RETHINKING FINANCIAL PERFORMANCE - BANK OF BARODA PRE AND POST-MERGER WITH VIJAYA AND DENA BANK

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Abstract

Now a days, mergers and acquisition emerge as a reality. One way to improve the banking industry in India is via mergers between banks. Banking consilidation for public sector bank is being pushed by government. On 1 April 2019, the merger of Vijaya Bank and Dena Bank with the Bank of Baroda came into force. After the merger, Bank of Baroda became the third biggest bank and second-largest public sector bank to servicing banking and improving the Indian Economy. Now one year has gone from the merger so it is time to evaluate if this three-way merger has provided an anticipated outcome. Bank of Baroda's post-merger financial performance demonstrates a good outcome. At the end of the first year of the merger, the Bank of Baroda recorded a net profit of Rs. Rs. 546.2 Crore. A comparison of Bank of Baroda's operational and financial performance during the pre-and post-merger period is made in this research study. Comparative data was gathered from websites, publications, and yearly reports as well as primary sources for this research, and the results were presented in the form of charts. A repeated measure Analysis of variance will be used to analyse the data.

Keywords: Financial Performance, Bank of Baroda, Merger, Vijay Bank, Dena Bank.

1. INTRODUCTION

Because our economy is built on the strength of the financial sector, it is critical to maintain it in good shape. In response to this need for expansion, merger and acquisition activity has risen across the board, with Indian banks joining in on the frenzy (M&A). Initially, bank mergers aimed to rescue underperforming or inefficient institutions, but as time passed, so did the financial system. Recently, mergers and acquisitions have also been done based on corporate expansion, profitability, and organisational structure.. It's possible that everyone who holds an account with a public sector bank, such as the country's second-largest PNB, would be affected by the merger and reduction to 12. Creating next-generation banks was critical, according to Nirmala Sitharaman, India's finance minister, if the country is going to grow to a $5 trillion economy in the next five years. When 27 state-owned enterprises (PSUs) merge to become 12, it has a positive* Synergized *effect on the Banking Books of Accounts. Combined, the new Banks will only make profitable loans based on a consortium model. Banking efficiency will improve as a result of the merger of the PSUs, and the previous NPAs might be securitized using a different refinancing strategy. Bank NIFTY's profitability on the equity stock market will be enhanced by complying with the Basel Accord III requirement of maintaining Capital to Risk-Weighted Assets of PSUs (NSE). SBI has a 21.8 percent market share, followed by HDFC Bank with an 8.4 percent share and the combined Bank of Baroda with a 6.9 percent stake. With a market share of 6.1%, ICICI Bank will drop to fourth place.

402 equities Share of Bank of Baroda will be exchanged against 100 equities share of Vijaya Bank under the share exchange ratio. Investors in Dena Bank will get 110 equity shares in Bank of Baroda for every 1,000 Dena Bank shares they own. The government's stake in the combined company would climb from 63.7 percent to 65.7 percent as a result of the share exchange ratio.Combined Bank of

Baroda will have 9,511 branches in India, according to market experts. Dena Bank and Vijaya Bank have a regional emphasis, but BoB already has a vast network. As a result, Bob will be better positioned in the western, southern, and northern region and this development will reduce public sector bank number to 19 from 21.

For the government, combining would result in a "strong, internationally competitive bank." "Using scale economies and extensive synergies between Vijaya Bank and Dena Bank, Baroda bank was created. It is expected that BOB would acquire all of the other two banks' assets and liabilities as well as all of their properties, borrowings, liabilities, and commitments. For this reason, we believe that banks with healthier balance sheets (like Vijaya Bank) would be able to sell their businesses for a higher price while failing franchisees (like Dena Bank) will be bailed out at a discount since Dena Bank's rescue was costly. A change in the swap ratio is due to net non-performing assets (NPAs). According to Elara Capital, here's what they had to say: It's expected that the near-term performance of Bank of Baroda will be negatively affected by this merger due to cultural and social issues, network overlap, and integration of the business team. However, market analysts expect this merger to go smoothly in terms of back-end technology integration because all three banks use the Finacle CBS Platform.

2. REVIEW OF LITERATURE

Corporate goverrnace and strategic management is be to rationalised and improvised for indian banking system to global standard by merging local banks into large ones, according to Kasliwal & Gupta (2021). The data used in this research was derived from secondary sources. This study's result was reached via the process of fusion. By using various forms of networks, banks may boost their capital and profitability and so enhance their operations. Adhana and Raghuvanshi (2020) examined the operations, deposits, and non-performing assets of 18 public sector banks (NPA). The conclusion of this paper: after a merger of the chosen institutions, a large bank would dominate the worldwide market, while smaller regional banks would concentrate on the domestic market. The major goal of this research is to learn about the effects of a public sector bank merger on consumers. According to the findings of this research, if certain banks combine, the Big Bank will focus on worldwide markets, while the second tier of middle-level banks would concentrate on the domestic market.

Merger and acquisition of Bob was discussed by Hinal and Divekar's (2020) research paper. According to the author, one of the most effective growth vehicles is a merger or purchase. It turns out, according to this research, that the repercussions of the global economy make it impossible for small banks to stay afloat, which is why they merged. The finance minister has ordered the merging of 10 public sector banks into four, according to an article written by Jenna Assis and Major Dr U Abdul Khalam in (2020). Banks in India include Indian bank with Allahabad, Oriental bank with United, Canara with Punjab national, Union Bank of India and Corporation Bank, and Bank of Andhra with Andhra State Bank among others that are being considered for the merger. As an additional point of interest, the Central Government has announced a capital infusion into Public Sector Banks of Rs. 55,000 crores.

As noted by Ashok Botta (2019), mergers in the banking industry, such as those between Bank of Baroda, Vijaya Bank, and Dena Bank, provide competitive advantages. Combination and acquisition as a strategic instrument for merger parties to generate specific synergies in general. The research looked at people who were involved in mergers for a variety of reasons. Manju Rajan Babu, a student at the University of Hyderabad, says: This study's primary goal is to compare the profitability and liquidity positions of the merging banks before and after the transaction. The research looked at 17 public and private banks between 1998 and 2016. In order to assess the performance, data envelopment analysis and the CAMELS (Capital adequacy, Asset quality Management) Approach are utilised. According to the findings, the financial performance of Indian banks has improved in the years after the merger.

Ritesh Patel (2018): The goal of this research was to compare the long-term profitability positions of selected Indian banks before and after the merger. To see whether his hypothesis is correct, he employed a descriptive study design, a basic research technique, and paired t-tests. His research showed that mergers hurt financial performance. However, following the merger, profit per employee, earnings per share, and business per employee have all risen. As reported by Sonia Singh and Subhankar Das in the first issue of 2018, In the Indian banking industry, it covers the period before and after six years of merger and acquisition activity and evaluates performance in that area. Financial criteria such as Operating Profit Margin, Net Profit Margin, Return on Capital, Earnings Per Share, Employed, Return on Equity, Capital Adequacy Ratio, and Dividend Per Share are used to analyse the data. The CAMELS method and parametric t-test are used in the data analysis. The results are presented. In the end, the analysis found that although the market initially reacted badly to the acquisition announcements from the majority of banks, total shareholder value was either destroyed or created for both public and private investors.

According to Jenifer Piesse et al. (2013), merger is an effective organizational technique utilized by corporations to accomplish a variety of goals and also serves as a vehicle for market correction. They stated that mergers and acquisitions give banks the opportunity to share their assets, reduce costs, and realise economies of scale, all of which have a significant impact on the economic and operational presentation of banks in the country. This paper looks at how the recent bank mergers and acquisitions in India have affected the financial exposition of one open and one private segment bank, particularly after the 13th and 26th of August 2010 mergers of Rajasthan Bank with ICICI, and State Bank of Indore with SBI. ICICI Bank integrates all of Bank of Rajasthan's divisions as if they were a single entity. It cost the ICICI Bank Rs 3000 crore. The ICICI Bank updated its branch network after the merger, which now includes over 25000 branches and over 5600 ATMs.

As Kanhaiya Singh & Poonam Singh indicated in 2014, certain early warning signs may be seen before the merging of a weak business. Their study, "Early Warning Signals of Merger of Banks- A Case Study of Global Trust Bank and Centurion Bank of Punjab in India" was published in 2014. Important ratios include net non-performing assets (NPAs) to total advances (TAAs) and operational profits (OPFs) to working capital (CAFs). These variables have a direct bearing on the bank's financial health. When a bank is in the acquisition era, even 3 to 4 years before the merger, these metrics provide negative or worsening signs. Instead, if the merger is meant to promote synergy and business development for the parties involved, favourable indications may be noticed with regard to the aforementioned metrics. A failing bank's financial health may be restored by taking proactive actions as soon as negative indications are detected. The CAMELS model has been introduced by the RBI to evaluate the bank's performance, and it's a great tool for the bank to employ when taking remedial action. Using the data from the Indian Overseas Bank merger, researchers V Radha Naga Sai and Dr. Syed Tabassum Sultana examined the four years before and after the merger's impact on key financial ratios, such as net profit margin, return on capital employed, operating profit margin, return on equity, and debt-to-equity ratio. However, in terms of Gross Profit Margin, there is no discernible difference. There was no substantial change in the Return on Equity or Debt-Equity Ratio, Operating Profit Margin, before and after the merger, according to a review of three years of HDFC bank financial parameters. The Gross Profit Margin, on the other hand, shows a large difference.

A report published in 2012 by Dutta and Dawn, "Merger and acquisitions in Indian banks post-liberalization: An analysis," examined five bank mergers. Specifically, Oriental Bank of Commerce (2003), Bank of Baroda (2002), HDFC Bank (2000), and Punjab National Bank (2003). The combined institutions' increase in total assets, income, earnings, deposits, and staff numbers were all taken into account while evaluating their success. To compare the pre-and post-merger performance of the combined institutions, the researchers used four years of pre-and post-merger data. In conclusion, the post-merger eras were successful, with large increases in total assets, income, earnings and deposits at the anchor companies in India's banking sector, as well as the number of workers of these businesses. To compare Finland's merger activity with that of other nations, Ali-Yrkko and Jyrki (2002) created benchmarks or benchmarks against other countries. They found that market capitalization, Gross domestic product, and the number of publicly traded enterprises explain the majority of the cross-sectional and time-series variance in merger activity among nations. According to this study, merger reasons may be attributed to both macro-industrial and firm-level variables.

2.1. RESEARCH OBJECTIVES

1. To study the financial performance of Bank of Baroda Pre and Post-Merger with Vijay and Dena Bank.
2. To rethink on financial impact and new policy initiatives.

2.2. RESEARCH METHODOLOGY

The goal of this research is to examine Baroda Bank's financial performance both before and after the merger. Researchers used two time periods to test their hypothesis: one year before the merger and two years after it. The whole three-year period is taken into account. As a result, the researcher took into account several financial performance metrics for the Bank of Baroda. Such as Total Reserves and Surplus, Deposits, Borrowings, call money, Number of Employees, Investments, Balances with Reserve Bank of India, Advances Fixed Assets, Net NPA To Advances (%), Other Assets, Number of Branches, Gross NPA, Net NPA (%), has been considered.

Methodology - The researcher has used the repeated measure analysis of variance technique to analyse the financial performance of the Bank of Baroda with both pre-and post-merger.

Data collection - official website of the Bank of Baroda and reserve bank of India was accessed for the purpose of authantic data collection, few of the indicators have also been taken from the official website of money control.com, and therefore this study is purely based upon the secondary data collection method only.

2.3. **Research Hypothesis**

H_0 - There is no significant difference in the financial performance of Bank of Baroda Pre and Post-Merger with Vijay and Dena Bank.

H_1 - There is a significant difference in the financial performance of Bank of Baroda Pre and Post-Merger with Vijay and Dena Bank.

3. Analysis

Table.1. Descriptive

Indicators	**2021-03-01**	**2020-03-01**	**2019-03-01**
Total Reserves and Surplus	76010	70931	45411
Deposits	966997	945984	638690
Borrowings	66848	93069	67201
cash and Balances with the Reserve Bank of India	38841	32646	26662
Balances with Banks Money at Call and Short Notice	81572	89255	62568
Investments	261220	274615	182298
Advances	706301	690121	468819
Fixed Assets	8016	8889	6990
Other Assets	59415	62390	33651
Number of Branches	8310	9528	5598
Number of Employees	82000	84283	55754
Gross NPA	66671	69381	48233
Gross NPA (%)	9.00	9.00	10.0
Net NPA	21800	21577	15610
Net NPA (%)	3.09	3.13	3.33
Net NPA To Advances (%)	3.00	3.00	3.00

Descriptive statistics table indicates that in the year March 2021, total Reserves and Surplus were 76010 crores, and March 2020, Reserves and Surplus were 70931 crores and by the end of March 2019, it was only 45411 crores only that indicated and enough to indicate that how this merger has changed the financial indicators of the bank.

One of the other indicators, which has benefitted the bank of Baroda, is Non-Performing Asset (NPA) that was 3.33% of their total loans and advance, and by the end of March 2021, it was 3.09% which indicants better position of bank default loans and advances. Other indicators such as Total Reserves and Surplus, Deposits, Borrowings, Call Money, Number of Employees, Investments, cash and Advances Fixed Assets, Net NPA To Advances (%), Other Assets, Number of Branches, Gross NPA, Net NPA (%), also shown positive and benefitted situation for the bank.

Table. 2. Mauchly's Test of Sphericity [a]

Within Subjects Effect	Mauchly's W	Approx. Chi-Square	Df	Sig.	Epsilon		
					Greenhouse-Geisser	Huynh-Feldt	Lower-bound
Years	.026	55.032	2	.000	.506	.508	.500

The sphericity assumption must be satisfied before you can accept the p-value given by the typical repeated-measures ANOVA. We don't care what this implies; all that matters is how to determine if the criteria have been met. A p-value higher than or equal to.05. is what we're after here. p =.506; hence, the assumption of sphericity is met.

Table. 3 .Tests of Within-Subjects Effects

Source		Type III Sum of Squares	Df	Mean Square	F	Sig.
years	Sphericity Assumed	26298972115.626	2	13149486057.813	4.967	.013
	Greenhouse-Geisser	26298972115.626	1.013	25963570437.119	4.967	.040
	Huynh-Feldt	26298972115.626	1.016	25897173342.230	4.967	.040
	Lower-bound	26298972115.626	1.000	26298972115.626	4.967	.041

Error(years)	**Sphericity Assumed**	**84722688465.922**	**32**	**2647584014.560**		
	Greenhouse-Geisser	**84722688465.922**	**16.207**	**5227636559.178**		
	Huynh-Feldt	**84722688465.922**	**16.248**	**5214267832.349**		
	Lower-bound	**84722688465.922**	**16.000**	**5295168029.120**		

Due to our data meeting the sphericity requirement (which we just mentioned), we can interpret our result from the top row right away. F is 4.967, and the p-value of.013 indicates significance (which is less than the .05 alpha level). This signifies that the means of the various levels of the within-subjects variable vary statistically significantly.

We would have had to resort to one of the alternative univariate tests if our data did not meet the sphericity condition. You'll see that although the stated degrees of freedom are all the same, the reported value for F varies. Greenhouse-Geisser and Huynh-Feldt both give significant findings in our situation; the difference is too little to affect the p-value.

4. DISCUSSION

On the premise of synergy, mergers are often promoted. A huge pool of employees in the combined company may be put to work to enhance sales, extend reach, and provide additional services or goods. Bank of Baroda and Dena had a greater foothold in western India, whereas Vijay Bank was dominant in the south. Both the new company and its consumers would benefit from easier access as a result. It's a win-win situation for the government and regulators, since the new bank would have a lower NPA (non-performing assets) percentage than Dena Bank (NPA ratio: 11.04%; NPA ratio: 5.40%; NPA ratio: 4.10%). Instead of being pulled down by bad financials and compelled to stop lending, this might imply reduced government capital requirements and an increased flexibility for major banks like the one suggested lending more on their larger capital base (12.25 percent) and developing their businesses.

5. CONCLUSION

Being competitive is a way to survive in the market particularly about banking services in this country. post liberalization the public sector banks started experiencing tough competition from the private sector banking that resulted in losses for the public sector banks and their weaknesses were exposed, therefore to keep them competitive and to make them survive in the most competitive banking market the Government of India has initiated the process of merger and acquisition in the recent years, therefore the Vijaya and Dena Bank merged with Bank of Baroda and that has resulted in a very constructive influence on the financial performance of the 3 banks. Synergically effect has benefited all 3 banks and this has been observed in this research too.

This research evaluates the long-term profitability situation of Bank of Baroda before and after the merger over the 2019-2021 timeframe using the repeated measure analysis of variance approach. Selected financial factors were used to compare financial performance before and after the merger such as Total Reserves and Surplus, Deposits, Borrowings, Call Money and Short Notice, Number of Employees, Investments, Balances with Reserve Bank of India, Advances Fixed Assets, Net NPA To Advances (%), Other Assets, Number of Branches, Gross NPA, Net NPA (%). Except for Non-performing assets every other financial indicator has increased and has resulted positively for the bob, which shows a strong financial position and probably a good future for the bank.

6. Future Scope of the Study

This research has been remained concerned particularly to the Bank of Baroda only, in the future The Other bank's merger and acquisition and its impact on their financial performance can be evaluated, apart from that, a model-based study can also be done, where a regression model can be applied to assess the impact of merger on the financial profitability of another bank. A study can also be carried out to analyses the difference in the financial performance of public and private sector banks post-merger and acquisition in the Indian banking scenario.

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