



PRE AND POST-MERGER OPERATIONAL EFFICIENCY OF PUNJAB NATIONAL BANK

*Dr. S. SUGUNA

**Dr. S. SENTHILRAJA

Abstract

The economic reforms came in the year 1991, and then the tremendous growth in industrial sector. The Business operations are expanded through various modes. Merger and acquisition is one of the most important modes of expansion of industrial sector. The basic motive behind the merger and acquisition is to achieve development in the context of size and customer base. It is necessary to evaluate the achievement of aim. Most of the studies were based on financial performance, profitability, trend analysis of various banks. The two banks were merged with Punjab national bank to become second largest bank in terms of branch. So to identify the results of pre and post-merger, the operational efficiency of Punjab National Bank is taken for the study.

Keywords: Pre Merger, post-merger, Operational efficiency, Merger and Acquisition, growth and development.

Introduction

The economic reforms came in the year 1991, and then the tremendous growth in industrial sector. The Business operations are expanded through various modes. Merger and acquisition is one of the most important modes of expansion of industrial sector. The basic motive behind the merger and acquisition is to achieve development in the context of size and customer base. This resulted in the increase in capacity of credit creation, efficiency and reducing operating cost of merged entity. The merger and acquisition of banks facilitate to the banks become more competitive advantage, create larger entities, provide more product choices to the customers, gain the advantage of new technology and innovations etc.,

*Assistant Professor, PG & Research Department of Commerce, Salem Sowdeswari College, Salem-10, Tamilnadu.
E-Mail: senthilsuguna2013@gmail.com

** Associate Professor, PG & Research Department of Economics, Kandaswami Kandar's College, Velur – Namakkal Dt, Tamilnadu-638182. E-Mail: senthilsuguna2011@gmail.com

When all banks or group of banks are engaged in same line of business process or task of procuring and utilizing funds then this is said to be a vertical merger. In some cases, Financial institution choose M&A's deals for the purpose of getting same kind of financial services that are provided by all other banks to their loyal customer. Growth of banking business can be ascertained by analyzing the proper allocation of funds which would help in reducing competition between two banks. For long term survival and growth, distressed bank are merged with another sound bank. Distress banks have large amount of bad debts as well as poor revenue that are not sufficient for the banking transactions. Retrenchment and alteration in organisational structure are the end result of such kind of mergers.

Provisions of Accounting standard – 14 (AS-14)

The increasing competition among the top market players in the same industry has a great impact on profitability as well as the economy. Another goal is to reduce the financial distress that arises due to bad loans.

A merger is an agreement between entities where they pool in their assets and liabilities and become one entity. The merger of Public Sector Banks (PSBs) is where the PSBs are merged with 'anchor' banks. Recently government of India announced merger of 10 public sector bank for the purpose of restructuring the banking system in India. This attempt is reduced the number of public sector banks from 20 to 12 public sector bank operating in India. Among 12 public sector banks, seven are listed as large public sector banks.

Reason behind the Merger:

The merger increases liquidity, ensures direct access to cash resources, Synergies and Economies of scale, reduction of competition and creation of Next Gen Banks. It aids to pool the resources of the individual banks and use them in an effective and efficient manner.

List of recently Merged Banks:

- Seven associate state banks and Bharatiya Mahila were merged with State Bank of India (SBI) in 2017 to become first largest public sector bank in India. There are now 22,500 branches across the country as of July 2024.
- United bank of India and Oriental Bank of Commerce has been merged with Punjab National Bank on 1st April 2020. This merger resulted The PNB become the second largest public sector bank in India
- Dena Bank and Vijaya Bank were united with the Bank of Baroda which has come into effect from 1st April 2019 occupies third largest public sector bank in India.
- Syndicate Bank was merged with Canara Bank on 1st April 2020. Canara Bank is the fourth largest public sector bank. There are a total of 9,627 branches of Canara Bank.
- Andhra Bank and Corporation Bank were combined with the Union Bank of India on 1 April 2020. Union Bank of India has become the fifth largest public sector bank in the India.
- Bank of India occupies sixth largest public sector banks in India
- Allahabad Bank was merged with Indian Bank on 1st April 2020. Now the Indian Bank occupies in the position of seventh-largest public sector bank.

1.2 Statement of Problem:

Banking sector is key financial system for the development of Indian economy. Strong banking indicates that the financial backbone of a country is strong and that a concrete path has been laid for growth and development. The main aim of such a merger is consolidation of banks, to control non-performing assets, creating globally stronger banks, to create robust financial health, up gradation of technology and ensure better scale efficiency and raise the bank standards at international levels. The government were merged the banks for the fulfilment of the above expectations. It is necessary to evaluate the achievement of aim. Most of the studies were based on financial performance, profitability, trend analysis of various banks. The two banks were merged with Punjab national bank to become second largest bank in terms of branch. So to identify the results of pre and post-merger, the operational efficiency of Punjab National Bank is taken for the study.

1.3 Objectives of the study

1. To study the reasons behind the huge merger of the banks.
2. To examine pre and post-merger operational efficiency of Punjab National Bank.
3. To analyse the trend movement of gross and net NPA of Punjab National Bank.

1.4 Research Methodology

The type of data adopted in this article is secondary data collected through Money control.com website (Profit and loss account and Balance sheet). Currently, there are 12 public sector banks that operate in India. Among public sector banks, PNB is selected as sample unit because of second largest public sector commercial banks in India in terms of assets, deposits, profits, number of branches, customers, employees and large market share.

The study period is taken for the study 6 years i.e., 2017-18 to 2022-23. The taken study period six years is for making comparison of pre-merger period (2017-2020) of three years with post-merger period (2020-2023) of three years.

Accounting Ratios and trend analysis were used for the analysis to find the pre and post-merger operational efficiency of Punjab National Bank.

1.4.5 Limitations of the Study

- This study analysed only the operational efficiency of Punjab National Bank.
- Operational efficiency of only one Bank analysed
- Period of the study is only six years because the merger took in the year 2020.

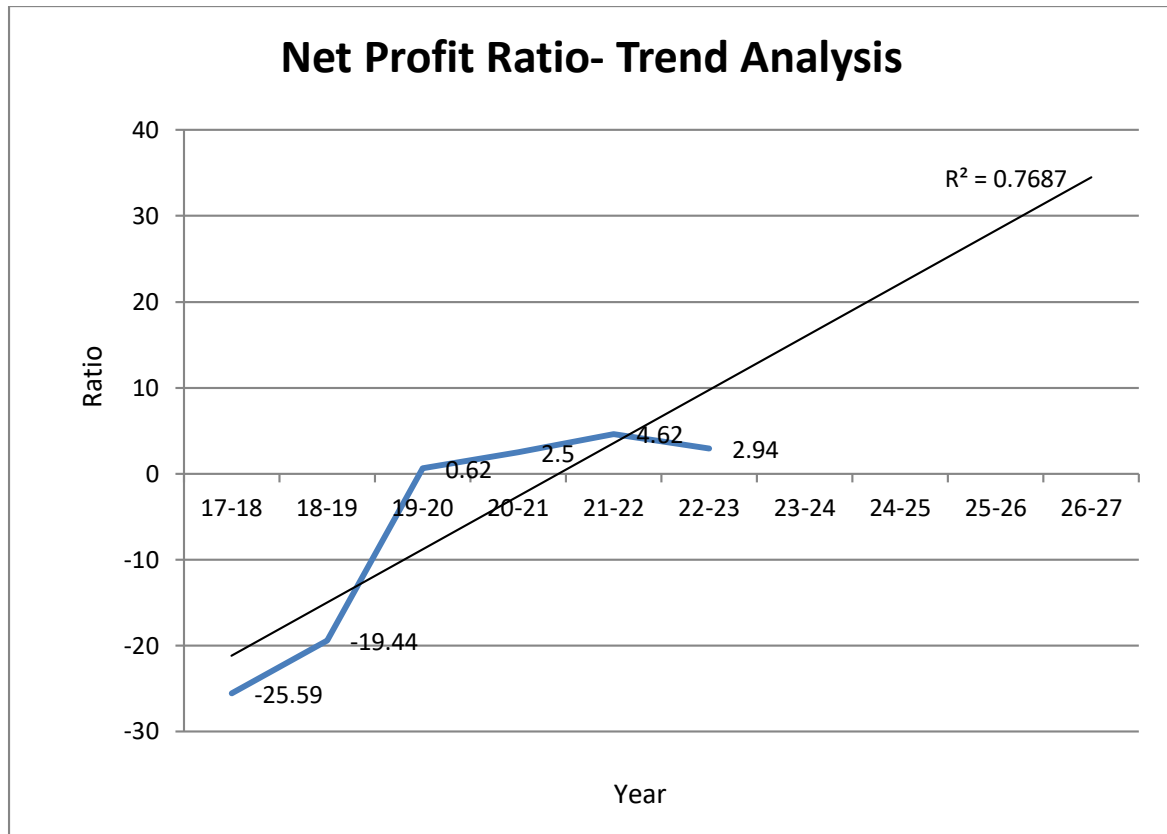
TABLE NO: 01
PROFITABILITY RATIOS

Period	Year	Net profit Ratio (%)	Operating Profit Ratio (%)	Operating Expenses to total income Ratio (%)	Interest earned Ratio (%)	Other income Ratio (%)	Return on Networth Ratio (%)
Pre-Merger	2017-2018	-25.59	12.09	75.25	69	15.61	-32.85
	2018-2019	-19.44	17.35	66.97	67	12.57	-24.21
	2019-2020	0.62	18.25	40.21	68	14.70	0.58
Post-merger	2020-2021	2.50	42.71	41.51	62	13.69	2.41
	2021-2022	4.62	40.46	41.07	62	14.13	3.91
	2022-2023	2.94	46.94	42.61	59	12.48	2.74

Source: Money control.com

From the above table is clear that the net profit ratio of Punjab National Bank. During the pre-merger period 2017-18 and 18-19 suffered losses and 2019-20 slowly increased the net profit ratio. During post-merger period the highest net profit ratio of 4.62% achieved in the year 2021-22. Operating profit ratio during pre-merger period is low when comparing to post-merger period. But in operating expenses to total income ratio is in slightly increasing trend during post-merger period. Interest expended to interest earned ratio is in decreasing trend. The highest other income ratio is 15.61 percent during the 2022-23 and lowest ratio is 12.48 (2019-20). In the During the study period other income to total income ratio is in fluctuating trend. The return on networth is increasing trend but slight decrease in the year 22-23.

NET PROFIT RATIO-TREND ANALYSIS



R-Squared (R^2 or the coefficient of determination) is a statistical measure in a regression model that determines the proportion of variance in the dependent variable that can be explained by the independent variable. In other words, r-squared shows how well the data fit the regression model. R-squared can take any value between 0 to 1. The R^2 value is 76.8 percent indicates that the model predicts 76.8 percent of the relationship between variables. In the four forthcoming years the net profit trend of Punjab National Bank will be increasing trend as per the analysis.

Assets Quality Ratios

TABLE NO: 02

Period	Year	Capital Adequacy Ratio (%)	NPA Ratio (%)
Pre-Merger	2017-18	9.20	11.22
	2018-19	9.73	6.55
	2019-20	14.14	5.77
Post-Merger	2020-21	14.32	5.72
	2021-22	14.50	4.79
	2022-23	15.50	2.72

Source: Money control.com

The above table showed that the Assets quality ratio of Punjab National Bank. Indian public sector banks must maintain a CAR of 12% as per RBI norms. So the bank has enough ability to pay off its debt hence Capital adequacy ratio is in good trend. During the study period NPA ratio is highly satisfied. It means the NPA is reduced gradually.

Debt Coverage Ratios

TABLE NO:03
DEBT EQUITY RATIO

Period	Year	Debt	Equity	Ratio (Times)
Pre-Merger	17-18	7,03,076.94	37,390.48	18.80
	18-19	7,15,356.05	41,204.90	17.36
	19-20	7,54,071.75	57,598.70	13.09
Post-Merger	20-21	11,49,172.78	83,736.90	13.72
	21-22	11,91,899.86	88,438.27	13.48
	22-23	13,32,454.83	91,400.53	14.58

Source: Money control.com

The table showed that the Debt Equity of Punjab National Bank. In the year 2017-18, 18-19 and 19-20 the Debt Equity is 18.80 times, 17.36 times and 13.09 times respectively. The highest ratio is 18.80 times during the 2017-18 and lowest ratio is 13.09 (2019-20). In the year 2020-21, 21-22 and 22-23 the Debt Equity is slight fluctuation. Debt and equity Ratio is increasing every year invariably. So the Punjab National Bank may pay more attention on Debt and they take necessary steps to reduce the debt burden.

RECOMMENDATIONS AND CONCLUSION:

The study focused on the pre and post-merger operational efficiency of Bank of Baroda. Overall growth is observed in the operational efficiency of the bank is good in post-merger when comparing pre-merger period.

Merger should not only create strong domestic banks, but these banks should also be in the position to compete internationally. Market driven merger is most desirable.

- Net profit ratio has in increasing trend. But to achieve more operational efficiency increase more profit.
- The bank shall pay more concentration on debt equity proportion to reduce financial commitments.
- Interest expended and interests earned are in increasing every year, so the bank reduces the usage of debt funds. It will facilitate to reduce the interest expended.
- The bank must reduce total risk weighted assets. Because the risk weighted assets are highly increasing every year.
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