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RESEARCH ARTICLE

ANALYTICAL STUDY ON THE MERGER OF BANK OF BARODA, VIJAYA BANK AND DENA BANK, ON THE BACK DROP OF THEIR NPAS

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Abstract

Banking Industry in India witnessed a large-scale merger in recent times, which was earlier often sought out solution in the corporates to improve the efficiency and profitability. Bank mergers and acquisitions are more often witnessed across Europe and America. We have witnessed few acquisitions/mergers in the past few decades after liberalization. Present situation of mergers in the Banking Industry is primarily due to the failure of some banks with respect to recovery of loans. This would result in incurring losses and failing to meet the liquidity needs of the deposits side. There have been mergers both in Public Sector Banks and Private Sector Banks. It is also observed that some private banks have been acquired by public sector banks in the interest of depositors and investors.This research paper focuses on and analyses the factors that lead to the merger of Bank of Baroda, E-Vijaya Bank and E-Dena Bank. The possible advantages and disadvantages are inferred. Seven years financial data before the merger decision of the three banks is collected for this analysis. Data analysis is done using the financial tools such as Ratio Analysis and Trend Analysis. Various ratios indicating the health of Advances side of the bank and its profitability are calculated. The trend of NPAs and the recovery patterns are studied. The suitability of merger decision with its after effects are proposed to be concluded.

Introduction:-

Banks have emerged as intermediaries for the flow of money to cater the needs of public. They accept funds from the surplus by providing them return on investment as interest. On the other hand lend these funds to the needy and gain interest from it. The primary component of profit is the spread between interest income from lending and interest expense on deposits. History speaks about banks which couldn't properly manage the Assets side due to lack of efficacy in recovery. This, in turn would lead to the gap in liquidity to meet the requirements of depositors leading to bankruptcy. Therefore, the recovery wing of the bank should be strong which can give a smooth flight to the bank through tough times as well.

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As it goes with any industry, Banking Industry also has some strong and weak banks. Strong banks are those which could manage the assets and liabilities side efficiently, improve business and reap profits from this. These banks also make investments, apart from core lending and earn returns. Non-interest income is the new trend heard across the Banking Industry. Week banks on the other hand fail to strike the balance between assets and liabilities. When these kind of situations arise, the word "Merger" is heard of across the Corporate Tables. Merger of entities is done so that a stronger organization with better framework and implementation procedures takes over a weaker organization, which would benefit the weaker organization to recuperate and would also secure the interest of investors.

Merger has become an often used boat to sail through tough times and tap new avenues. However, the process of merger of any organization is a very arduous task, after a deemed prudent decision until proven in the due course, particularly the merger of banks which deal with the money of the public and also serve them.

Merger of Banks is more often observed across Europe and America compared to India. However, during the past few decades we have witnessed several such mergers in the Indian Banking Industry which is moving towards liberalization. The merger of State Bank of India and its Associate Banks, the biggest ever merger of Public Sector Banks in Indian Banking Industry was observed amid several opposing voices. The merger of ING Vysya Bank and Kotak Mahindra Bank is a recent example for the merger of Private Banks in India.Here, we are going to throw some light on the three way merger of Bank of Baroda, Vijaya Bank and Dena Bank, which was decided on 17th September 2018 and was executed on 1st April 2019. This has made Bank of Baroda as the second largest Public Sector Bank in India, after Sate Bank of India. Earlier more than ten banks have been merged with Bank of Baroda through its long journey of 112 years. This latest merger has its importance as the first ever three way merger of Public Sector Banks in India, where three PSUs are chosen to amalgamate as a single entity.

The amalgamated three banks have their prominent presence across different geographies of the country. By merging these banks, they would be having a stronger presence across the country. Public Sector Banks are moving from maintaining fat registers to digitization. Therefore, flawless banking software integration is very much essential. "Finacle" is the banking software commonly used by these three banks, though the versions of it are different. This would reduce the hardship in software integration and would be aiding ease of banking operations for the customers, with less hiccups. In these lines, the Government of India is looking forward for the merger of other PSUs as well.

Objectives of this study includes, identifying factors that lead to merger, study on financial indicators of three banks and to study the movement of NPAs and bank's profitability by using selected ratios.

Literature Review:-

Among the Indian Banks, the previous researchers have worked on the pre and post-merger evaluation of performance, economies of scale, profitability, capital adequacy and expansion of business like venturing into untapped areas. Few researches dealt with the perception of employees, shareholders, investors, depositors and its effects.

Jesna Assis & Major Dr. U Abdul Khalam, in their article "Merger of Public Sector Banks in India in 2019; a Great Revolution in Indian Banking Industry, published in 2020 have defined Merger & Acquisition as follows.

Merger and acquisition (M&A) is a transaction in which the ownership of companies or business organizations or their operating entities is transferred or combined with other entities. As a method of prudent management, merger & acquisition can allow enterprises to grow or downscale, and change the nature of their business or competitive position.

Jesna Assis & Major Dr. U Abdul Khalam in their article published in 2020 stated that a major move that is set to redefine India's banking space, the merger of 10 public sector banks into four has been announced by the Finance Minister, Mrs. Nirmala Sitharaman. The merger plan includes the merger of Indian Bank with Allahabad Bank; Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank (PNB); Canara Bank with Syndicate Bank; Union Bank of India, Corporation Bank and Andhra Bank. Besides this, the announcement of Central Government regarding the capital infusion of Rs. 55,000 crores into the Public Sector Banks is noteworthy.

Kaur &Jagmeet through their article published in the Political Economy of India Journal in 2015, opined that Merger and acquisitions give a chance to banks to share their assets, lessen their expenses and economies of huge scope tasks which are having significant ramifications on the monetary and working presentation of banks. It is therefore that the current paper examines the effect of mergers and acquisitions on the monetary exhibition of one open and one private segment bank in India especially on account of the merger of Bank of Rajasthan with the ICICI Bank on thirteenth August, 2010 and the merger of State Bank of Indore with the State Bank of India on 26th August, 2010.

The merger of Bank of Rajasthan with the ICICI Bank was affirmed by the Reserve Bank of India on thirteenth August, 2010. All parts of Bank of Rajasthan work as parts of ICICI Bank. The ICICI Bank paid Rs. 3000 crores for it. After the merger, the ICICI Bank upgraded its branch system of more than 25000 branches and more than 5600 ATMs. The merger of the State Bank of Indore with State Bank of India (SBI) occurred on 26th August, 2010. The SBI was enrolled under the SBI Act, 1955 which engage the bank to get some other save money with the assent of bank tried to be gained, endorsement of the Reserve Bank of India and authorization of the focal government.

Kanhaiya Singh & Poonam Singh, in their article "Early Warning Signals of Merger of Banks- A Case Study of Global Trust Bank (GTB) and Centurion Bank of Punjab (CBOP) in India" published in 2014 stated that **t**here are some early warning signals that can be observed before the situation of merger of a weak entity arises. There are certain crucial ratios such as the Net NPAs to total advances, operating profits to working funds, Capital Adequacy Ratio, return on equity, and return on assets, Net Interest margin etc. These factors have direct link with the financial performance of the bank. These parameters portray negative or deteriorating signals in case of a Bank in the pre-acquisition period, sometimes even 3 to 4 years before the merger. On contrary to this, positive signals may be observed with respect to the above mentioned parameters if the merger is intended to increase synergy and business expansion of the involved entities. The financial health of a weak bank can be brought back on track, if the bank exercises collective measures well in advance on observing such adverse signals. RBI has implemented the CAMELS model in order to assess the bank's performance which is a very useful mechanism to help the bank in exercising corrective actions.

V Radha Naga Sai and Dr. Syed Tabassum Sultana, in their article "Financial Performance Analysis In Banking Sector – A Pre & Post Merger Perspective", published in 2013analysed the 4 years pre and post-merger financial ratios with reference to the merger of Indian Overseas Bank, it can be observed that Net profit margin, Return on capital employed, Operating profit margin, Return on equity and Debt- Equity ratio there is significant difference. But, no significant difference is observed with respect to Gross profit margin. Based on the analysis of 3 years financial ratios of pre and post-merger data of HDFC bank, no significant difference can be observed in the Net profit margin, Return on capital employed, Operating profit margin, Return on equity and Debt-Equity ratio before after merger. However, significant difference can be observed in the Gross profit margin.

Dutta and Dawn, in their paper "Merger and acquisitions in Indian banks after liberalisation: An analysis", published in 2012 considered five mergers of banks for analysis. Namely, HDFC Bank (2000), ICICI Bank (2001), Bank of Baroda (2002), Punjab National Bank (2003) and Oriental Bank of Commerce (2004). The performance of amalgamated banks was analysed in terms of its growth of total assets, revenue, profits, deposits, and number of employees. The study considered four years of pre and post-merger data of the amalgamated banks to evaluate their respective performances pre and post-merger. The study concluded that the post-merger periods were successful and a significant increase was observed in the total assets, revenue, profits, deposits, and in the number of employees of the anchor organizations of the banking industry in India.

Research Methodology:-

The first phase of this study, which is collection of data required for analysis is pooled from secondary sources. This study relies on the data collected from financial publications of the involved three Banks. The data comprises of the financials of the three banks from 1st April 2011 to 31st March 2018, i.e., seven years financial data before the decision of merger.

The Balance Sheets and Profit and Loss Statements which speak about the financial health of an entity are interpreted using Ratio Analysis involving ratios evaluating the quality of Advances and Profitability, such as NPA to total credit exposure, profit to total business, etc. Trend Analysis would be used in understanding the movement of various financial indicators, including NPAs during the above selected period. Inferences are drawn from this analysis following which the advantages and disadvantages are gauged. This is done to understand the situations and factors which lead to the merger and the suitability of such decision of merger in the current situation.

The ratios involved in the ratio analysis are as under:
1. Net Profit Margin
2. Operating Profit Margin
3. Return on Assets (ROA)
4. Return on Equity (ROE)
5. Debt Equity Ratio (Pure Ratio)
6. Net Profit per Employee Ratio
7. Gross NPA Ratio
8. Net NPA Ratio
9. Capital Adequacy Ratio

The above mentioned ratios would be analysed over seven financial years' data of the involved three banks before the merger decision was taken. Interpretations would be drawn from the analysis thereby give suggestions and recommendations if any and concluding the study.

Research Gap:

Many researches have been conducted to study the aspect of mergers and acquisitions in the banking industry as well as the corporate sector as elaborated above. The earlier mergers of Bank of Baroda were also discussed by the researchers. The researchers have discussed about the mergers of different banks with respect to various financial ratios that indicate the health of a bank such as Net NPAs to total advances, operating profits to working funds, Capital Adequacy Ratio, return on equity, and return on assets, Net Interest margin etc.

The recent merger of Bank of Baroda, Vijaya Bank and Dena Bank was not discussed by the earlier researchers elaborately. This project would discuss and analyse the factors that influenced the recent merger mentioned above, by evaluating financial ratios and analysis of NPA trend in all the involved banks.

Data Analysis and Interpretation:

This part of the study focuses on the examination of financial indicators of the involved three banks by working on the below listed ratios of over a period of seven financial years from 2012 to 2018.

Ratio Analysis of Bank of Baroda from 2012 to 2018

Table 1:-

Ratio	2018	2017	2016	2015	2014	2013	2012
Net Profit Margin	-5.57	3.27	-12.24	7.91	7.91	12.73	16.87
Operating Profit Margin	-20.82	-12.73	-23.59	-2.33	0.20	2.41	5.34
Return on Assets (ROA)	-0.33	0.19	-0.80	0.47	0.68	0.81	1.11
Return on Equity (ROE)	-5.60	3.43	-13.42	8.53	12.61	14.01	18.22
Debt Equity Ratio (Pure Ratio)	15.07	15.69	15.11	16.39	15.65	15.65	14.87
Net Profit per Employee Ratio (in Lacs)	-4.42	2.64	-10.37	6.88	9.87	10.39	11.87
Gross NPA Ratio	13.21	11.15	10.56	3.80	2.99	2.43	1.55
Net NPA Ratio	5.49	4.72	4.96	1.89	1.52	1.28	0.54
Capital Adequacy Ratio	12.13	13.17	13.17	12.60	12.28	13.30	14.67

From the above data, we may observe that the Net Profit Margin of Bank of Baroda has seen sudden fall in 2016 and 2018 as well. This is in relation with the increased provisioning for loans and other contingencies, which may be observed by analysing the P & L statement. However, we may observe overall downward trend in the Net Profit Margin of Bank of Baroda from 2012 to 2018.

We observe a downward trend of Operating Profit Margin of Bank of Baroda from 2012-2018. Operating profit margin does not include the addition of other income. Due to this, the downward trend is observed to be more exponential as compared to Net Profit Margin.

Return on Assets of Bank of Baroda from 2012 to 2018 is on a downward trend with sudden decline in 2016 and 2018. This implies that the profit reaped by utilising the assets is deteriorating. This is due to the increased provisioning for loans and other contingencies, which may be observed by analysing the P & L statement.

Similar trend is observed in the case of Return on Equity as well. The common parameter effecting the profitability may be seen as the spike in provisioning during 2016 and 2018. The expenses see no sudden increase though.

The D/E ratio is observed to be hovering around 15.5 with remarkable difference from 2012 to 2018.

The downward trend in this parameter is due to the declining Net Profit caused due to sudden increase of provisioning for loans and other contingencies.

Data depicts the trend of Gross NPA and Net NPA of Bank of Baroda from 2012 to 2018. It may be observed that both the Gross and Net NPAs of the bank are increasing with a sudden jump in 2016. From this it may be inferred that irrespective of provisioning the true value of NPA is on an upward trend, which is of serious concern for the profitability of the bank.

The capital adequacy ratio is observed to more or less steady from 2012 to 2018, with values around 13%. RBI directs the Public Sector Banks in India to maintain CAR of 12%.

Ratio Analysis of Vijaya Bank from 2012 to 2018
Table:2

Ratio	2018	2017	2016	2015	2014	2013	2012
Net Profit Margin	5.77	6.06	3.15	3.58	3.88	6.46	7.27
Operating Profit Margin	-6.93	-7.27	-4.07	-3.58	-2.74	-0.23	0.66
Return on Assets (ROA)	0.40	0.48	0.26	0.30	0.30	0.52	0.60
Return on Equity (ROE)	7.39	10.25	5.84	7.41	7.37	14.29	15.39
Debt Equity Ratio (Pure Ratio)	16.73	19.68	20.78	22.56	22.88	25.25	23.44
Net Profit per Employee Ratio (in Lacs)	4.52	4.79	2.63	3.23	3.24	4.65	4.91
Gross NPA Ratio	6.48	2.58	6.77	2.82	2.44	2.30	2.97
Net NPA Ratio	4.32	1.76	4.81	1.91	1.55	1.30	1.72
Capital Adequacy Ratio	13.90	12.73	12.58	11.43	10.97	11.32	13.06

It may be observed from the above data that the Net Profit of Vijaya Bank has been improved in 2017, after continuous down trend from 2014 to 2016. Although, a slight downward trend may be observed from 2012 to 2018.

The Operative Profit Margin, which does not include Other Income is observed to be on continuous downward trend, unlike Net Profit Margin. From this we may infer that the Income earned from other sources has played a key role for Vijaya Bank to avoid loss making, without which Vijaya Bank would post continuous loss.

Return on Assets and Return on Equity are observed to follow similar trend as that of Net profit margin, as all these parameters consider Net Profit for the calculations. From this we may infer that the parameter of much concern is the Operative Profit.

The Debt to Equity ratio shows a decline from 2012 to 2018 which is due to the increase of equity share capital over the years.

The Net Profit per Employee proses similar pattern to that of Net Profit Margin, as both involve Net Profit. The figures dwindled down during 2014 and again raised in 2017 due to the increase of Net Profit in 2017.

Despite some fluctuations, the Gross NPA and Net NPA both portray similar upward trend from 2012 to 2018. Sudden spike is observed during 2016 and 2018. Sudden increase in provisioning may also be noted during 2016 and 2018.

The Capital Adequacy Ratio (CAR) seems to be more or less stable around the value of 12%, which is acceptable as per the RBI directive.

Ratio Analysis of Dena Bank from 2012 to 2018
Table:3

Ratio	2018	2017	2016	2015	2014	2013	2012
Net Profit Margin	-21.53	-8.48	-8.78	2.46	5.52	9.10	11.82
Operating Profit Margin	-34.55	-20.77	-15.51	-4.23	-3.65	1.74	3.25
Return on Assets (ROA)	-1.59	-0.66	-0.70	0.20	0.44	0.71	0.91
Return on Equity (ROE)	-20.89	-12.52	-13.09	3.56	7.72	14.05	18.71
Debt Equity Ratio (Pure Ratio)	11.92	17.26	17.32	16.04	16.13	18.32	18.89
Net Profit per Employee Ratio (in Lacs)	-14.13	-6.18	-6.73	1.95	4.19	7.31	7.87
Gross NPA Ratio	24.95	17.39	10.40	5.57	3.37	2.20	1.69
Net NPA Ratio	11.95	10.66	4.03	1.74	2.34	1.39	1.01
Capital Adequacy Ratio	11.09	11.39	11.00	10.93	11.14	11.03	11.51

The serious downward trend from 2012 to 2018 in all the above depicted profitability ratios may be observed in the case of Dena Bank. This trend poses serious concern for the survival of Dena Bank. This clearly explains that the bank has not succeeded in curtailing the losses by any which means.

The Debt to Equity Ratio which was more or less stable from 2012 to 2017, showed a sudden decrease in 2018, due to the increase of shareholders' equity in 2018.

The Net Profit per Employee also continuously declined from 2012 to 2018, as it is directly related to the Net Profit, which posed similar trend during that period.

The Gross NPA and Net NPA exponentially increased from 2012 to 2018. This reflects the poor quality of Advances of Dena Bank. From the above graphs we may observe Net NPA has increased more exponentially. This trend may be considered as alarming attracting serious corrective measures.

Though the graph of Capital Adequacy Ratio seems to be more volatile, we may observe that the values are moving between 11% to 11.5%.

Findings and Conclusion:-

Mergers and Acquisitions are generally exercised to revive weak entities from collapsing by merging them with stronger entities to improve the performance or to amalgamate strong entities resulting in a much stronger entity with a larger ambit of business. The merger of Bank of Baroda, Erstwhile Vijaya Bank and Erstwhile Dena Bank is to be understood as a merger intended to revive weak entities from collapsing and thereby improving the performance.

Two main concerns posed are the declining trend of profitability and increasing trend of NPAs across the three banks. These both are inter related, as the increase in NPAs would directly impact the profitability of the bank. The other parameter effecting the profitability is the increase in operating expenses.

The study shows, upward movement of NPAs in Bank of Baroda and Vijaya Bank is gradual. This may be controlled by implementing corrective actions immediately. Whereas, the exponential growth of NPAs in the case of Dena bank is very much alarming. On 07-05-2018, RBI has restricted Dena Bank from sanctioning fresh loans under Prompt Corrective Action (PCA) due to the poor quality of advances of Dena Bank. This is a survival crisis for Dena Bank. Merger of the three banks which forms the second largest Public Sector Bank of India is expected to withstand such crisis by implementing better tools to control NPA growth and further bring down the NPA figures.

It may be observed from the study that, the increase of operating expenses is also adversely affecting the profitability. Reduction of operating expenses is a factor which would boost the profitability of the banks. Expansion of existing banks individually would increase the operating costs accordingly. Therefore, synergy has to be created.

The merger principle of one plus one is more than two should play the way it is desired to. The three banks are spread across India. But, the spread is not equal country wide, as they are predominantly spread in some areas of the country. By merging these three banks, the combined entity would comprise of more
than 9500 branches spread across the country with a wider reach to the individually untapped pockets as well. The overlapping branches would be merged.Thus, reducing the operating costs.

Therefore, to revive Dena Bank from the survival crisis and also to achieve economies of scale, in order to improve the profitability of Bank of Baroda and E- Vijaya Bank, the merger of Bank of Baroda, E-Vijaya Bank and E-Dena Bank is a suitable solution in the given situation.

Suggestions:-

1. Benefits of merger can only be reaped by meticulous execution of the merger process, identification of issues and implementation of prompt corrective actions.
2. Merger of these three banks has resulted in the second largest Public Sector Bank in our country. But, the combined entity is too big to fail. The failure of big organizations of this scale would seriously impact the economy of the country. Therefore, continuous monitoring is required to leave no issue unaddressed.
3. The revival stress of Dena Bank would affect the financials of Bank of Baroda and Erstwhile Vijaya Bank as well. This impact has to be prudently managed to extract benefits of this merger in the long run.
4. Human resource is the most crucial for business and is also the emotional segment of the organization. Employees of the organization create its culture and emotion. Therefore, due care has to be taken to make sure that the merger of these three banks do not adversely affect the emotions of its human resource. The employees should be given time to time updates about the process of merger. The reason of merger and the benefits of the merger to the organization and also the employees is to be properly convey to avoid any misconceptions.
5. Along with these, the support of Central Government is much needed to tackle with the immediate after effects of this merger.

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