insolvent banks is increasing rapidly so that the weak banks can be reformed, ensuring the continuity of employment with the working force, the operation of the blocked-up assets in the insolvent banks, and the enhancement of the nation's prosperity through an increased flow of funds. In 2004, IDBI (Industrial Development bank of India) and IDBI Bank (its own subsidiary) merged, one of India's significant mergers and acquisitions in the banking sector in recent years. The value of the contract was USD 174.6 million (INR 7.6 billion in Indian currency). In 2005, Centurion Bank and Bank of Punjab combined in a USD 82.1 million (INR 3.6 billion) transaction, culminating in the formation of Centurion Bank of Punjab with 235 branches in various parts of India. Due to antiquated technology, insufficient resources, faltering marketing efforts, and a weak financial framework, the economic situation for small and medium-sized banks is difficult. Without new approaches and innovations, their continued survival is in question, and they face competition from larger institutions. Their reformation through merging could provide respite and aid in their revitalization.

So far, bank mergers have given protection against failure and closure for weak institutions. Smaller banks that fear aggressive acquisition by a large bank can occasionally merge to increase their market share and protect against a possible acquisition. Even the Reserve Bank of India (RBI) has acted in this area, with strategic growth in terms of size and clientele as the major objective. This, in turn, substantially increases the bank's ability to create credit. Mergers strengthen a bank's ability to adapt to an ever-changing business environment. Through mergers, it is easier for weaker banks to quickly adapt and expand on the domestic and international financial markets (Pinter, 2011).

RESEARCH QUESTION

- What reasons leads to mergers and acquisitions in commercial banks?
- Is there any impact of merger and acquisition on the banking performance?
- What is the relationship between NPAs and mergers and acquisitions of Indian commercial banks?

OBJECTIVES OF THE STUDY

- To understand the reasons for mergers and acquisitions in commercial banks and the impact of M&A on the banking performance; and
- To find out the relationship between NPAs and mergers and acquisitions of commercial banks.

RESEARCH METHODOLOGY

This study is descriptive in nature and data has been gathered from select commercial banks operating their business in India. The study units are confined to State Bank of India, Union Bank of India and Canara Bank from public sector and ICICI bank, HDFC bank and AXIS bank from private sector, where the required data for this study has gathered from various sources as on demand. The study has been planned and assessed with the help of secondary data through various sources include the literature published by Indian select banks and various other sources like magazines, journals, books dealing with the current banking scenario and research papers for a period of 10 years i.e., from 2011-12 to 2022-23.

REASONS FOR MERGERS AND ACQUISITIONS OF COMMERCIAL BANKS

Mergers and acquisitions have perfectly shaped the Indian banking industry. Even though there appear to be differing perspectives on this subject matter, there is always hope that the current situation may improve after bank mergers. The reasons listed below explain why bank mergers occur (Suresh Kumar, 2013).

- **Merger of weaker banks:** To provide stability to weak banks, the practice of merging weaker banks with stronger banks was encouraged; however, the Narasimham committee opposed this practice. According to them, mergers can help diversify risk management.
- **Rise in market competition:** Mergers are caused by the creation of new financial products and the consolidation of regional financial systems. As a result of industrialization and increased competition, the market share of each individual firm shrank, and mergers and acquisitions began.
- **Economies of scale:** Capability to generate economies of scale when enterprises unite and compete.
- **Skill & Talent:** The distribution of talent between two entities allows them to progress and become more competitive.
- **Technology and Products:** Electronic banking and certain financial instruments/derivatives are introduced. The removal of the entry barrier opens the way for new banks with cutting-edge technology, and the old banks, unable to compete, chose to merge.
- **Positive Synergies:** When two organizations merge, their main objective is to produce a good outcome that is greater than the sum of their individual effects. It consists of cost synergy and revenue synergy.

In India, the key reasons for bank mergers and acquisitions include, in addition to the aforementioned factors, the survival of poorly performing banks after a merger, a geographically expanded branch network, a greater client base (through rural expansion), and a larger market share. In this environment, achieving infrastructure, limiting rivalry, preventing bank congestion, and utilizing underutilized resources will enable banks to compete with international banks in a globalised world (Suresh Kumar, 2013).

FACTORS ASSOCIATED WITH M&A ACTIVITY

The decision to engage in mergers and acquisitions depends on numerous factors. Several relevant elements could have direct or indirect effects on the M&A transaction. The factors linked with the M&A activity is discussed below.

Roberts, et al. (2003) the logic and the drivers are what cause financial institutions to combine with one another. Drivers demonstrate control over the economy's capability, whereas rational suggests the implementation of a strategic plan. In addition, Barros and Caporale (2012) believe that the challenge of managing huge organisations places additional pressure on managers. Mergers may make businesses more aggressive in terms of quantity competition, hence it is suggested that they are not always good.

According to Pinter (2011), this is because much operational expenditure does not increase proportionately with company size. Wadhwa and Syamala (2015), the primary motive for mergers and acquisitions is synergy, but earlier studies have found inconsistent results. As far as motivating variables are concerned, past research has made numerous attempts to explain why an organisation engages in M&A. One reason for an institution to engage in mergers and acquisitions is to expand into new domestic and international markets, take advantage of strategic opportunities (challenges) through industry convergence and synergies, reduce the number of competitors, improve and obtain new integrated knowledge, combine superior technology, gain access to better and greater resources, and increase market share (Smirnova, 2014 Cigola and Modesti 2008; Pasiouras&Zopounidis 2008; Guo& Yang 2013; Antoniadis.et al.,2014).

Sufian (2011) believes that mergers and acquisitions are undertaken to achieve economies of scope as opposed to economies of scale. Furthermore, Linder and Crane (1993) examine the effects of mergers by focusing on operational income and its three components. They find that a bank can easily realise scope and scale efficiencies by holding cash (i.e., cash and other deposits to other banks) and securities (i.e., security held for liquidity). This supports the view that economic motives prompted the merger initiative (Sufian&Habibullah, 2009) Pinter (2011) observes that the acquirer can acquire the target banks through either a statutory merger or the acquisition of their assets. This strategy may raise shareholder value, operational synergies, and managerial motivation, according to the authors. They categorised the characteristics into three key categories: shareholder wealth maximisation objectives, managerial self-interest, and extra factors that contribute to an M&A-friendly environment. The study is confirmed by Focarelli&Pozzolo (2001), who claim that the purpose of acquisitions is to improve the quality of the portfolios of acquired banks by increasing bank size.

MERGERS AND ACQUISITION OF BANKS AT PRESENT SCENARIO

Need for Merger of banks: According to the Reserve Bank of India, between April 1, 2019, and September 30, 2019, Public Sector Banks (PSBs) in India recorded 5,743 frauds involving a total of 95,760,49crores in 2018-19. The proportional share of 85 per cent that PSBs hold substantially surpasses their relative share in the business. An initial investigation into these occurrences revealed not only the involvement of midlevel employees, but also senior management, political meddling, and a "business-friendly" mentality among decision-makers. If the banking system is plagued by a high proportion of nonperforming loans, there is cause for concern because it reflects the financial difficulties of borrowers, such as Vijay Malaya, NiravModi, Dewan Housing, etc., as well as transmission inefficiencies.

Bank consolidation: Major mergers and acquisitions have been taking place in the banking sector (PSB) in recent years to achieve bank consolidation. Additionally, it would aid in the institution's rapid expansion and rapid acquisition of a huge number of new clients. An acquisition not only expands the amount of cash available to your bank for lending and investing, but it also gives it a larger operating area. But if mergers go too far, it might be a serious problem for the Indian economy. However, the consolidation has resulted in a historically high level of market-level bank concentration, which may influence the level of competition in the banking industry. The unanticipated growth in nonperforming assets and bad loans has harmed the country's international standing. The government should investigate the continued anticompetitive combinations and abuse of dominance in the banking industry. Currently, the government must include all relevant merger laws pertaining to both private banking firms and PSBs (Suresh Kumar, 2013).

Strategic goal and integration of Indian banking system: A merger is the straightforward combining of two business entities into one larger entity with no change in ownership. This contrasts with an acquisition, in which one company organization acquires control of another by paying cash, shares, or other methods for the ownership privilege. There will be no change in ownership because of the merging of state-owned banks where the government is the major shareholder; rather, the organizational structure of these institutions would alter. Unquestionably, the banking system of the world's largest and most diverse democracy has accomplished several outstanding feats in a relatively little period. The banking sector or industry reform initiative is a key component of the government's strategy goal to reposition and integrate the Indian banking sector into the global financial system. Several reforms and successful mergers and acquisitions in the Indian banking system have contributed to its exponential growth.

Maintain market position: Mergers and acquisitions are the most common approach used by companies to strengthen and maintain their market position. M&A are considered as a relatively rapid and efficient technique for entering new markets and incorporating new technologies. In 1993, for instance, Punjab National Bank acquired New Bank of India. State Bank of India and its partner banks was the only other nationalized bank to merge with a different entity (Bharatiya Mahila Bank with State Bank of India in 2017). In August of 2019, the government merged 27 public sector banks and reduced their number to 12. The Bank of India was formed after the second largest PNB amalgamated with the Oriental Bank of Commerce, the United Bank of India, and the Bank of India.

Economic recovery and credit growth: The government provides various justifications for its plan to merge state-owned banks. The ability of huge banks to lend more money to support the economic recovery is one of them. The government also feels that a rise in credit growth is required to achieve its aim of increasing India's economy to $5 trillion over the next several years. It is also believed that the merger will increase operational efficiency, allowing these banks to lower their expenses and, subsequently, their lending rates. Moreover, the merger of good and weak institutions may not actually help the overall soundness of the financial system. Many fear that forced mergers, by diluting the management of strong institutions, may result in a significant decrease in the financial industry's overall soundness. Many fear that if the managers of efficient banks are punished for their great performance by being asked to share the burden of weaker banks, they would have less incentive to operate efficiently. This may significantly impact the long-term performance of state-owned banks even further.

Recovery of bad debts: The total quantity of bad loans that banks have on their books won't go down because of their merger. Only if banks improve the recovery of these debts or remove them from their balance sheets will the size of problematic loans on bank balance sheets diminish. Due to the inefficiency of the country's court system, the process of recovering bad loans remains sluggish, and banks have been loath to aggressively write off bad loans because doing so would necessitate recognizing higher losses. Mergers do not address these significant fundamental issues. Many people think that the current merger also fails to solve the problem of political meddling in state-owned bank management, which is the main cause of the bad loan crisis. The official justification for nationalizing banks in 1969 was to use bank credit to finance the government's numerous development objectives. To this purpose, over time, several state-owned banks have been pressured to extend loans even though doing so did not always make financial sense politically. Private Banks, on the other hand, are permitted to function as straightforward for-profit corporations.

RELATIONSHIP BETWEEN NPAS AND MERGERS AND ACQUISITIONS OF BANKS

It is possible to combine the bank labouring under the weight of its bad loans with other banks that, if not have insurmountable problems; at least have high profitability and competent management. Integration with a bank that has good management can lead to enhanced management and a decrease in the other bank's crisis because it is well known that a bank's NPAs rise because of a poor management programme. This suggests that, in the event of a bank merger, a strong bank, in conjunction with the other bank's top management, will be able to greatly improve its services. This may involve enhanced recovery methods, the transfer of NPA accounts to specially designated branches, and the establishment of a branch named Asset Recovery, or the sale of NPAs at a discount to a recovery-focused firm with the agreement of top management and subject to regulatory constraints.

It should be highlighted that the percentage of NPAs has decreased because of the merged capital of the two banks. Thus, the merging of an indebted bank with a bank with a solid business and deposit base can result in an increase in total business. In addition, merging banks or large banks will have access to refinance, which is currently available to only a small number of large banks. However, this necessitates the autonomy of banks to operate competitively and deploy the finest knowledge. Additionally, a larger bank has greater control over its short- and long-term liquidity. No overnight borrowing from the call money market, the Reserve Bank of India, or the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility will be required (MSF). In contrast to the government's cautious and unprofitable approach to recapitalization, mergers often ensure a larger capital base and stronger liquidity; as a result, the central government's responsibility to continuously recapitalize the public sector banks is greatly reduced.

Mergers result in a higher efficiency ratio for both company and banking operations, which eventually benefits the economy. Consequently, it adds to an improvement in profitability to a higher standard of living, both of which are essential for a developing economy like India's. In fact, the chances of underperforming banks surviving grow dramatically, and therefore, consumer trust remains intact, which is essential for both the economy and the bank, which must maintain its reputation. The weakened bank has access to large-scale activity by merging with the stronger bank. So, mergers are important for banks that want to grow and become stronger. Also, they are important for the economy because most of the time they can save weak banks that don't meet expectations or keep their bad loans. On the other side, mergers present several issues that, if not handled properly, can cause significant harm. This is because merging involves people from different cultures. If a merger is required, it must be executed in a way that encourages trust and consensus among the personnel of both companies. If people, work culture, and vision are united harmoniously, the merger will have synergistic benefits and result in a win-win situation. Non-performing assets of banks appear to be finally receding, with net reported NPAs falling below 2 per cent. To combat the problem, measures ranging from asset quality inspection to the introduction of a contemporary bankruptcy statute were implemented.

The relationship between NPAs in Commercial banks can be measured in the following manner.

1. Reversal of the NPA wave: In a working paper published in July 2022, Nishant Kashyap, Sriniwas Mahapatro have analysed the effect of the three rounds of mergers of Public Sector Banks (PSBs) on bank nonperforming assets. The mergers were found to have resulted in a near 10% fall in nonperforming assets of weak merging institutions, with almost all the decline attributable to a reduction in strategic defaults. To comprehend the relationship between bank mergers and improved loan performance, it is necessary to comprehend the concept of "borrower runs." The term "borrower run" refers to a situation in which borrowers intentionally default on banks that are projected to fail because they do not anticipate that these institutions will be able to lend in the future. According to a 2007 study by Philip Bond and Ashok Rai, deteriorating bank soundness can lead to a "run" by debtors.

Consider an economic climate where the desire to receive larger loans in the future serves as the primary driver for loan payback to correct beliefs. Typically, the desire to get additional loans motivates loan repayment behaviour in nations with lax contract enforcement. Let's say that borrowers believe that the bank will eventually fail since other borrowers are likely to make defaults. The prospect of obtaining loans in the future will subsequently inevitably fade. Even when they have the means to repay, many borrowers are prone to default under such situations. Such defaults may manifest as a run, in which large-scale defaults are fuelled by predictions that some borrowers will default, ultimately causing bank collapse. Through mergers, one or more weak and tiny banks were acquired by a larger, and often healthier, bank. For instance, which purchased Allahabad Bank with an NPA and CAR of 6% and 10.9%, and which had a low NPA of 3.5% and a strong Capital Adequacy Ratio (CAR) of 14.5%. The combined entity's NPA and CAR ended up being 4.6% and 13%, respectively. With the help of the acquirer's superior management skills, this method made sure that the amalgamated firms had a large lending capacity at the outset. Since there isn't much chance that big banks will fail, it's reasonable for borrowers to think that credit will keep coming. So, after the merger, there is less of a reason to fail on purpose in the hopes that credit will be cut off in the end. So, even if the borrowers' health doesn't get better, the way they pay back their loans can get better if weak banks merge with stronger banks.

2. Key features emerge in reversal borrower-run: Greater loan performance improvement is observed in places where contract enforcement is weak. These are places where debtors have the greatest motivation to flee, making them ripe ground for a run reversal. The improvement in loan performance is driven by the borrowers of weak merging banks, as opposed to the borrowers of stronger banks. There is no correlation between borrower health measures and NPA reduction. Consequently, it is not true that borrowers become magically healthy once their bank merges with a stronger bank, thereby reducing defaults. After the merger, weaker banks' borrowers receive more bank credit. The improvement in loan performance and reduction in loan defaults following a merger have major macroeconomic effects. The aggregate credit flow to regions controlled by the merging weak banks rises. Additionally, the value of active projects - ongoing initiatives minus delayed ones – rises significantly. India's NPAs have gone down not just because banks have merged. Recent research on the Indian banking system suggests that other government and regulatory actions also played a role. But the merger of weak banks with banks that were generally stronger did help stop strategic defaults in a big way.

3. Impact of M&A towards the Banking Performance: There is insufficient, inconsistent, and contradictory data regarding the effect of mergers and acquisitions on banking performance, even though M&A is gaining importance in addressing financial instability. Abbas, Q., Hunjra, A. I., Azam, R. I., Ijaz, M. S., and Zahid, M. analysed data from the U.S. banking sector (2014) Find a correlation between bank production, profitability, and shareholder value. Similarly, Daniya, et al. (2016) conclude that merger and acquisition has resulted in enhanced and robust financial performance, hence increasing the financial efficiency of Nigerian banks. In addition, the post-mergers-and-acquisitions period is more financially efficient than the pre-period, according to Okpanachi (2011). Sufian and Habibullah (2014) argue, using data from Malaysian banks, that acquiring banks have been relatively more productive than target banks.

Several studies indicate, however, that M&A transactions have less of an effect on the performance of banks. Kandil& Chowdhury (2014) and Gattoufi, et al. (2014) reveal that merger and acquisition activity has no effect on the operational performance of the concerned institutions. In a similar vein, Piloff&Santomero (1998) and Goyal& Joshi (2011) argue that acquisitions frequently have a negative impact on employee behaviour, resulting in unproductive behaviours, absenteeism, low morale, and job dissatisfaction. It appears that senior management's ability to acquire employee trust is a crucial factor in influencing the success of acquisitions (Amihud, et al., 2002). Sufian, et al. (2012) research and investigate an unexpected outcome in their study to throw light on this. It reveals that the revenue efficiency of banks post-merger has not improved significantly compared to pre-merger.

Rao-Nicholson, et al. (2016) discover that M&A transactions have a negative impact on the performance of banks based on the findings of several research employing data from public corporations listed in ASEAN nations. Regarding domestic consolidation, they say that amicable transactions facilitate the integration of the two companies and that managers can work proactively to realise synergistic benefits from M&A activity. In the context of domestic transactions, integrating institutions with disparate lending, profit, cost, deposit, and size strategies can be extremely costly. Regarding cross-border mergers, differences in merging partners' loan and credit risk strategies are conducive to higher performance, whereas differences in their capital and cost structures have a negative effect on performance (Altunbas & Marques, 2008; Antoniadis, Alexandridis & Sariannidis, 2014). Cybo-Ottone & Murgia (2000) find that the announcement time of the size-adjusted combined performance of the bidder and the target is economically relevant in M&A transactions. They argue that international transactions do not meet market expectations and that only the entire value of domestic transactions creates shareholder value.

In addition, Antoniadis, et al. (2014) examine the literature on mergers and acquisitions in the European banking industry and assert that target institutions experience positive anomalous returns because of investors' anticipation of increased asset utilization. While minimal value losses are experienced by shareholders of acquiring banks, this causes negative anomalous returns. This is a result of investors' skepticism regarding the motivations behind and viability of the idea. Al-Sharkas, et al. (2008) demonstrate that mergers and acquisitions have enhanced the cost and profit efficiency of the United States banking sector. They have suggested that the use of effective technology makes merged institutions more cost-efficient than non-merged banks.

Today, commerce is not confined to the domestic sphere but also crosses national boundaries. Effective and robust financial organizations typically expand their activities or market outside national borders. Foreign direct investment (FDI), which includes two methods: green field investment and new operation procurement, might accomplish this. The second method may involve mergers and acquisitions across international borders. FDI through international mergers and acquisitions has an external or spillover effect on the performance of banks.

Amihud, et al. (2002) asserts that there is a risk of insolvency in cross-border M&A. The domestic regulator or the host regulator may step in to save the acquiring bank if the purchase of the foreign target fails and the domestic bank's (acquirer) solvency is in jeopardy (the regulator of the target bank). Consequently, domestic (acquirer) and host bank regulators may not benefit as much from cross-border mergers for one or both parties (target). Geographic diversification is a risk that needs to be properly assessed because, according to conventional wisdom, it is desirable for a bank not to "put all of its eggs in one basket." Moreover, Gattoufi, et al. (2014) contend that geographical factors inhibit cross-border M&A. Regulators apply distinct sets of laws and regulations in each region. Similarly, Zou and Simpson (2008) assert that there are comparatively few studies on M&A in developing economies. M&A activity can be seen to acquire or consolidate a dominant market position while also managing resource requirements through low-cost absorption and integration whereas, Nagano (2013) discovers that both greenfield FDI and inward cross-border M&A draw the target country (host) with promises of rising per capita income and population size as well as lowered corporate tax rates. However, a home-country (bidder) firm is more likely to select cross-border M&A versus Greenfield FDI when the host country enforces intellectual property rights laws. Additionally, according to Neto, et al. (2010) M&A has the potential to heighten internal rivalry, which might result in rapid growth, depending on the prospective economic growth of the host country. The bank's size is also significant in deciding whether to invest abroad. Focarelli and Pozzellolo (2001) found that the size of a bank is the most influential factor in deciding whether it will expand globally.

CONCLUSION

This study provides a concise exploration of the landscape of Mergers and Acquisitions (M&A) within the Indian banking sector. It delves into the intertwined factors associated with M&A activities, the motivations that drive M&A endeavours in the banking domain, the subsequent impacts of M&A on banking performance, the intricate interplay between Non-Performing Assets (NPAs) and the realm of M&A among banks, the phenomenon of the reversal of the NPA wave, the current scenario of M&A activities in the banking sector, and notable attributes that come to the forefront during this reversal, particularly in borrower-driven scenarios. The study also underscores the essentiality of bank mergers. A noteworthy observation arises from this exploration: mergers, in themselves, do not inherently lead to an absolute reduction in the volume of NPAs recorded on a bank's balance sheet. However, it's vital to recognize that the percentage of NPAs experiences a decrease due to the consolidated capital resulting from the merger of the two banks. The magnitude of NPAs may see a decline if the bank achieves improved loan recovery or if these non-performing loans are expunged from the balance sheet. In India, the prolonged process of bad loan recovery, hindered by the sluggish judicial system, compels banks to approach bad loan write-offs with caution, aiming to mitigate significant losses.

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