A Study on Effect of Merger in Indian Banking Sector

Dimple Jain[1], Dr. Shakira Bagwala[2]
[1]*Research Scholar, Department of ABST, Faculty of Commerce and Management, Bhupal Nobles' University, Udaipur*
[2]*Assistant Professor, Department of ABST, Faculty of Commerce and Management, Bhupal Nobles' University, Udaipur*

***Abstract*: Banking sector in any country plays very important role in every economy and is one of the fastest growing sectors in India. Without stable and Effective banking system, no country can grow. India is a world's largest emerging economic giant. For the past few years, India's Banking system has grown very rapidly. In order to grow the development of the banks, The Government of India has started merging various Public Sector Banks (PSBs). Also GOI has started merging weak banks. This study is about the merger of Dena Bank and Vijaya Bank into Bank of Baroda as well as United Bank of India and Oriental Bank of Commerce into Punjab National Bank. This paper helps us to know about the reason and post merger effects of these banks. The aim of this paper is to know what whether it is beneficial to the banks get merged or not.**

INTRODUCTION

1.1 Bank: - A bank is a financial institution that provides various financial services to individuals, businesses, and governments. These services typically include deposit accounts, such as savings and checking accounts, where customers can deposit money and withdraw funds as needed. Banks also offer loans and credit, allowing customers to borrow money for various purposes, such as buying a home or financing a business venture.

In addition to these basic services, banks may provide other financial products and services, such as investment services, insurance, foreign currency exchange, and wealth management. They also play a crucial role in the economy by facilitating the flow of money and credit, which helps to support economic growth and development.

Banks make money through the interest they earn on loans and other investments, as well as fees charged for various services. They also serve as intermediaries between savers and borrowers, helping to allocate capital efficiently in the economy.

Evolution of Banking in India

The banking sector in India has seen a great deal of evolution. Banks have been with us for a long period of time, even before the country got its independence, the banks existed. Given below is a clear picture of the banking history and its evolution:

Banking history in India can be broadly divided into the following stages:

1. Pre – Independence (Before 1947)
2. Post – Independence Phase – (1947-1991)
3. Liberalisation (1991 – Till Date)

1. Pre – Independence (Before 1947)

- The banking system in India began with the establishment of the Bank of Hindustan in 1771, but it shut its operations by 1832.
- The phase also witnessed the alliance of 3 major banks, that is, Bank of Bengal, Bank of Bombay, and Bank of Madras. These banks were amalgamated to be called the Imperial Bank. The State Bank of India (SBI) took over the Imperial Bank in 1955

The following banks were established during this period:

Bank Name	Established in
Allahabad Bank	1865
Punjab National Bank	1894
Bank of India	1906
Bank of Baroda	1908
Central Bank of India	1911

2. Post – Independence Phase – (1947-1991)

- Nationalization of the banks was a major event to take place during this phase.
- The Reserve Bank of India (RBI) was nationalized on 1st January 1949
- Apart from nationalization of banks, various Regional Rural Banks (RRBs) were formed as well on 2nd October 1975

Following banks were nationalized during that phase:

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of comm.
5. Punjab & Sind Bank
6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

The above banks were later merged with SBI in 2017, except for the State Bank of Saurashtra. It was merged in 2008 and the State Bank of Indore merged in 2010.

Name of the Banks			
1.	Allahabad Bank	2.	UCO Bank
3.	Bank of India	4.	Union Bank
5.	Central Bank of India	6.	United bank of India
7.	Canara Bank	8.	Bank of Baroda
9.	Indian Bank	10.	Bank of Maharashtra
11.	Punjab National Bank	12.	Dena Bank
13.	Syndicate Bank	14.	Indian Overseas Bank

3. Liberalisation Period (1991 – Till Date)

Once the banks were established in the country, regular monitoring and regulations need to be followed to continue the profits provided by the banking sector. The last phase or the ongoing phase of the banking sector development plays a hugely significant role.

To provide stability and profitability to the Nationalised Public sector Banks the Government decided to set up a committee under the leadership of Shri Narasimham to manage the various reforms in the Indian banking industry.

The biggest development was the introduction of private sector banks in India. RBI gave license to 10 Private sector banks to establish themselves in the country. These banks included:

1. Global Trust bank
2. ICICI Bank
3. HDFC Bank
4. Axis Bank
5. Bank of Punjab
6. IndusInd bank
7. Centurion Bank
8. IDBI Bank
9. Times Bank
10. Development Credit Bank

Merger: - A merger is a corporate strategy where two or more companies combine to form a single entity. Mergers are voluntary. In a merger, the companies involved agree to integrate their operations, assets, and resources to create a larger, stronger organization.

Mergers happen for a variety of reasons: They can allow each company to enter a new market, sell a new product, or offer a new service. They can also reduce operational costs; improve management, changes pricing models, or lower tax liabilities. Ultimately, companies merge to increase size, scale, and revenue. In other words, mergers help companies make more money.

TYPES OF MERGER

There are several types of mergers:

1. Horizontal Merger: This occurs when two companies operating in the same industry and producing similar goods or services combine. The aim is often to achieve economies of scale, expand market share, or reduce competition.
2. Vertical Merger: In a vertical merger, two companies operating at different stages of the production or distribution process combine. For example, a manufacturer might merge with a supplier or distributor to streamline operations and reduce costs.
3. Conglomerate Merger: This involves companies that operate in unrelated industries or sectors merging to diversify their business interests. Conglomerate mergers are often driven by the desire to spread risk and access new markets.
4. Market Extension Merger: in this type of merger, two companies that sell the same products or services in different geographic markets combine to expand their market reach.
5. Product Extension Merger: Companies that produce complementary or related products or services merge to broaden their product offerings and appeal to a larger customer base.

Acquisition: - An acquisition is a corporate action in which one company purchases most or all of another company's shares or assets to take control of that company. This process involves one company (the acquirer) buying a significant portion or all of another company's (the target) stock or assets. Acquisitions can occur through various methods, such as purchasing shares directly from the market, buying the company's assets, or making an offer directly to the company's shareholders (a tender offer).

Type of Acquisitions:

1. Friendly Acquisition: The target company agrees to be acquired, and the acquisition is mutually beneficial. This type of acquisition is typically smoother and less contentious than hostile takeovers.

2. Hostile Acquisition: The target company does not agree to the acquisition, and the acquiring company takes control against the wishes of the target company's management.
3. Asset Acquisition: In an asset acquisition, the acquiring company purchases specific assets or divisions of the target company rather than acquiring the entire company.
4. Stock Acquisition: In a stock acquisition, the acquiring company purchases a controlling stake in the target company by acquiring its shares of stock. This gives acquiring company ownership and control over the target company's operations and assets.
5. Vertical Acquisition: A vertical acquisition occurs when the acquiring company purchases a company that operates at a different stage of the production or distribution process. For example, a manufacturer may acquire a supplier or distributor to gain greater control over its supply chain. For example- Online retail giant Amazon purchasing grocer whole foods market in 2017.
6. Horizontal Acquisition: In a horizontal acquisition, the acquiring company purchases a competitor or a company operating in the same industry and market. Horizontal acquisitions are often aimed at expanding market share, eliminating competition, or achieving economies of scale. For example, Facebook purchasing Instagram.
7. Conglomerate Acquisition: A conglomerate acquisition involves the acquiring company purchasing a company that operates in a completely different industry or sector. This type of acquisition is often aimed at diversifying the acquiring company's business interests and spreading risk across different markets. For example, Microsoft acquiring professional networking site Linkedln in 2016.

LITERATURE REVIEW

Several studies have been conducted on Mergers and Acquisition in Indian Banking Sector.

Rani N. (June 2023), researched on "Effects of mergers on Bank of Baroda before and after, a study of the banking sector". The study covered various indicators like Gross & Net NPA, operational profit, net profit, capital adequacy ratio (CAR), return on assets (ROA), and return on equity (ROE), earning per share (EPS), deposits & advances. Charts are used to analyze these factors and data from the two years before and two years after the banks' merger has been used. Researcher found that since the merger, EPS, ROA, and ROE have all dramatically increased. According to the study, the bank's performance of BOB improved after the merger.

Shah T. (February 2023), researched on "Merger and Acquisition in the Banking Sector: A Study on Merger and Acquisition by Bank of Baroda". They investigate on the trends, motives and outcomes of M & A activities in the Bank of Baroda, with focus on the impact of merger and acquisition on the financial performance of the merged entities. The study concludes that M&A activities in the banking sector can create significant value for shareholders, but they also pose several challenges. Successful M&A activities require careful planning, effective integration, and proper risk management to achieve their intended objectives.

Rao Mayur (February 2022), researched on "A study on Merger of Bank of Baroda, Vijaya Bank and Dena Bank" The aim of this paper was to know that whether it is beneficial to the banks get merged or not. This study helped to know the pre-merger performance of the bank. This paper analysed the financial performance of the banks pre and post merger through analysis of the banks.

Hinal and Divekar (2020), observed on the merger and acquisition of BOB, Dena and Vijaya banks. The authors describe the M&A as one of their top growth tools. This paper shows that the impact of world economy is very difficult for small banks, weak banks need their support to survive, and this is one of the reasons has become association.

Karthikeyan & Hema (2020) conducted a study on to analyze the performance of three financial institutions that are Bank of Baroda, Dena Bank and Vijaya Bank using CAMEL method. This research aims to evaluate financial analysis of these banks through Capital adequacy, Asset quality, management efficiency, Earnings and Liquidity. The findings of this paper reveal that to some extent mergers and acquisitions have been successful in Indian banking sector.

Botta A. (2019) discussed the benefits of joint venture banking in relation to Baroda of Bank, Vijaya Bank and Dena Bank. Mergers and acquisitions generally refer to the strategic tools used to acquire certain shares as a participant in mergers. The paper focused on who joined the union for different reasons.

Kaur J. (2015) in this research in banking sector is an important industry of the Indian economy. In banking sector is a very growing and faster pace and many competition. In this research is how and find out the bank is the better leading banks to people are invest their money. In this research is an analysis of the CAMEL model in financial performance. In this report are bank of Baroda is a Followed in a CAMEL analysis in ratio.

Sinha P. & Gupta S. (2011) studied a pre and post analysis of firms and conducted that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicate the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on share holder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

RESEARCH METHODOLOGY

3.1 Objectives of the Study
- To find out the reasons of merger of the banks in Indian Banking Sector.
- To find out the effects post- merger of the banks in Indian Banking Sector.

3.2 Scope of the Paper:
The paper has taken into account the case study on Bank of Baroda with merger on Dena Bank and Vijaya Bank also discusses the case study on Punjab National Bank with Oriental Bank and United Bank of India.

3.3 Data Collection Method:
Secondary method-Data which are not originally collected but rather obtained from published or unpublished sources are known as secondary data.

3.4 Sources of Information:
Secondary Source i.e. Website of BOB and PNB, Articles on Newspaper, Journals.

CASE STUDY ANALYSIS

❖ A CASE STUDY OF BOB MERGER (1st April 2019)

The Reason of BOB merger with Dena bank and Vijaya bank

1. Strengthening Financial Stability:
- Enhanced capital base.
- Diversified risk.
2. Achieving Economies of Scale:
- Cost efficiency through reduced redundancies.
- Operational synergies and optimized resources.
3. Enhancing Competitive Edge:
- Larger market share.
- Improved service offerings.
4. Addressing Non- Performing Assets (NPAs):
- Better NPA management and recovery.
- Improved lending practices.
5. Government's Banking Reform Agenda:
- Public sector bank consolidation.
- Enhanced efficiency and governance.
6. Technological Advancements and Digitalization:
- Unified technology platform.
- Greater capacity for technological investment.
7. Geographic and Demographic Synergies:
- Wider geographic reach.
- Broader demographic coverage.

This merger aimed to create a stronger, more efficient banking entity capable of supporting economic growth and improving financial stability.

EFFECTS AFTER MERGER

Here are the effects of the merger of Bank of Baroda with Dena Bank and Vijaya Bank:-
- Operational Consolidation: Streamlining of branches and administrative functions to improve efficiency.
- Financial Strength: Enhance capital base and financial stability for Bank of Baroda.
- Geographic Reach: Expanded presence a across more regions, increasing market penetration.
- Integration Challenges: Initial difficulties in integrating different systems, cultures, and human resources.
- Employee Impact: Workforce rationalization and redeployment efforts, including voluntary retirement schemes.
- Customer Experience: Efforts to standardize processes and offer a broader range of products and services.
- Regulatory Compliance: Adherence to regulatory guidelines and requirements related to the merger.

❖ A CASE STUDY OF PNB MERGER (1st April 2020)

The reasons for the merger of Punjab National Bank, Oriental Bank of Commerce and United Bank of India:
- Establishment of global bank.
- Improving credit policy and minimizing risk.
- To create Global Village bank for new generation.
- Government's intention not just to give capital but also give good governance.

- Giving authority to take decision by the bank on any banking issues.
- Monitoring large loans to avoid fraud.
- Separation of sanctioning and monitoring of loans.
- Formation of special agencies to check loans above Rs 250 Crore to avoid a Vijay Malya like situation.
- Government taking steps to make a clear path to achieve a target of $5 trillion economy.

CHANGES AFTER THE MERGER OF PNB, OBC AND UBI

1. Larger Entity: Second- largest public sector bank in India with increased market share.
2. Operational Synergies: Cost efficiency and optimized resources.
3. Expanded Network: Extensive branch and ATM network, broader geographic reach.
4. Improved Offerings: Wider range of products and enhance digital banking.
5. Financial Strength: Larger capital base and better credit ratings.
6. Risk Management: Diversified loan portfolio and improved NPA management.
7. Employee Integration: Addressed cultural alignment and provided training.
8. Customer Impact: Changes in account details, unified experience.
9. Tech Integration: Unified IT systems, enhanced cyber security.
10. Strategic Focus: Growth opportunities and focus on financial inclusion.

FINDINGS

A combination of factors increased global competition regularity changes, fast changing technology, need for faster growth and industry excess capacity- have felled mergers and acquisitions in recent times. The M & A phenomenon has been noticeable not only in developed markets like US, Europe and Japan but also emerging markets like India. Major Acquisition has strategic implications because they leave little scope for trial and error and are different to reserve. Furthermore, the risks involved are much more than financial in scope. A failed merger can disrupt work processes, diminish customer confidence, cause employees to leave and result in poor employee motivation levels.

CONCLUSION

On the basis of case study on Bank of Baroda, after merger, Bank of Baroda looks at changing work culture of Dena Bank and Vijaya Bank that the merged entity of Bank of Baroda is now drawing up a branch rationalization plan, Employees of Dena Bank and Vijaya Bank were given the option to either opt for a VRS or join the merged bank. Also it has increased the financial health of bank. Next on the basis of case study on Punjab National Bank the merger of UBI and OBC into PNB will lead to creation of country's second largest bank after SBI. The concept of merger and acquisition can also be a risky process which has to be adopted, as it may bring various problems to the banks in terms of the management and working etc.

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