Impact of Mergers on Financial Performance on Indian Public Sector Banks

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ABSTRACT: Banking sector in any economy plays a pivotal role in any economy whether it is a developing or developed economy, as we know that funds are life blood for any economy. And these funds come from the Banking sector.So, Importance of the banking system can never be ignored , if someone thinks it is not . One should not forget the Great depression of 1929 , it was due to bank failure , stock market crash etc., Similarly in 2007 collapse of Lehman Brothers bank also. Mergers in the Banking sector also play a key role. This paper discusses positive and negative impacts of mergers on financial performance on Banks. Throughout this study , Secondary data is collected from 1990 from various official sources. The present study also focuses on the impact of mergers on financial performance with the help of 15 key financial ratios. The present study concluded that profitability ratio, efficiency ratio is increasing after merger and many more key results are drawn throughout the paper.

KEYWORDS: Merger, Public Sector Bank, Financial Performance, PSU, State Bank of India, India.
JEL CLASSIFICATION:
E52, G21, G34, O16.

1. INTRODUCION

One of the most important principal objectives of business is to gain growth and this can be done through internally or externally. Internal through the introduction of new products whereas external through the combinations or acquisition. Combination can be of various types as mergers, amalgamations, takeover, acquisition, consolidation etc., Since, the objective of public sector bank is also to gain profit, that's why it will not be wrong to say that bank is one of the categories of business. In the last two decade there have been various types of mergers in India's public sector banks. So, before going into details let us have knowledge about mergers.

MERGER:

Merger is a situation when two or more firms or companies combine together to form one new firm or company. Merger is done to reduce competition, to gain profit, to dominate market etc.

BANK MERGER:

A situation when more than one bank combines their Balance Sheet (Assets and Liabilities) so that they canbecome one single bank.

TYPES OF MERGER:

Merger can be of various types, depending on corporate firms, but mainly it is categorized into 3 parts.

1. Horizontal merger: A merger in which more than one firm dealing in the same line of activities comestogether for various objectives.
2. Vertical merger: Vertical merger is a merger , when more than one unit of operation at different levelsof production in the same industry combines to reduce cost or to improve quality of products. Vertical merger is also of two types as -
   - Backward Vertical merger : A merger is when firms take suppliers so that they can fulfill the needs of raw material whenever they need it.
   - Forward Vertical merger : A merger in which firms take their distribution channel to bring efficiency in sales.
3. Conglomerate Merger : A merger when firms from different industries combine together to gain more profit.

BENEFITS OF MERGER:

There are various benefits of merger and this all is common for all types of business either it is of banking nature or of non - banking nature . Here are few benefits of mergers:

- To eliminate competition
- To diversify the activities
- To eliminate trade barrier
- To allow free flow of resources especially capital among the countries.
- To gain economy of scale

- To replace existing management
- To grow faster
- To get tax benefits.
- To change PE ratio
- To get benefits of synergy.

LIMITATIONS OF MERGERS:

It will not be correct if this paper only discusses benefits of merger . It has certain limitations too , which cannotbe ignored. Here are a few demerits of merger and as it is earlier said it is common for all :

- Mergers may not be financially profitable in future.
- There may be friction between the management of two firms or companies.
- There may be dissenting minority shareholders.

STEPS IN MERGER:

PUBLIC SECTOR BANKS:

A bank owned by the government of India where more than 50% stake is controlled by either the Central Ministryof Finance of the Government of India or State Ministry of Finance . Here is a list of current nationalized banks in India.

GOVERNMENT SHARES ON PSU's ON 30 March 2023		
S. No.	GovernmentShares (%)	Name of Bank
1	57.59 %	State Bank of India
2	81.41 %	Canara Bank
3	62.93 %	Bank of India
4	90.90 %	Bank of Maharashtra
5	63.97 %	Bank of Baroda
6	79.86 %	Indian Bank
7	98.25 %	Punjab and Sind Bank
8	93.08 %	Central Bank of India
9	73.15 %	Punjab National Bank
10	95.39 %	UCO Bank
11	76.99 %	Union Bank of India
12	96.38 %	Indian Overseas Bank

Source: Wikipedia.org

2. LITERATURE REVIEW

1. Deepak and Shalini (2023) has conducted a study on mergers of PSU's in India , merger outcomes and difficulties to be faced with the private banks. Their studies were based on secondary data. They have collected data from 2019 to 2022. They have used t - tests to analyze their data. Their studies showed that there is a gap between performance of public and private sector banks. Their study also reveals that still public sector banks are unable to compete with the private sector banks.

2. Munshi et al., (2022) has conducted a study on Bank Merger whether it is boon or bane for an Indian economy. Their studies were also based on secondary data. Their study reveals numerous results as the banking sector is key for economic growth. Mergers and Acquisitions are common these days in

the banking sector , Biggest merger in the banking sector is done in the year 2019 after the announcement ofthe government.

3. Banerjee and Dey (2022) has conducted a study to find the impact of mergers of public sector banks on stock prices. Their studies were based on secondary data from the official website of NSE. Their study concluded that mergers always impact the banking sector. Their study also concluded that there are fluctuations in stock prices before and after merger.

4. Ganesh S Hosapeti and Renu Rathi (2023) have conducted a study to find the impact of M & A on financial performance of Bank of Baroda. Their study collected data of Bank of Baroda from 2016 to 2023. Their study concluded that M & A is done to reduce the cost of NPA 's, to improve banking conditions.

5. Liargovas and Repousis (2011) has conducted a study to find M & A on Greek banks. They conducted their study with the help of 20 financial ratios. Their study concluded that mergers have no impact on shareholders' wealth.

3. RESEARCH GAP

It is observed from the above conducted that previous research were based on trends and policies but they all lack to focus on impact of mergers on financial performance. The present study would go into details of it. The presentstudy also discusses in brief about mergers of public sector banks of 2019.

4. OBJECTIVES OF THE STUDY

- To know about mergers in the India Banking System from 1990.
- To Study positive and negative impact of merger on financial performance of Public sector banks.
- To study the Financial ratio of some selected public sector banks that merged in 2019.

5. RESEARCH METHODOLOGY

5.1 Sources of Data :

Throughout the present study, secondary data is collected from the various official websites of respective public sector banks, Articles, Annual report, Journals etc.,

5.2 Period of Study:

- Throughout this present study, data is collected from 1990 to find acquiring banks and target banks inMerger in the Indian banking sector.
- Throughout this study, data is collected from 2019 to 2024 to find the impact of mergers on selected PSUon their financial performance.

5.3 Sample Design:

This Study is mainly focussed on a few selected Public sector banks that merged in 2019 and 2020.

	Name of Merging Bank	Merged With
1	Syndicate Bank	Canara Bank
2	Indian Bank	Allahabad Bank
3	Oriental Bank of Commerce , United Bank ofIndia	Punjab National Bank
4	Andhra Bank , Corporation Bank	Union Bank of India

6. DATA ANALYSIS

6.1 Indian Banking System: - their mergers from 1990.

In Banking system , mergers are done to bail out weaker banks and to protect the interests of clients. Mergers arethe same for all over the world. In India , merger started in 1960 . But that time it was very rare. In the past two to three decades it is very common in the Indian Banking system , it is done so that our banks can compete withglobal giants . Here is a list of mergers in India since 1990's (LPG Policy).

Year	Merged With	Merging Banks name

1990	Indian Bank	Bank of Thanjavur Ltd.
1990	Central Bank of India	Purbanchal Bank Ltd.
1990	Bank of India	Parur Central Bank Ltd.
1993	Punjab National Bank	New Bank of India
1994	Bank of India	Bank of Karad Ltd
1995	State Bank of India	Kashinath State Bank Ltd.
1996	Oriental Bank of Commerce	Punjab Co-operative Ltd
1997	Oriental Bank of Commerce	Bari Doab Bank Ltd
1999	Union Bank of India	Sikkim Bank Ltd
1999	Bank of Baroda	Bareilly Corporation Ltd
2000	HDFC Bank Ltd	Times Bank Ltd
2001	ICICI Bank	Bank of Madur
2002	Bank of Baroda	Banaras State Bank Ltd
2002	ICICI Bank	ICICI Ltd
2003	Punjab National Bank Ltd	Nedungadi Bank Ltd
2004	Oriental Bank of Commerce	Global Trust Bank
2004	Bank of Baroda	South Gujarat Local AreaBank
2004	IDBI Bank	IDBI
2005	Bank of Punjab (POB)	Centurion Bank
2006	IDBI Bank	United Western Bank
2006	Federal Bank	Ganesh Bank of Kurundwad
2006	ICICI Bank	Singli Bank
2007	Indian Overseas Bank	Bharath Overseas Bank
2008	HDFC Bank	Centurion Bank of Punjab
2010	ICICI Bank	Bank of Rajasthan Ltd
2014	Kotak Mahindra Bank	ING Vyasa Bank
2019	Bank of Baroda	Vijay Bank And Dena Bank
2020	Canara Bank	Syndicate Bank

2020	Union Bank of India	Andhra Bank AndCorporation Bank
2020	Indian Bank	Allahabad Bank
2021	Punjab National Bank	Oriental Bank of CommerceAnd Union Bank of India
2023	HDFC Bank	HDFC Bank

6.2 Impact of Mergers on Banks :

Positive Impact:

- Increment in market value.
- To avoid bankruptcy.
- To reduce operation cost.
- To avoid replication.
- To gain competitive advantages.

- To minimize NPA's.
- For better management.
- Synergy benefits.
- Economies of scale.

Negative Impact:

- Creates unemployment.
- Hike in prices of services.
- Communication gap.
- Tech integration.
- Friction in management.

6.3 Financial Performance : 2019 PSU 's Merger announcement

Consolidated Financial Ratios of Canara Bank And Punjab National Bank: On March of Respective years ,In Rs Cr.

S. No.	Key Financial Ratios	Bank Name	2024	2023	2022	2021	2020	2019
	Investment Ratios							
1	Operating Profit Per	CB	168.74	159.83	133.06	127.71		151.11
	Share (Rs)	PB	23.57	21.65		23.53	23.41	29.87
2	Net Operating Profit Per	CB	609.21	473.42	389.24	426.37		636.59
	Share (Rs)	PB	99.05	78.87		78.13	81.51	113.26
	Profitability Ratios							
3	Net Profit Margin	CB	13.82	13.10	8.67	4.11		1.25
		PB	8.35	3.85		3.12	0.79	-18.35
4	Return on Long Term	CB	145.47	131.42	123.38	133.96		128.46
	Fund (%)	PB	93.25	72.98		79.34	79.86	62.71
5	Return on Net Worth	CB	18.40	15.94	9.96	5.34		1.92
	(%)	PB	8.92	3.54		3.00	0.74	-22.51
	Efficiency Ratios							
6	Interest Income/Total	CB	7.63	6.55	5.84	7.37		7.06
	Funds	PB	7.09	6.17		7.73	6.73	6.68
7	Net Profit/Total Funds	CB	1.02	0.82	0.48	0.28		0.08
		PB	0.54	0.22		0.20	0.04	-1.28

8	Asset Turnover Ratio	CB	0.08	0.07	0.06	0.08		0.07
		PB	0.07	0.06		0.08	0.07	0.07
	Profit And Loss Account Ratios							
9	Interest Expended/Interest Earned	CB	65.25	61.70	60.94	64.35		68.96
		PB	62.84	59.67		62.06	67.37	66.46
10	Operating Exp. /Total Income	CB	26.18	26.28	28.73	29.30		19.68
		PB	22.80	23.65		20.56	17.94	18.66
	Balance Sheet Ratios							
11	Capital Adequacy Ratio	CB	-	-	-	-		-
		PB	16.00	15.54		-	-	-
	Debt Coverage Ratios							
12	Cash Deposit Ratio	CB	5.06	4.71	4.52	4.01		4.63
		PB	5.38	5.53		4.54	5.10	4.61
13	Total Debt to Owner Fund	CB	16.50	17.53	18.43	19.60		20.49
		PB	14.22	14.41		13.66	13.07	17.15
	Leverage Ratios							
14	Current Ratio	CB	0.03	0.04	0.04	0.06		0.06
		PB	0.05	0.05		0.06	0.05	0.05
15	Quick Ratio	CB	14.47	14.34	14.82	13.49		14.97
		PB	29.93	33.06		38.44	38.14	35.12

Note : Here Canara Bank is represented by 'CB' and Punjab National Bank by 'PB'

Source : moneycontrol.com

Key Result of Above table is -

- Operating Profit and Net operating profit per share in Investment Ratio of canara bank is increasing inrecent years whereas it is decreasing for Punjab National Bank as compared to 2019.
- All three parameters in Profitability Ratios show that Canara bank and PNB have higher profit ascompared to 2019.
- As for profitability ratio , All three parameters of Efficiency Ratios also show that Canara Bank and PNBhave had higher ratios in the recent past.
- Cash Deposit Ratio in Debt coverage ratio shows that , the ratio is increasing for canara bank and PunjabNational Bank.
- Total Debt to Owner fund shows that , ratio is decreasing for both banks as compared to 2019.
- Two parameters in Leverage Ratios show that , Ratio is decreasing for Canara Bank and Punjab NationalBank as compared to 2019.

7. CONCLUSION

- As we can see from section 6.1 above that mergers are common in the Indian Banking system , and this is important too to compete on world level. M & A not only helps to grow that particular sector only to which it belongs instead it helps to grow the whole economy. And when we call M & A in the banking sector , it not only affects all sectors within the boundary of the country but also outside the country too.
- Section 6.2 above discusses all types of

impact whether it is positive or negative on financial performanceon PSU's due to mergers.

- Section 6.3 discusses about 15 key Financial Ratio between Canara Bank and Punjab National Bank.

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