Impact Of Mega Merger On Profitability Of Canara Bank

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Abstract:

Objective of this paper have see the impact of mega merger on profitability of Canara Bank. As Union Finance Minister Nirmala Sitharaman announced the merger of ten big public sector banks (PSBs) into four. The banks which are being merged are Punjab National Bank, Oriental Bank of Commerce, United Bank of India, Indian Bank, Allahabad Bank, Canara Bank, Syndicate Bank, Union Bank of India, Andhra Bank and Corporation Bank, India will now have 12 Public Sector Banks from 27 in 2017. The merger of banks was announced under the Bank Consolidation plan among other major initiatives and steps to speed up the economic growth of India.

Keywords: Merger, Bank, Global, competition, Public sector, Management

Introduction:

Announcing the mega plan of Banks' merger on Friday August 30, 2019 with an aim to have financially strong Public sector banks in India, the Finance Minister of India Nirmala Sitharaman has outlined the Government's plan to merge 10 public sector banks into four large banks. After the mergers, there will be 12 public sector banks in India, including State Bank of India and Bank of Baroda. The merger is expected to make fewer and stronger global-sized Banks to enhance economic growth. As per studies conducted until now most of the mergers done in the past, have proved to be an overall success for the weaker banks although there are no real parameters to verify this observation. Hence going by the track record merger and acquisition in Indian banking have been positive for the Indian Economy.

Mergers and Acquisitions signify a widely used technique to increase the rate of growth in the size of the firmas well as its market share. Mergers and Acquisitions are considered as a relatively fast and efficient approach toexpand into new markets and incorporate new technologies. The Indian banking system has achieved diverse milestones in a relatively short amount of time. This is the world's largest and mainly diverse democracy which itself is a challenge as a body must cater to such a diverse customer base. It is part and package of the agenda of the government to reform the banking region by moving and integrating it into the worldwide financial system. In the past years, there have been different reforms and successful mergers which have had a optimistic impact on the banking sector. Many public sector private sector and other banks are active in mergers and acquisitions activities in India. In the present times, the banking sector is a rapidly growing industry in India. Merging of the Indian banking sector during mergers and acquisitions on commercial considerations and business strategies is a important prerequisite. A

comparatively new development in the Indian banking sector is improved through mergers and acquisitions. It permits banks to reach a world class position and throw advanced value to the stakeholders. Performance of the bank pre and post-merger generally is in the green and improved. Most results state that to a certain extent mergers and acquisitions have been successful in Indian banking sector.

Mergers and acquisitions have moulded the Indian Banking sector in a ideal manner. Though there seem to be different opinions on this, yet there is always desire for an improvement in the current condition after bank mergers. The following are the reasons in favor of the mergers to take place in banks.

Advantages of Bank Mergers

Larger Bank is competent of facing global competition.

The merger will reduce the cost of banking operation.

Merger will result in better NPA and Risk management.

Merger will help in improving the expert standards.

Decisions on High Lending requirements can be taken on time.

For the bank, retaining and attractive its identity as a larger bank becomes easier.

After the merger, benefits of merger are enormous and the biggest is generation of a brand new customer support, empowering of business, increased hold in the market share and opportunity of technology improve. Thus overall it proves to be beneficial to the overall Economy.

Provides better efficiency ratio for business operations as well as banking operations which is valuable for the economy.

Minimization of overall risk is there due to mergers and acquisitions which is always good the business point of view.

Leads to increase in profitability and helps in raising the standard of living which is absolutely important for a growing economy like India.

Chances of survival of underperforming banks increases hence customer trust remains intact which is very important for the Economy. The weaker bank gets merged into stronger one and gets the benefit of large scale operations.

The objectives of financial inclusion and broadening the geographical reach of banking can be achieved better with the merger of large public sector banks and leveraging on their expertise.

With the large scale expertise available in every area of banking operation, the scale of inadequacy which is more in case of small banks, will be minimized.

The merger will help the geologically concentrated regionally present banks to expand their coverage.

Larger size of the Bank will help the merged banks to offer more products and services and help in integrated growth of the Banking sector.

A larger bank can manage its short and long term liquidity better. There will not be any need for overnight borrowings in call money market and from RBI under Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF)

In the global market, the Indian banks will gain greater recognition and higher rating. With a larger capital base and higher liquidity, the burden on the central government to recapitalize the public sector banks again and again will come down significantly.

Multiple posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in substantial financial savings.

Bank staff will be under single umbrella in regard to their service situation and wages instead of facing disparities. Problems Arising due to Mergers & Acquisitions in Indian Banking Most of the troubles arising due to mergers and acquisitions are more emotional and social in nature than technical or managerial.

The major problems which arise are:-

Compliance needed in every decision which might not be favorable as thinking perspectives and risk taking abilities of different organizations are different. It leads to friction and gap which, if not managed well may lead to the breakdown of the organization as a whole.

Banks are merged only on papers. Their people and culture are difficult to change. It is a formula for disaster as it leads to poor culture fit not perfect for the organization or the economy.

Risk of failure increases if the executives are not committed enough in bringing the merger platforms together for the merging and taking over bank. Such failure may prove wicked for the Economy.

Impact of customers on banking merger or acquisition is often quite emotional. If customer perception is not managed with frequent and careful communication it may lead to loss of business which is never good for the Economy.

Managing Director of Federal Bank, V.A. Joseph is of the view that Co-existence of the big, medium and regional banks would be preferable in the present circumstances. According to him most acquisitions in India were borne out of compulsions and over 90 per cent of past acquisitions had failed to achieve the objectives.

Many banks focus on regional banking requirements. With the merger the very purpose of establishing the bank to provide to regional needs is lost.

Large bank size may generate more problems also. Large global banks had collapsed during the global financial crisis while smaller ones had survived the crisis due to their strengths and focus on micro aspects.

With the merger, the weaknesses of the small banks are also transferred to the bigger bank.

So far small scale losses and recapitalization could revive the capital base of small banks. Now if the giant shaped bank books huge loss or incurs high NPAs as it had been incurring, it will be complex for the entire banking system to continue.

Review of Literature:

Sasikala and Sudha (2022) paper titled "post-merger performance of the State Bank of India: An Analysis"stated that Mergers is a important progress in the banking industry, with a long-term impact. period. although preliminary losses owing to NPAs and aggregated losses of partner banks, the bank According to the conclusion, the SBI's performance was satisfactory throughout the post-merger has ever

since generated a profit and returned to a strong place. As a result, SBI's post-merger success will present as a blueprint for future mergers.

Kant (2020) titled "pre-and post-merger of financial performance of Commercial banks in India." The study opined that bank build efficient use of company's asset for enhancing the operational efficiency and makes in-depth study the pros and cons of the merger and acquisition and recommends that bank accept better tools and techniques to overcome Non-Performing Assets.

Tandon et al. (2019) studied "The merger of associate banks with State Banks of India: A pre- and post-merger analysis." The study suggested that SBI's consolidation with its partners led in the development of a monopoly and a lack of competitive strength resulted in a slow rate of growth. The study also addresses a variety of concerns that come out as an obstacle including significant numbers of merged customer accounts, branch overlaps, and various company cultures that must be unified that emerge as the challenge.

Singh and Das (2018) stated "Impact of post-merger and acquisition activities on the financial performance of banks: a study of Indian private sector and public sector banks." The study opined that procedural,physical, and socio-cultural background procedure and policies were critical in the post- merger and acquisition process.

Gupta and Mishra (2017) explains mergers and acquisitions and corporate restructuring are a big part of corporate finance world. Mergers and acquisitions which bring separate companiestogether to form larger ones. This paper highlight on the various ways of the mergers and acquisitions and regulatory implications on the mergers and acquisitions entities.

Burhan and Khan (2017) titled "Impacts of Mergers and Acquisitions on Acquirer Banks' Performance." The study concludes that in the post-merger era, major profitability ratios, including ROE, ROA,net mark-up, and non-mark-up income to total assets, have decreased. In the post-merger period, net interest margin and administrative expenditures to profit before taxes ratios explain just a minor improvement. The liquidity ratios of the acquiring banks have also deteriorated in the post- merger period. Thus, study opined that bank may be better off investing their resources on increasing their networks rather than participating in unsuccessful mergers.

Tatuskar (2016) titled "pre-merger v/s post-merger performance evaluation of public sector banks vis a vis private sector banks in India that have merged during period 1993-94 to 2004-05." The conclusionof study states that that acquiring bank performance during with respect to capital adequacy, asset quality, management efficiency, and earning quality and liquidity management seemed to exhibit slow improvement in the performance during post-merger period in distinction with premerger period.

Kotanal (2016) stated that Mergers and Acquisition is a useful tool for the growth and expansion in any industries and the Indian banking sector is no exception. It is helpful for the survival of the weak banks by mergingin to the larger bank. This study shows the impact of Mergers and Acquisitions in the Indian Banking sector.

Statement of the Problem:

With increasing competition and the economy heading towards globalization, mergers and acquisitions are expected to take place at a much large scale than any time in the past and have played a main role in achieving the competitive edge in the vibrant market environment. While financial services and communication services wereleading in the mergers and acquisitions race, there were many mergers and acquisitions dealt in banking sector aswell and hence the study.

Objectives of the Study:

1. To examine the impact of merger of Syndicate Bank into Canara Bank on deposits, advances, business and net profit of Canara Bank.

2. To provide appropriate suggestions to improve the performance of Canara Bank.

Research Methodology:

The research methodology is the systematic, theoretical analysis of the methods applied to a field of study. It comprises the theoretical study of the body of the methods and principles related with a branch of knowledge. This study seeks to examine the impact of mergers on profitability of anchor banks. The data relatingto the banks were collected from different secondary sources.

Research Design:

Research design is the plan, structure and strategy of study conceived to obtain answers to research questions. Research design is purely a framework or a plan for study that guides in the collection of data. Analytical research plan is adopted for analyzing the data.

Sources of Data:

The secondary sources of data collection are RBI Bulletins, Annual Reports and Manuals of sample banks, Books, Periodicals, Journals, Research Studies, Websites etc.

Tools for Analysis of Data:

The data collected from different secondary sources are analyzed by the descriptive statistics.

Period of the Study:

Three year prior to and one-year post merger have been taken into consideration for the study: ● Pre-merger year2017-19.

• Post-merger year 2020-21.

Limitations of the Study:

The study is limited to recent merger of Syndicate Bank into Canara Bank.

The study is based on secondary data derived from different sources.

The reliability and validity of the outcome of the findings of the present study is based upon data published in different sources.

Profile of Sample Banks:

Canara Bank is an Indian public sector bank situated in Bangalore. It established in 1906at Mangalore by Ammembal Subba Rao Pai. The bank was nationalized in 1969. Outside India, the bank has offices in London, Dubai and New York. Ammembal Subba Rao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore, India, on 1 July 1906. In 1996, Canara Bank became the first Indian Bank

to obtain ISO certification for "Total Branch Banking" for its Seshadripuram branch in Bangalore. Canara Bank hasnow stopped opting for ISO certification of branches.

Syndicate Bank was one of the oldest and main commercial banks of India. It was founded by Upendra Ananth Pai, T. M. A. Pai and Vaman Srinivas Kudva. At the time of its establishment, the bank was known as Canara Industrial and Banking Syndicate Limited. The bank, along with 13 major commercial banks of India, was nationalised on 19 July 1969, by the government of India. It was headquartered in the university town of Manipal, India. On 30 August 2019, Finance Minister Nirmala Sitharaman announced that Syndicate Bank would be merged with Canara Bank. The Board of Directors of Canara Bank permitted the merger on 13 September. The Union Cabinet agreed the shareholders receiving 158 equity shares in the former for every 1,000 shares they hold. Canara Bank merger on 4 March 2020. The merger was completed on 1 April 2020 with Syndicate Bank has become the fourth-largest public sector bank of the country.

Data Analysis and Interpretation:

The core factor that has been taken into consideration for analyzing the impact of mergers on the efficiency of the selected banks are deposits, advances, business and net profit.

Table:1

Comparative Analysis of Deposits in Pre and Post Merger of the Sample Banks (Rs, in Cores)

Pre- merger Deposits	Canara Bank	Syndicate Bank	Canara + Syndicate
2017	495266	259883	755149
2018	524846	272761	797607
2019	599123	260548	859671
Post-merger Deposits			
2021	1010985		
2022	1086341		
Pre-Merger Growth%:			
2018	5.97	4.96	
2019	14.15	- 4.48	
Post Merger Growth %:			
2021	17.60		

Source: Annual Reports.

Table 1 shows the comparative analysis of pre and post-merger deposits of the selected banks. The Canara Bank's deposits before absorption of Syndicate Bank was amounted to Rs. 4,95,266 crores in the year 2017 which was increased to Rs. 5,24,846 crores in the year 2018 and it further increased to Rs. 5,99,123 crores in the year 2019. On the other hand, Syndicate Bank's deposit before merging with Canara Bank was amounted to Rs. 2,59883 crores in the year 2017 which was increased to Rs. 2,72,761 crores in the year

2018 but in the year 2019, the bank's deposits declined to Rs. 2,60548 crores. Thus, growth in deposits of Canara Bank was proportionately more than that of Syndicate Bank as the deposits growth rate of Canara Bank was 5.97% in the year 2018 in contrast with Syndicate Bank which was 4.96%. In the year 2019, the deposits growth rate of Canara bank was 14.15% but on the other hand, the rate of deposits of Syndicate Bank is recorded at - 4.48% which clearly indicate a decline in the rate of deposits. The Table 4 also indicated that after merger, Canara Bank has witnessed an exponential growth in deposits which amounted to Rs. 10, 10,985 crores in the year 2021 which is 17.60% more than the combined deposits of Canara Bank and Syndicate Bank as in the year 2019.

Table:2

Comparative Analysis of Advances in Pre and Post Merger of Sample Banks (Rs. in Crores)

Pre- merger Advances	Canara Bank	Syndicate Bank	Canara + Syndicate
2017	342320	199669	541989
2018	382075	210684	592759
2019	428115	205044	633159
Post-merger Advances			
2021	639287		
2022	703864		
Pre-Merger Growth%:			
2018	11.61	5.52	
2019	12.05	-2.68	
Post Merger Growth %:			
2021	0.97		

Source: Annual Reports

The Canara Bank's advances before absorption of Syndicate Bank was amounted to Rs. 3,42,320 Table 2 exhibits the comparative analysis of advances in the pre and post-merger of selected banks. crores in the year 2017 which was increased to Rs. 3,82,075 crores in the year 2018 and it further increased to Rs.4,28,115 crores in the year 2019. The Syndicate Bank's advances before merging with Canara Bank was reported in their annual report as follows- Rs. 199669 crores in the year 2017; Rs. 2,10,684 crores in the year 2018 and Rs. 205044 crores in the year 2019. Thus, the growth rate of advances of Canara Bank was proportionately more than that of Syndicate Bank's growth rate. It can be clearly seen from the table that rate of advances of Canara Bank has been increased by 11.61% and 12.05% in the year 2018 and 2019 respectively whereas the rate of advances of Syndicate Bank has shown a mere growth of 5.52% in the year 2018 and -2.68% in the year 2019.The table also witnessed that after the merger of Canara Bank and

Syndicate Bank, the advances in the year 2021 was amounted Rs. 6,39,287 crores which was 0.97% more than the total advances of Canara Bank and Syndicate Bank as in the year 2019.

Table:3

Comparative Analysis of Business in Pre and Post Merger of Sample Banks (Rs. in Crores)

Pre- merger Advances	Canara Bank	Syndicate Bank	Canara + Syndicate
2017	837586	459552	1297138
2018	906922	483445	1390367
2019	1027238	465592	1492830
Post-merger Advances			
2021	1650272		
2022	1790205		
Pre-Merger Growth%:			
2018	8.28	5.20	
2019	13.27	3.69	
Post Merger Growth %:			
2021	10.55		

Source: Annual Reports

Table 3 reveals the comparative analysis of business in the pre and post-merger of banks. The business comprises of the advances and deposits of the banks. The Canara Bank's business before absorption of Syndicate Bank amounted to Rs. 8, 37,586 crores in the year 2017, Rs. 9, 06,922 crores in the year 2018 and Rs. 10, 27238 crores in the year 2019. On the other hand, Syndicate Bank's business before merging with Canara Bank was amounted to Rs. 4, 59552 crores; Rs. 4, 83,445 crores, Rs. 4, 65592 crores in the year 2017, 2018 and 2019 respectively. Thus, business growth of Canara Bank is proportionately more than that of Syndicate Bank's business growth rate. In the year 2018 and 2019, the business growth of Canara Bank was 8.28% and 13.27% respectively in contrast with the business of Syndicate Bank which was only 5.20% in the year 2018 and showed a negative change of 3.69% in the year 2019. The Canara Bank has witnessed an exponential growth in business after the merger which amounted to Rs. 16, 50272 crores which is 10.55% more than the total business of Canara Bank and Syndicate Bank as in the year 2019.

Table:4

Comparative Analysis of Net Profit in Pre and Post Merger of Sample Banks (Rs. in Crores)

Pre- merger Net Profit	Canara Bank	Syndicate Bank	Canara+ Syndicate
2017	1234	362	1594

2018	-4087	-3221	-7308
2019	547	-2588	-2041
Post-merger Net Profit			
2021	2702		

Source: Annual Reports

Table 4 gives a comparative picture of net profit in the pre and post-merger of the selected banks. Before acquiring Syndicate Bank, Canara Bank recorded net profit of Rs. 1,234 crores in the year 2017, reported a net loss of Rs. 4,087 crores in the year 2018 and thereafter earned a net profit of Rs.547 crores in the year 2019. The Syndicate Bank earned a net profit of Rs. 362 crores in the year 2017 and incurred losses amounting to Rs. 3,222 crores and Rs. 2,588 crores in the year 2018 and 2019 respectively. It is quite evident from the above table that Canara Bank has earned net profit of Rs. 2,702 crores in the year 2021 after the absorption of Syndicate Bank.

Findings of the Study:

Deposits: The deposits of Canara Bank after merger has been increased by 17.60%, in comparison to the combined deposits of Canara Bank and Syndicate Bank which amounted to Rs. 8,59,671 crores. The obvious reasons for such an increment in deposits may be improved service quality, financial inclusion initiatives, diversified product portfolio financial innovation, attractive interest rate of deposits as after merger the financial system structure of banks became stronger.

Advances: The advances of Canara Bank after merger gone up by 0.97% in comparison to the combined advances of Canara Bank and Syndicate Bank which was Rs. 6,33159 crores. The substantial increase in advances may be due to the improving cash recovery and credit rating, infusion of funds through investing various profitable portfolios by bank, better fund management, improving operational efficiency and exponential growth of interest income.

Business: The business of Canara Bank after merger have been gone up to 10.55%, in the year 2021 in comparison to the combined business of Canara Bank and Syndicate Bank which was Rs. 14,92830 crores. The driving forces behind such a hike in the business of the banks is successful leveraging of synergy benefits such as increased scale of operation by establishing new franchise either through new geographies or by growing market share, wider spectrum of product portfolios, improving credit rating, asset quality and revamping organizational structure.

.Net Profit: The merged bank viz. Syndicate Bank prior to merger reported net losses amounted to Rs. 2588 Crores. On the other hand, the pre-merger net profit of Canara bank for the year 2019 is Rs. 547 crores. The postmerger profitability position of the anchor bank, i.e., Canara Bank stood as Rs.2,702 crores in the year 2021. The mainspring behind this substantial transformation in the profitability positions of the banks are improved managerial efficiency, lower credit and liquidity risk, diversified business risk, reduced cost of funds, expansion in market share and financial innovation etc.

Suggestions for Improvement:

The following are the suggestions of study which are as follows:

The sensitivity analysis of the employees is to be addressed while considering merger of banks as the whole system of acquiring and acquired banks completely change which significantly influence the working culture the employees.

Before taking any strategic decision regarding merger, the Government should consider the pros and cons of mergers as these challenges may severely impact the normal functioning of the banks after merger.

After merger of banks, the staff of acquired banks should be provided with the proper training, enabling them to work efficiently and effectively.

The strong banks should not be merged with the weak banks as they will create the hostile position of strong bank after merger. The strong bank may face problems such as booming out operating cost, higher defaulter rate and poor fund management, etc.

RBI should provide roadmap to acquiring bank regarding improvement in financial performance in global financial market and to face challenges of technology integration after merger of banks. Conclusions: The banking industry has been experiencing major mergers and acquisitions in the recent years, with several global players emerging through successive mergers and acquisitions in the banking sector. The current study indicates that the pre- and post- merger of Syndicate Bank into Canara Bank have positive changes in deposits, advances, business and profitability during the study period. But in future, there are robust projections of improvements in profitability. However, results specify that riskier activity, most of the weak banks after the merger has outperformed positively. This mergers led to higher level of cost efficiencies for the merging banks. Even though the merger is a outperformance is itself the success of merger.

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