Impact of Mergers and Acquisition on Performance of Select Public Sector Banks in India.

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Abstract:
The Banking sector has been seen ongoing mergers & amalgamation in recent years. The Reserve Bank of India (RBI), the Central Government can create a scheme for the amalgamation of any nationalized bank with any other nationalized bank or banking sector in accordance with the banking companies Acts 1970 and 1980 (Acquisition and Transfer of undertaking). The banking industry has been experiencing major Merger and Acquisition in the recent years, with the number of global players emerging through successive Merger and Acquisition in the banking sectors. Only in today's tough environment will large organizations thrive. Government banks are in bad condition following demonetization. A lot of government banks have incurred huge losses owing to bad loans, which the lenders have not been willing to recover because they have ruined their company due to a range of factors, including demonetization. The above study shows the impact of merger and acquisition on selected banks like Vijaya Bank, Dena Bank merge with Bank Of Baroda, Oriental Bank of Commerce and United Bank of India merged into Punjab National Bank, Syndicate Bank merged with Canara Bank, Andhra Bank and Corporation Bank merged with Union Bank Of India and Allahabad Bank merged with Indian Bank

Keywords: Mergers and acquisition, Operating profit ratio, Net profit ratio, Cost to income, Debt equity ratio.

Introduction

In Indian banking sector Mergers and acquisitions has become admired trend throughout the country. A large number of public sector bank, private sector bank and other banks are engaged in mergers and acquisitions activities in India. The Main motive behind Mergers and acquisitions-in the banking sector is to harvest the benefit of economies of scales. Merger and acquisition have played an important role in the transformation of industrial sector of India Mergers can be a large source of growth in any economy but particularly in one that's comparatively stagnant and mired in deep uncertainty. Mergers and acquisitions (M&A) are considered as a relatively fast and efficient approach to expand into new markets and incorporate new technologies. The main motive behind used strategy by firms to strengthen and sustain their position in the market place. Mergers and acquisitions (M&A) have played a major role for corporate restructuring and the financial services industry.M&A happens due to global competitive advantages of increased deregulation, privatization, and corporate restructuring, verbalization. Mergers and acquisitions are the hot topic in today's business world. It happens due to several moving such a survival issue, the profit maximization, the strengthening of the economy.

Statement Of Problem

The banking industry has been experiencing major merger and acquisition in the recent years, with the number of global players emerging through successive merger and acquisition in the banking sectors. Only in today’s tough environment will large organizations thrive. Government banks are in bad condition following demonetization. A lot of government banks have incurred huge losses owing to bad loans, which the lenders have not been willing to recover because they have ruined their company due to a range of factors, including demonetization. They have been discussions of the closing of certain banks because, in such a case, the general public may have withdrawn deposits from their accounts in a very risky circumstance. So, instead of shutting certain banks, the government, in consultation with RBI, it has taken a brave decision to merge banks through large scale economy operations. By merging many public sector banks into few and with efficient resources development, banks can be reinforced with a focus on upgrading services and revenues, optimum utilization of staff, cost efficiencies and reduced NPA’s. Therefore, the study is taken up to know more details

Objectives

- To study the pre and post merger financial performance of Bank of Baroda
- To study the pre and post merger financial performance of Punjab National Banks
- To study the pre and post merger financial performance of Canara Bank
- To study the pre and post merger financial performance of Union Bank
- To study the pre and post merger financial performance of Indian Bank

Hypothesis Of The Study

Null Hypothesis:

There would be no significant difference in mean score of selected units, before and after merger and acquisition.

Alternate Hypothesis:

There would be significant difference in mean score of selected units, before and after merger and acquisition.

Limitation Of The Study

- This study is purely based on only 5 selected banks.
- In this study the pre and post data of the selected merger banks are used.
- All the limitations of ratio analysis affect the study
- All the limitations of secondary data make an impact in the analysis because this study is based on the data only

International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Selection Of Sample

Sample size: Mega Bank Mergers List in India 2019 to 2020

Acquiring Bank	Acquired Bank	Year of a merger
Bank of Baroda	Vijaya Bank, Dena Bank	April 1, 2019
Punjab National Bank	Oriental Bank Of commerce, United Bank Of India	April 1, 2020
Canara Bank	Syndicate Bank	April 1, 2020
Union Bank Of India	Andhra Bank, Corporation Bank	April 1, 2020
Indian Bank	Allahabad Bank	April 1, 2020

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Significance Of The Study

The study is significant and useful as it has given the experience and knowledge about the merger and acquisition in Indian banking sector and what is its impact on the financial performance of the bank

Sources Of Data Collection

The study is purely based on secondary data taken from the annual reports of selected units and other websites.

Tools Of Analysis

This study is based on Ratio Analysis

Ratio Analysis

Ratio analysis is the important technique of financial analysis which shows the arithmetical relationship between any two figures. A ratio, in general, is a statistical yardstick by means of which the relationship between the figures can be compared and measured. The ratios are operating profit ratio, net profit ratio, return on assets, return on equity ratio, cost to income, debt equity ratio, CASA ratio.

Statistical Analysis

In this study mean, difference and standard deviation as tools of statistical analysis

Data Analysis And Interpretation

1. Operating Profit Ratio

- Operating Profit Ratio = Operating Profit / Net Sales x 100
- Operating Profit Ratio is calculated by adding non-operating expenses and deducting non-operating income from net profit.
- The profit is been increased because of other income and not the due.

Table 1

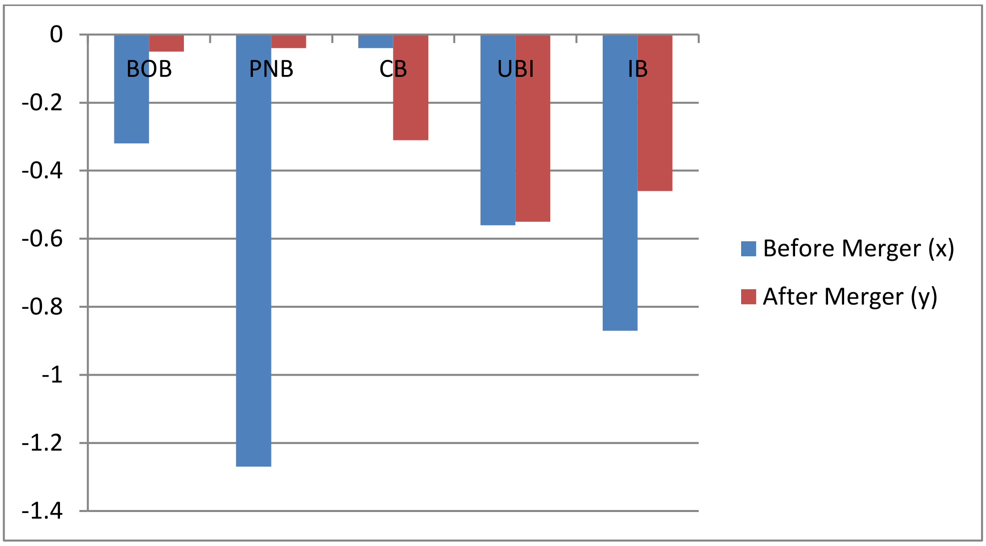
Operating Profit Ratio in selected Unit

Bank Name	Before merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-20.83	-11.78	-9.06	81.9024
PNB	-33.82	-16.60	-17.21	295.83

CB	-13.31	-20.54	7.22	52.2728
UBI	-23.23	-23.54	0.33	0.0962
IB	-26.18	-22.85	-3.37	11.2897
		Total	-22.07	441.4011

(**Source**: Moneycontrol.com)

Operating Profit Ratio



Interpretation

- In this above chart of operating profit ratio in which Bank Of Baroda has lower ratio (-11.77) after the merger and it has highest ratio (-20.82) before the merger.
- Punjab National Bank has highest ratio (-33.81) before merger and it has lower ratio (-16.61) after merger.
- Canara Bank has highest ratio (-20.53) after merger and it has lower ratio (-13.3) before merger.
- Union Bank of India has highest ratio (-26.19) before merger and it has lower ratio (22.83) after merger.
- Indian Bank has highest ratio (-26.19) before merger and it has lower ratio (-22.83) after merger.

2. Net Profit Ratio

- Net Profit Ratio = Net Profit / Net Sales x 100
- Net Profit percentage after the tax profits to net sales. The remaining profit after all costs of production, administration and financing have been deducted from the sales and income taxes recognized.
- This ratio is commonly measured reported on a trend line, to be judge performance over all time.

Table 2 Net Profit Ratio in selected Unit

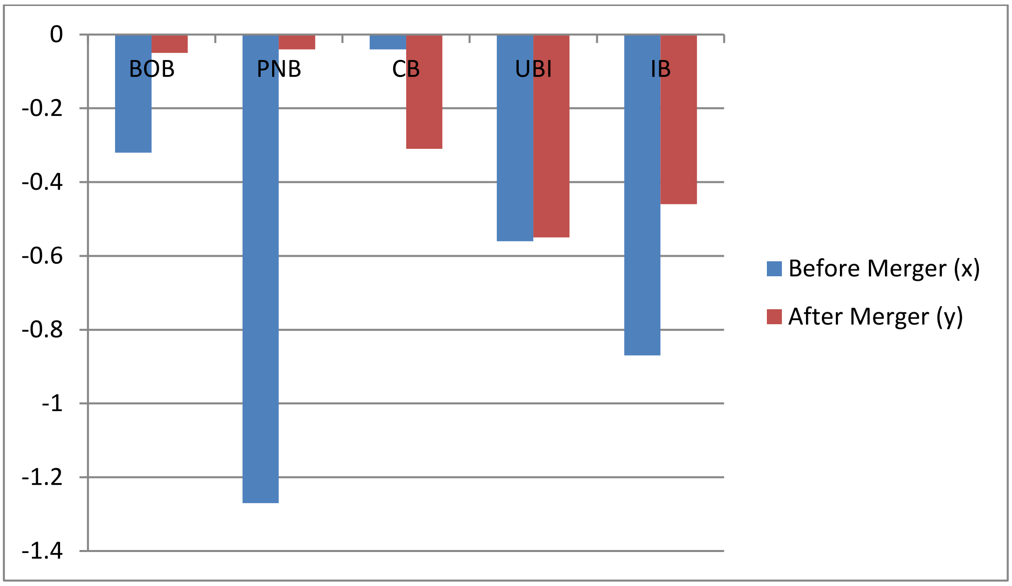
Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-5.56	-0.87	-6.93	41.4736
PNB	-19.44	-0.62	-20.07	402.4036

International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

CB	-0.74	-4.56	5.3	28.09
UBI	-8.54	-8.11	-0.43	0.1849
IB	-13.60	-6.97	-6.62	43.8244
		Total	-28.25	515.9765

(**Source**: Moneycontrol.com)

Net Profit Ratio



Interpretation

- In the above chart of Net profit Ratio in which Bank Of Baroda has highest ratio (0.87) after merger and it has lower ratio (-5.57) before the merger.
- Punjab National Bank has highest ratio (0.62) after the merger and it has lower ratio (-19.44) before the merger.
- Canara Bank has highest ratio (0.74) before the merger and it has lower ratio (-4.56) after the merger.
- Union Bank of India has highest ratio (-8.11) after the merger and it has lower ratio (-8.54) before the merger.
- Indian Bank has highest ratio (-6.98) after the merger and it has lower ratio (-13.6) before the merger.

3. Return On Asset

- Return on assert = Net Income / Total Assets
- The return on assets means that how much contribution of assets is been for generating the return.
- It has a long been one of the bank industry's most commonly cited benchmarks.

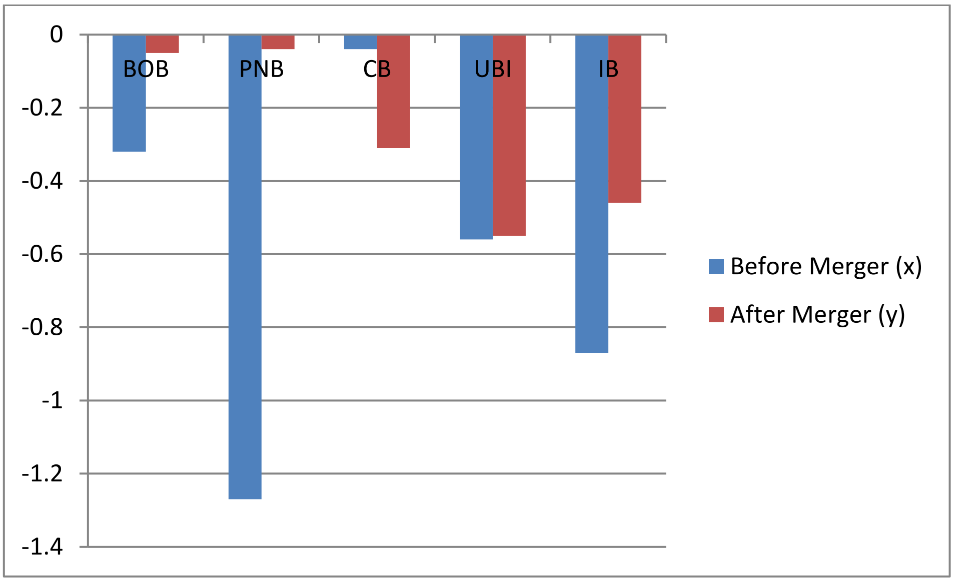
Table 3 Return on asset in selected Unit

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-0.32	-0.05	-0.38	0.1442
PNB	-1.27	-0.04	-1.33	1.7423

CB	-0.04	-0.31	0.35	0.1157
UBI	-0.56	-0.55	-0.02	0.0004
IB	-0.87	-0.46	-0.42	0.1848
		Total	-1.81	2.1877

(**Source**: Moneycontrol.com)

Return on asset



Interpretation

- In the above chart of Return On Asset Ratio, in which Bank Of Baroda has highest ratio (0.05) after the merger and it has lower ratio (-0.33) before the merger.
- Punjab National Bank has highest ratio (0.04) after the merger and it has lower ratio (-1.28) before the merger.
- Canara Bank has highest ratio (0.04) before the merger and it has lower ratio (-0.03) after the merger.
- Union Bank of India has highest ratio (-0.56) after the merger and it has lower ratio (-0.58) before the merger.
- Indian Bank has highest ratio (-0.45) after the merger and it has lower ratio (-0.88) before the merger.

4. Return On Equity

- Return on equity = net income / shareholder's equity
- Return on equity is the most important metric in all of the bank investing.
- It can be measures profitability by dividing a bank's net income by its shareholders equity, higher the number, greater the return.

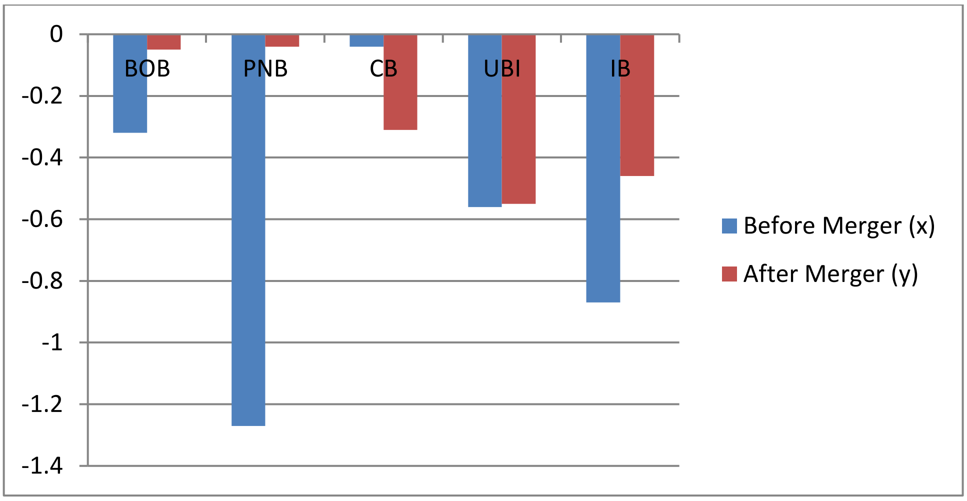
Table- 4 Return on Equity in selected Unit

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	-5.61	0.93	-6.52	42.7715

PNB	-24.30	0.57	-24.76	614.0483
CB	1.15	6.77	7.95	63.0435
UBI	-11.93	-10.15	-1.75	3.0975
IB	-15.65	-7.85	-7.74	60.5283
		Total	-32.84	783.4895

(**Source**: Moneycontrol.com)

Return on Equity



Interpretation

- In the above chart of Return On Equity Ratio , in which Bank of Baroda has highest ratio (0.94) after the merger and it has lower ratio (-5.61) before the merger.
- Punjab National Bank has highest ratio (0.57) after the merger and it has lower ratio (-24.20) before the merger.
- Canara bank has highest ratio (1.16) before the merger and it has lower ratio (-6.78) after the merger.
- Union Bank of India has highest ratio (-10.16) after the merger and it has lower ratio (-11.92) before the merger.
- Indian Bank has highest ratio (-7.88) after the merger and it has lower ratio (-15.66) before the merger.

5. Cost To Income

- Cost to Income Ratio = Operating costs / Operating Income
- Cost to income is usually used in the microfinance institution or bank in order to measure its operating cost that compared to the income it generates.
- The lower cost to income ratio that is better for the company's performance. Likewise the lower ratio is the more efficiency of the company that can achieve in the period.

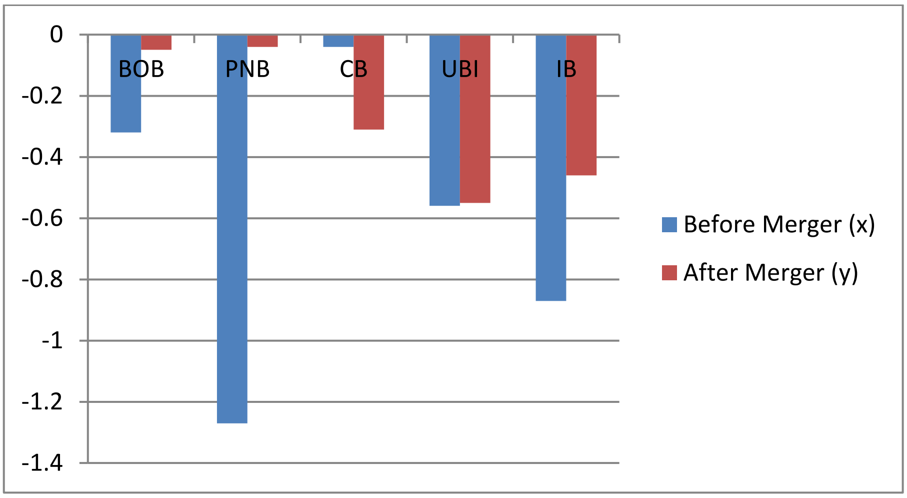
Table 5Cost to Income (%) Ratio in selected Unit

Bank Name	**Before Merger (x)**	**After Merger (y)**	**Difference (x-y)**	**Square Of Difference (x-y)^2**
BOB	48.92	43.41	5.51	30.3601
PNB	58.80	41.81	16.99	288.6601

CB	38.78	40.83	2.05	4.2025
UBI	45.76	46.11	0.35	0.1225
IB	40.72	41.12	-0.4	0.16
		Total	20.01	323.5052

(**Source**: Moneycontrol.com)

Cost to Income



Interpretation

- In this above chart of Cost to Income in which Bank Of Baroda has highest ratio (48.92) before the merger and it has lower ratio (43.41) after the merger.
- Punjab National Bank has highest ratio (58.80) before the merger and it has lower ratio (41.81) after the merger.
- Canara Bank has highest ratio (40.83) after the merger and it has lower ratio (38.78) before the merger.
- Union Bank Of India has highest ratio (46.11) after the merger and it has lower ratio (45.76) before the merger.
- Indian Bank has highest ratio (41.12) after the merger and it has lower ratio (40.72) before the merger.

6. Debt Equity Ratio

- Debt Equity Ratio = total liabilities / total shareholders equity
- It is also known as the personal debt/equity ratio, and this ratio can be applied to the personal financial statement and also as well as corporate ones
- “Debt” is been involves borrowing money to be repaid, plus interest. “Equity” is been in values raising money by its selling interests in the company.

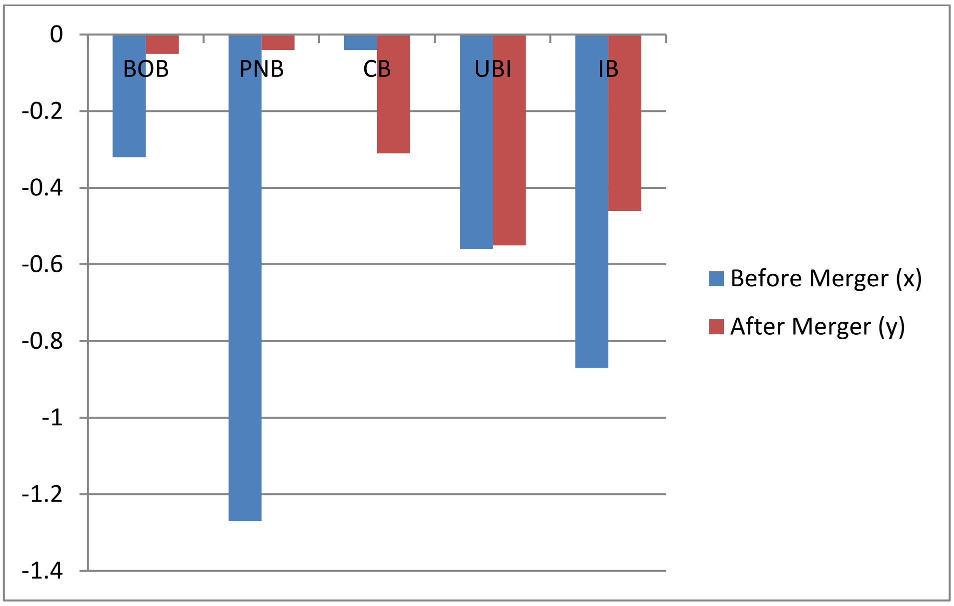
Table-6 Debt Equity Ratio in selected Unit

Bank Name	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	15.07	15.37	-0.3	0.09
PNB	17.36	13.09	4.27	18.23

CB	21.53	20.27	1.26	1.58
UBI	18.92	16.44	2.48	6.15
IB	15.60	14.71	0.89	0.792
		Total	8.6	26.842

(**Source**: Moneycontrol.com)

Debt Equity Ratio



Interpretation

- In this above chart of Debt equity ratio, in which Bank of Baroda has highest ratio (15.37) after the merger and lower ratio (15.07) before the merger.
- Punjab National Bank has highest ratio (17.36) before the merger and lower ratio (13.09) after the merger.
- Canara Bank has highest ratio (21.53) before the merger and lower ratio (20.27) after the merger.
- Union Bank Of India has highest ratio (18.92) before the merger and lower ratio (16.44) after the merger.
- Indian Bank has highest ratio (15.6) before the merger and lower ratio (14.71) after the merger.

7. CASA (current account and saving account) Ratio

- CASA Ratio = Deposits in Current & Saving Account / Total Deposits
- Current Account is that account in which it is specially for customers those who have to carry out business and the large number of transactions in the account every day.
- In current account there is no restriction on the number of transactions.
- Savings bank accounts are especially for the individual persons or jointly individual (joint account), which has a limit of transaction at every day.

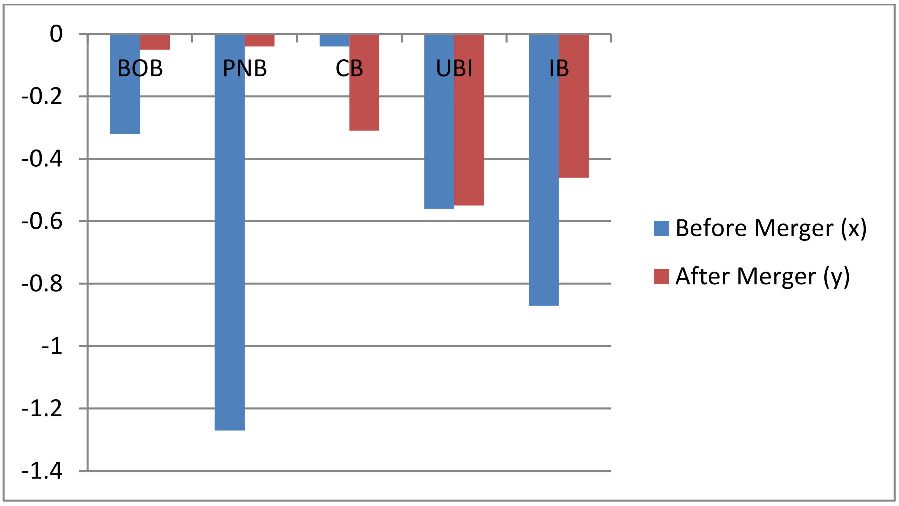
Table-7 CASA Ratio in selected Unit

	Before Merger (x)	After Merger (y)	Difference (x-y)	Square Of Difference (x-y)^2
BOB	35.81	35.03	0.78	0.6084

PNB	42.16	42.97	-0.81	0.6561
CB	29.18	31.37	-2.19	4.7961
UBI	35.97	35.46	0.51	0.2601
IB	35.90	36.51	-0.61	0.3721
		Total	-2.32	6.6928

(**Source**: Moneycontrol.com)

CASA Ratio



Interpretation

- In this above chart in which Bank of Baroda is having highest ratio (35.81) before the merger and it has lower ratio (35.03) after the merger.
- Punjab National Bank is having highest ratio (42.97) after the merger and it has lower ratio (42.16) before the merger.
- Canara Bank is having highest ratio (31.37) after the merger and it has lower ratio (29.18) before the merger.
- Union Bank of India has highest ratio (35.97) before the merger and it has lower ratio (35.46) after the merger.
- Indian Bank has highest ratio (36.51) after the merger and it has lower ratio (35.90) before the merger.

Conclusion

- The banking industry has been experiencing major Merger and Acquisition in the recent years, with the number of global players emerging through successive Merger and Acquisition in the banking sectors
- The current study indicates that the pre and post merger and acquisition of the selected banks in India have no greater changes in profitability ratio in a few banks that are satisfactory during the study period. But in future there are robust projections of improvement in profitability. So the result is to specify that the mergers led to higher level of cost efficiencies for the merging banks.
- Merger and acquisition is leads to the financial gain and the increase in price of target banks. It is depends on the condition and the different situations that it will be increase the share and the profit of acquirer or not.

- The primary purpose of the merger and acquisition is to reduce the competition and protect in existing markets in the economy.
- Mergers help the banks to be strengthen their financial base and the access tax benefits and the direct access to cash resources.
- In banking industry its helps the weaker banks to be strengthen their position by merging with the bigger and stronger banks.

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