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Impact of Merger and Acquisition on Profitability of Bank: A study of Canara bank

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Abstract

Merger and acquisition are strategic decision taken for maximization of a company growth. But the key question is: what extent the empirical evidence supports this notion? In this paper we study the impact of merger and acquisition on financial performance of Canara bank through various financial indicators like operating profit, net profit, total capital invested, total assets and how much the global and domestic depositors increase after merger and also some indicators which show the performance of bank. For this study 2 years data is used one before merger and one after merger. The main aim of the study is to check the growth rate of canara bank after merger how much bank Grow after merger. For this purpose researcher used the rate of growth on the basis of FY2019-20.

This study indicate that after merger bank earn sufficient profits , bank faced heavy losses before merger but after merger loss converted into profits with shows that merger is work good for canara bank financial performance of bank improves very well. After merger there is increase in profit per employees, return on assets and after merger canara bank also distribute dividend to shareholder. For this study data is collected from CIME database, official website of RBI official website of Canara bank Web of Science database, Scopus and Google scholar is used.

Keywords: Indian banking industry, Merger and Acquisition, Financial Parameters

1. Introduction

Financial intermediaries are a vital component in supporting the country's economic growth. Our economy's foundation is the banking sector, so it is critical to maintaining this sector's health and strength. The Reserve Bank of India, which regulates and supervises India's banking sector, performs many functions, such as offsite and on-site surveillance, a supervisory rating system of the bank, and a technical assistance program, etc. considering that our banking industry is facing a problem of NPA Tiwari, C. K,et.al(2013) which is increasing day by day. Prasad, G. V., & Veena, D. (2011).

The reason behind an increase in NPAs is willful default, fraud, political interference, and poor management by the banks Singh, V. R. (2016). Such as large scale bank frauds, cases of money laundering, as well as the unusual exposure of Indian banks to credit risk, have raised concern over the inadequacies of the governance structure for banks and its ramifications for the soundness and efficiency of the banking industry is main reason behind failure of any bank

Due to this, the financial performance of the bank is declining day by day. Du, K., & Sim, N. (2016) That's why Indian banking industries have started restricting their operations through mergers and acquisitions. Goyal, K. A., & Joshi, V. (2011), Mongal, C.S.(2020). through merger and acquisition a firms may benefits through the transfer of new management, technology and best practice during merger and from having or larger market share, greater market power and economic of scale achieve after merger and acquisition with strong organization Bhattacharyya, S., & Chatri, A. (2012), Long, P. H. (2015).. Merger and acquisition in Indian banking sector continue draw a lot of attention. Recently in 2019 mega-merger of Indian banks captured a lot of attention both in outside and inside India. In mega-merger 10 public sector banks merged into 4 banks and formed a larger size bank. In mega-merger Punjab national bank merger with united bank of India and oriental bank of commerce, Canara bank merged with Syndicate bank, Indian bank merged with Allahabad bank Union bank of India merged with Corporation bank and Andhra bank.

BANKING DEFINITION The business of banking involves safeguarding other people's money. When banks lend this money, interest is generated that benefits both the bank and its clients.

The term "bank" can describe a wide range of financial institutions, including credit unions, savings and loan associations, bank and trust corporations, and other entities that take deposits.

DEFINITION OF MERGER Maharishi (2019) a merger is joining two or more businesses to create a single organization. Additionally, a merger resembles an acquisition or takeover. The sole distinction is still that current shareholders from both firms are participating in a merger and keep their ownership stakes in the new organization. Contrarily, in an acquisition, a corporation buys the majority of the shares of the target company, whether the target company is willing to do so or not. Focarelli, panetta & salleo(2002) Merger and acquisition fall under inorganic or artificial growth, which is attracted attention worldwide or across a sector. Most mergers and acquisitions aim for proper growth and maximizing shareholder growth.

A bank uses merger and acquisition to increase its market strength, rationalize the workforce, and increase its branch network. It overcomes the bank from competition pressure by increasing the size of the business or reducing the number of competitors.

Review of literature

This author suggested the Goyal, K. A., & Joshi, V. (2011). reason behind the merger and acquisition of the Indian banking industry and to examine post-merger performance Kalra, N., et al., (2013). Using the profitability ratio, liquidity ratio, shareholder wealth, and share volatility ratio, Singh, S., & Das, S. (2018) researcher was to evaluate how merger and acquisition activity might affect the performance of bank of India Pan (2020) to see whether the process of consolidation could contribute to the overall growth of banks and its efficiency. Rani, S. (2015), to comprehend the long-term synergies and drivers behind the merger, a paired T-test was used to compare, descriptive statistical test, outlier test, and normality test used. T Sehleanu, M.(2014). That merger and acquisition boost a company's market strength, reduce competitive pressure by decreasing the amount of competition, and consolidate market position Maharshi (2019) Warne & Gupta (2004) Revamping production, market expansion and strategy, financial strength, general gain, and strategic purpose. Sharma (2012) Merger plays a significant role in the development growth of the banking sector.

Some studies such as show that Peristiani, S. (1997), Vallascas & Hagendorff (2012), Irayanti (2019), and Yusuf & Sheidu (2015) merger and acquisition failed to increase the efficiency of bank M&A does not modify the risk 13 profile of acquiring banks a company is unable to maximize the utilization of existing resource to the maximum to increase sale and minimize the cost incurred for an operational and non-operational cost. M&A does not enhance bank NPA's

Need and Research Objective of the study.

Considering the limited research on merger and acquisition in Indian banking industry, the present study aimed to exploring the growth in financial parameters of Canara bank. Comparing the financial parameters before and after 1 year of merger. To study the impact of merger on profitability of Canara bank.

HYPOTHESIS

1. H_0: There is no growth in profit of Canara bank after the merger with Syndicate bank.
   H_1: There is a significant growth in the profit of Canara bank after the merger with syndicate bank.
2. H_0: There is no growth in total assets of Canara bank after the merger with Syndicate bank.
   H_1: There is a significant growth in the total assets of Canara bank after the merger with Syndicate bank
3. H_0:There is no change in the total income of Canara bank after merger with syndicate bank.
   H_1: There is significant growth in the total income of Canara bank after the merger with Syndicate bank.

Ratios	2019-20	2020-21	Growth%
Operating profit	9360	19689	110.35%
Total income	56748	84205	48.38408%
Net profit	(2236)	2558	214.401%
Total Assets	723875	1153675	59.37%
Global Deposits	625351	1010875	61.64922%
Domestic Deposits	601664	963306	60.15%
Paid up share capital (in cr.)	1030	1647	59.90291%
Total Capital	49257	69844	41.79507%

Source: CMIE database

Indicators	2019-20	2020-21	Growth Rate in %
Interest income	1,26,33,738	1,27,87,957	1.22
Non Interest Income	1129040	1332814	18.05
Return on Asset	-0.3	0.2	166.70%
Number of Branches	6329	10416	64.57%
Business per Employee	176.3	181.4	2.89%
Profit Per Employee	0	0.3	NA

Source: CMIE database

Analysis of data

Every industry has primary aim behind merger is increase their profitability , asset size of business and wide customer coverage area. From this study we concluded that main motive of Canara bank to merger is syndicate bank is achieved total capital investing in canara bank is increase by 41.80% and total income of the bank is increase from 723875 to 1153675 which is 59.37% instead of it operating profit increase by 110% which is nearly double of total capital invested and total increase in asset after the merger of Canara bank with syndicate bank.

Canara bank face heavy losses before merger in FY 2019-20 is 2236cr. After merger loss convert into profit with 2558 cr. Growth percentage is 214.40 which is appreciable.

After merger bank customer coverage is also increase in both domestic and global market nearly by 60%. Interest income of Canara bank is increased by 1,54,219 growth rate is 1.22%. Non-interest income which is 1129040 in FY 2019-20 and in FY 2020-21 1332814 which is increased by 203,774 growth rate is 18.05%. Before merger Canara bank not earn any return on assets in FY2019-20 is -0.3% but after merger return on assets is converted into profit by 0.2 . whose growth rate is 166.70%. Number of branches of Canara bank is increased by 64.57%. Business per employee is increased by 5.1 million after merger . before merger profit per employee is nil means before merger Canara bank not earn any profit on business of per employee but after merger bank earn 0.3 million profit on per employee business.

From this analysis we said that Canara bank profitability ratios is increased market share of Canara bank is increased after merger from 4.30 to 6.08.

Conclusion

Mergers and Acquisitions played a very significant function in Banking Sector The banking industry benefited significantly from mergers and acquisitions. The economic environment is full of issues for small and medium-sized banks, including a lack of resources, outdated technology, an overly-systemized management style, and erratic marketing. Merger and acquisition is best tool for growth or small and medium size bank and also merger is good strategy for weak bank merger with strong bank for survival Bhattacharyya, S., & Chatri, A. (2012). From this study we concluded that after merger of canara bank with syndicate bank profitability, efficiency, asset quality, financial ratios are increased after merger . Du, K., & Sim, N. (2016). Market size of Canara bank is increase from 4.3 to 6.08 after merger.

This study is significance for the bank employees to know how much they earn through their activity, useful for the board of directors for formation of policy for the growth of bank, useful for the banks who want to merger in near future and also helpful for government to know the growth rate of bank and to know that merger is successful or not.

Limitation of the study

There are certain limitations of the study. The main limitation is only 2 year of financial data is used for comparison 1 year before merger and 1 year after merger from this we can concluded because in long run result may be opposite. From this study we can't know the reason behind the merger of Canara bank and Syndicate bank. In this study we only study the growth rate after merger we can apply many techniques on this data which was not used in this paper.

Recommendation for Future studies

There are even more suggestions for future studies. Similar research on the effects of mergers and acquisitions on business performance in other industries, such as the IT and telecommunications sectors, etc. However, in addition to profitability, other performance indicators, such as liquidity ratio and cash flow, may be used to analyze how well businesses that have involved in merger and acquisition activity are performing. The research may then evaluate the financial results of global merger and acquisition or global and local industry mergers and acquisitions are used to study whether for the acquiring or the acquired firms. Finally, a variety of techniques, including the t-test and DEA, might be used. for testing the impact of merger and acquisition on bank financial perfomance..

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