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Merger and Acquisition in the Banking Sector: A Study On Merger And Acquisition By Bank Of Baroda

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Abstract
Mergers and acquisitions (M&A) have become increasingly common in the banking sector over the past few decades. This study aims to investigate the trends, motives, and outcomes of M&A activities in the bank of Baroda, with a focus on the impact of M&A on the financial performance of the merged entities.
The findings of this study indicate that M&A activities in the banking sector are driven by several motives, including achieving economies of scale, diversification, expansion into new markets, and consolidation. The study also found that the impact of M&A on the financial performance of the merged entities varies based on several factors, such as the size of the merging entities, the mode of financing, the level of regulatory scrutiny, and the cultural compatibility between the merged entities.
Overall, the study concludes that M&A activities in the banking sector can create significant value for shareholders, but they also pose several challenges. Successful M&A activities require careful planning, effective integration, and proper risk management to achieve their intended objectives. The study recommends that banks considering M&A activities should carefully evaluate the potential benefits and risks, seek regulatory approvals, and ensure effective post-merger integration to maximize the benefits of M&A.

Keyword: Mergers, Acquisitions, Amalgamation, Bank of Baroda, Vijaya Bank, Dena Bank.

Introduction
Banks have emerged as intermediaries for the flow of money to cater to the needs of the 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 that 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.

This industry has implemented several different approaches, which are productive and lead the world in the growing climate. In the restructuring process, mergers and acquisitions were one such technique.
"The merger is a merger of two or more enterprises via direct procurement by one or another of the net assets of the other company or others. No new enterprise is created during the merger" (Heric L. Kohler). The seller business stays involved in the acquisitions and the acquired company or the intended organization is merged into the purchasing group. Buy is a business activity in which an enterprise acquires all or most of its ownership to control the target company. In other words, an acquisition is made when one company takes charge of or buys another, whereas a merger is a situation where two companies agree to continue to operate and remain one new company. "It is said that a purchase takes place if one company buys an asset or another company's stock."
Banking Industry has witnessed large-scale mergers in recent times, which was earlier often sought as a solution in the corporates to improve efficiency and profitability. Bank mergers and acquisitions are more often witnessed across Europe and America.
We have witnessed a 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 the recovery of loans. This would result in incurring losses and failing to meet the liquidity needs of the deposits side. There have been mergers of both Public Sector Banks and Private Sector Banks.

SOME OF THE PAST MERGED BANKS

Acquirer Bank	Merged Bank
Canara Bank	Syndicate Bank
Punjab National Bank	Oriental Bank of Commerce United Bank of India
Indian Bank	Allahabad Bank
Union Bank of India	Andhra Bank Corporation Bank
Bank of Baroda	Vijaya Bank Dena Bank
State Bank of India	State Bank of Travancore State Bank of Hyderabad State Bank of Bikaner and Jaipur State Bank of Patiala State Bank of Mysore Bharatiya Mahila Bank

Advantages for Bank Mergers and Acquisitions in banking sector

1) **Merger of weak banks:** The practice of merger of weak banks with strong banks was going on in order to provide stability to weak banks but the Narsimhan committee opposed this practice. Mergers can diversify risk management.

2) **Increase market competition:** Innovation of new financial products and consolidation of the regional financial system are the reasons for the merger. Markets developed and became more competitive and because of this market share of all individual firms reduced so mergers and acquisitions started.

3) **Economies of scale:** Capability of generating economies of scale when firms are merged.

4) **Skill & Talent:** Transfer of skill takes place between two organisations takes place which helps them to improve and become more competitive.

5) **Technology, New Services, and Products:** Introduction of e-banking and some financial instruments / Derivatives. The removal of the entry barrier opened the gate for new banks with high technology and old banks can't compete with them so they decide to merge.

6) **Positive Synergies:** When two firms merge their sole motive is to create a positive effect that is higher than the combined effect of two individual firms working alone. Two aspects of it are cost synergy and revenue synergy.

LITERATURE REVIEW

- **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 the Central Government regarding the capital infusion of Rs. 55,000 crores into the Public Sector Banks is noteworthy.
- **Sinha Pankaj & Gupta Sushant (2011),** studied a pre and post analysis of firms and concluded that it had a positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of a few years of mergers and Acquisitions(M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger acquisitions that have not been able to manage their liquidity study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some finance parameterst like Earnings before Interest and Tax (EBIT), Return shareholderder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.
- **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 there 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.
- **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

This research paper is based on secondary data. The data is collected from various published sources like E-Journals, newspapers, Magazines, articles, online resources, and other references.

A Study On The Mergers And Acquisition Of Bank Of Baroda

On 20th July 1908, Bank of Baroda was established as a private bank by the Maharaja of Baroda, Maharaja Sayajirao Gaekwad III. Bank of Baroda has headquarters in Gujarat in Vadodara formerly known as Baroda. It has a corporate office in Maharashtra in Mumbai.

Bank of Baroda is India's leading public sector bank with a strong domestic presence supported by self-service channels. The Bank's distribution network includes 8,200+ branches, 10,000+ ATMs, 1,200+ self-service e-lobbies, and 20,000 Business Correspondents. The Bank has a significant international presence with a network of 100 branches/offices of subsidiaries, spanning 20 countries.

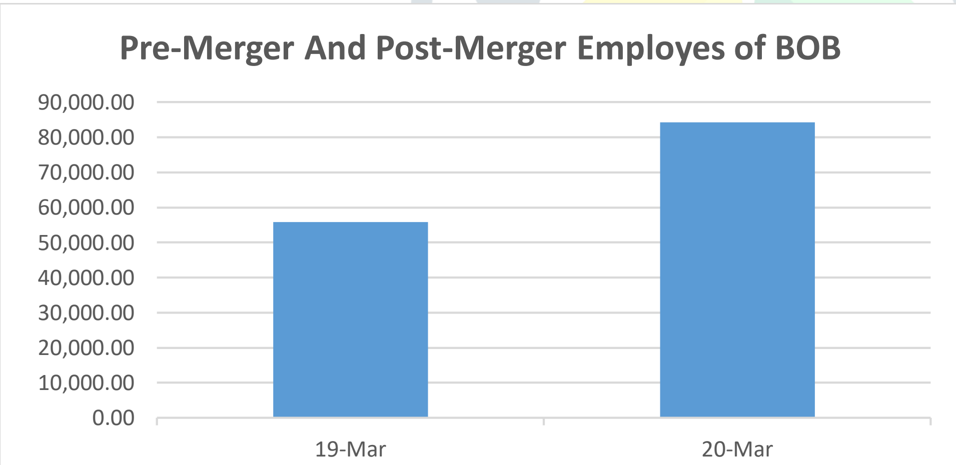
- A second consortium or joint-venture bank followed in 1985. BOB (20%), Bank of India (20%), Central Bank of India (20%) and ZIMCO (Zambian government; 40%) established Indo-Zambia Bank in Lusaka. That same year BOB also opened an Offshore Banking Unit (OBU) in Bahrain (Gulf).
- In 1996, BOB Bank entered the capital market in December with an initial public offering (IPO). The government of India is still the largest shareholder, owning 66% of the bank's equity.
- In 1997, BOB opened a branch in Durban. The next year BOB bought out its partners in IUB International Finance in Hong Kong. Apparently, this was a response to regulatory changes following Hong Kong's reversion to the People's Republic of China.
- In 1999, BOB merged with Bareilly Corporation Bank in another rescue. At the time, Bareilly had 64 branches, including four in Delhi. In Guyana, BOB incorporated its branch as a subsidiary, Bank of Baroda Guyana. BOB added a branch in Mauritius and closed its Harrow Branch in London.
- In 2000 BOB established the Bank of Baroda (Botswana). The bank has three banking offices, two in Gaborone and one in Francistown. In 2002, BOB converted its subsidiary in Hong Kong from a deposit-taking company to a Restricted License Bank.
- In 2002 BOB acquired Benares State Bank (BSB) at the Reserve Bank of India's request. BSB had been established in 1946 but traced its origins back to 1871 and its function as the treasury office of the Benares state. Also in 2002, BOB listed Bank of Baroda (Uganda) on the Uganda Securities Exchange (USE). The next year BOB opened an OBU in Mumbai.
- In 2004 BOB acquired the failed south Gujarat Local Area Bank. BOB also returned to Tanzania by establishing a subsidiary in Dar-es-Salaam. BOB also opened a representative office in Kuala Lumpur, Malaysia, and Guangdong, China.
- In 2005 BOB built a Global Data Centre (DC) in Mumbai for running its centralized banking solution (CBS) and other applications in more than 1,900 branches across India and 20 other counties where the bank operates. BOB also opened a representative office in Thailand.
- In 2006 BOB established an Offshore Banking Unit (OBU) in Singapore.
- In 2007, its centenary year, BOB's total business crossed 2.09 trillion (short scale), its branches crossed 2000, and its global customer base 29 million people.
- In 200 8 BOB opened a branch in Guangzhou, China (02/08/2008) and in Kenton, Harrow United Kingdom. BOB opened a joint venture life insurance company with Andhra Bank and Legal & General (UK) called India First Life Insurance Company.
- In 2009 Bank of Baroda (New Zealand) was registered. As of 2017, BOB (NZ) has 3 branches: two in Auckland, and one in Wellington.

- In 2010 Malaysia awarded a commercial banking license to a locally incorporated bank to be jointly owned by Bank of Baroda, Indian Overseas Bank and Andhra Bank.
- In 2011 BOB opened an Electronic Banking Service Unit (EBSU) at Hamriya Free Zone, Sharjah (UAE). It also opened four new branches in existing operations in Uganda, Kenya (2), and Guyana.
- On 17 September 2018, the government of India proposed the merger of Dena Bank and Vijaya Bank with the Bank of Baroda, pending approval from the boards of the three banks, effectively creating the third largest lender in the country.
- The merger was approved by the Union Cabinet and the boards of the banks on 2 January 2019.
- Under the terms of the merger, Dena Bank and Vijaya Bank shareholders received 110 and 402 equity shares of the Bank of Baroda, respectively, of face value ₹2 for every 1,000 shares they held. The merger came into effect on 1 April 2019. Post-merger, the Bank of Baroda is the third largest bank in India, after the State Bank of India and HDFC Bank.
- The consolidated entity has over 9,500 branches, 13,400 ATMs, 85,000 employees, and serves 120 million customers. The amalgamation is the first-ever three-way consolidation of banks in the country, with a combined business of Rs14.82 trillion (short scale), making it the third largest bank after the State Bank of India (SBI) and ICICI Bank.
- Post-merger effective 1 April 2019, the bank has become India's third largest lender behind SBI and ICICI Bank.

Study On The Financial Performance Of Bank Of Baroda, Dena Bank And Vijaya Bank Pre-Merger And Post-Merger Analysis:

Operation Analysis of Merger

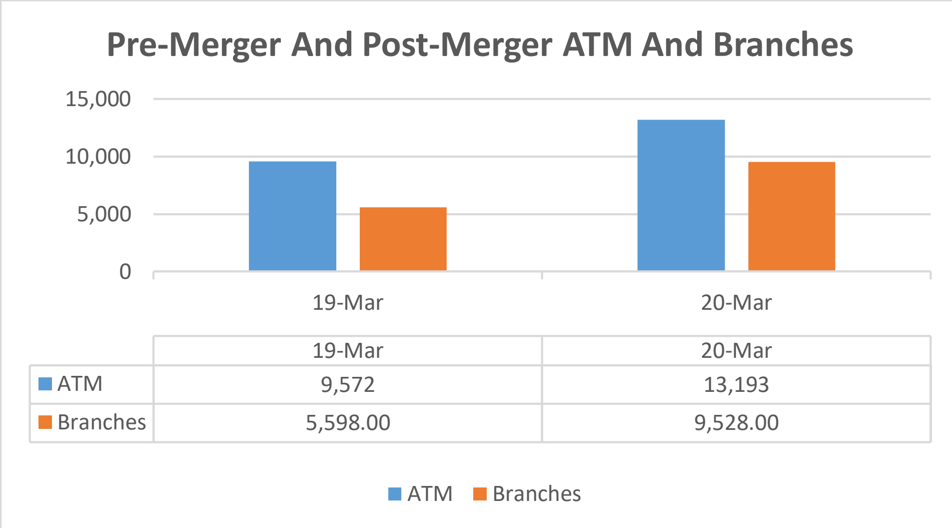
The operational performances of Bank of Baroda after the merger are analyzed as follow:



	19-Mar	20-Mar
Employes	55,754.00	84,283.00

Source: BOB Annual Reports

The number of employees of Bank of Baroda as on March 31, 2019 was 55754, and after the merger number of employees was 84283. The total number of employees increased by 28,529 in number and 51.17% in percentage.

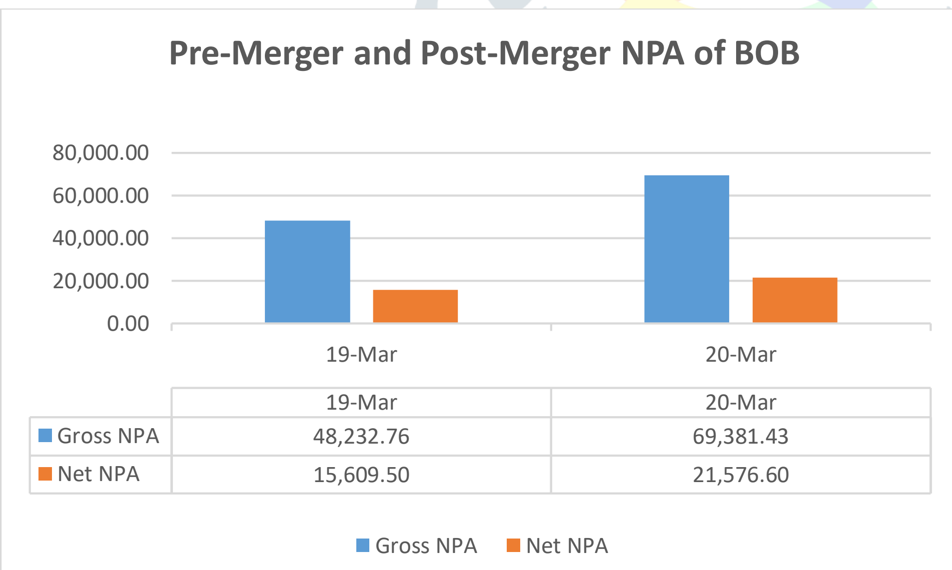


Source: BOB Annual Reports

The standalone branches of Bank of Baroda were 5,553 before the merger as of 31st March 2019. After one year of the Merger, the number of branches increased to 9,482 at the end of 31st March 2020. The standalone ATMs of Bank of Baroda were 9,572 before the merger on 31st March 2019. At the end of the first year of the Merger, ATMs reached 13,193. After the end of the First year of the Merger 3929 branches and 3621 ATMs of Bank of Baroda increased by 70.75% branches and 37.83 % ATMs respectively.

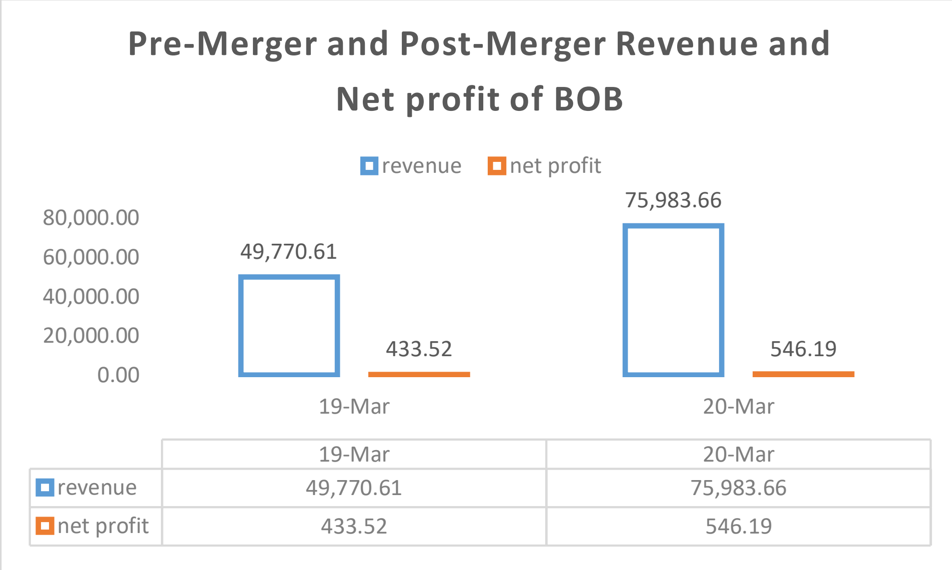
Financial Analysis of Merger

The pre-merger and post-merger financial analysis of Bank of Baroda.



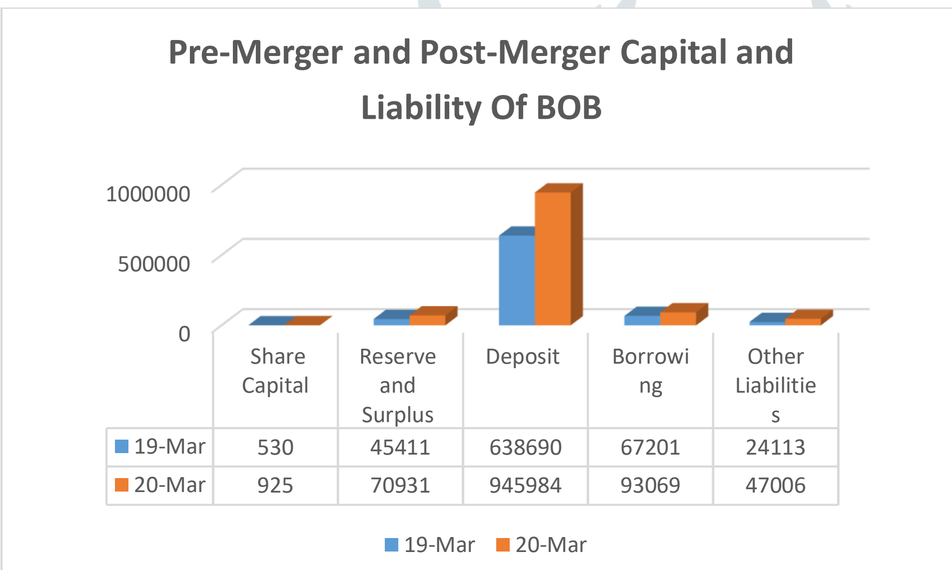
Source: BOB Annual Reports

Non-Performing Assets (NPA) of Bank of Baroda As on March 31, 2019, Gross NPA is 48,233 and Net NPA Is 15,609 After one year of the Merger Gross NPA And Net NPA increased to 69,381 and 21,577.



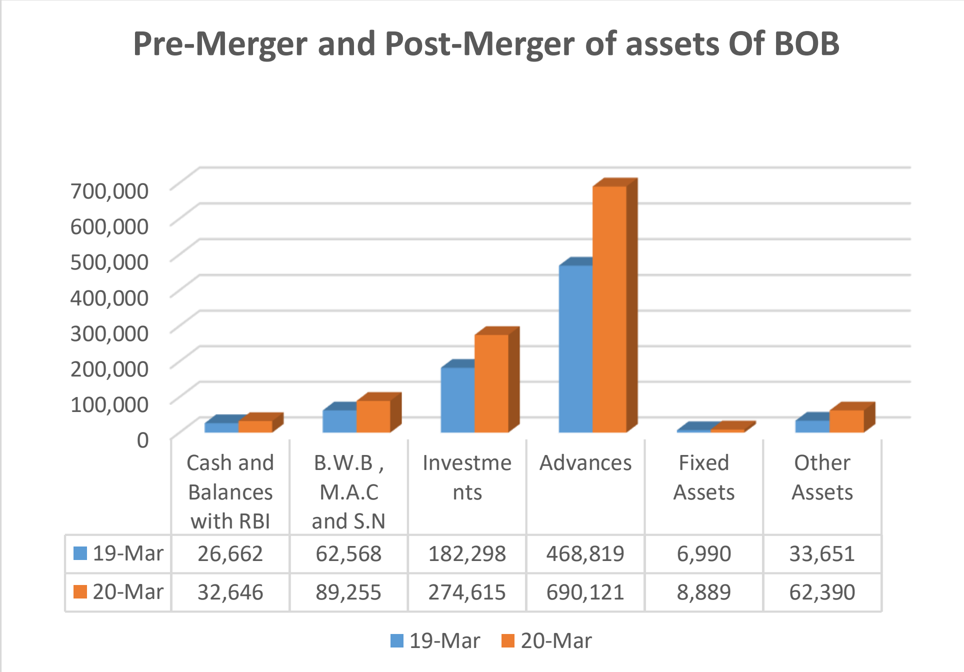
Source: BOB Annual Reports

The standalone Revenue of Bank of Baroda was 49770.61 crore and the net profit was 433.52 crore as of 31st march, 2019. After one year of the Merger, revenue and net profit increased to 75983.66 crores and 546.19 which increased by 52.6% and 26%.



Source: moneycontrol.com

After the merger, Bank of Baroda's share Capital is increased by 74.5%, reserve and surplus increased by 56.1%, Deposit increased by 48%, borrowing increased by 38.5%, and other liabilities increased by 95%.



Source: moneycontrol.com

After the merger, bank of Baroda cash and balance with the reserve bank of India increased by 22.4%, balance with bank money at call and short notice increased by 42.6%, investment increased by 33.6%, advances increased by 47.2%, fixed assets increased by 27.1%, and other assets increased by 85.4%.

Conclusion

Mergers and Acquisitions are generally exercised to revive weak entities from collapsing by merging them with stronger entities to improve their performance or to amalgamate strong entities resulting in a much stronger entity with a larger ambit of business. The merger of Bank of Baroda, Vijaya Bank, and Dena Bank is to be understood as a merger intended to revive weak entities from collapsing and thereby improve their performance. Two main concerns posed are the declining trend of profitability and the increasing trend of NPAs across the three banks. These both are interrelated, as the increase in NPAs would directly impact the profitability of the bank. The other parameter affecting profitability is the increase in operating expenses. 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 countrywide, 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 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 Vijaya Bank, the merger of Bank of Baroda, Vijaya Bank and Dena Bank is a suitable solution in the given situation.

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