Pre & Post Blending Position of the Merging Banks With Reference To Big Banks Merging-2019

[1]B. Arun Reddy, [2]G. Sabitha

Department of Business Management
Anurag University

Abstract: **Indian Banks are confronting extreme rivalry from their global partners, as the unfamiliar Banks with tremendous capital base can offer credits to borrowers at alluring rates that make the Indian Banks defenseless against monetary stun and ensuing shakiness. These issues should be tended to through fortifying the capital base of such Banks, which is conceivable just through mergers and acquisitions. The main six will currently have 82% of the loaning industry in open division Banking and 52% in business area loaning.**

Recapitalization and Governance Reforms The combination exercise will be joined by a Rs.55,250 crore capital (2019) imbuement in open division loan specialists as additionally administration changes. Punjab and Sind Bank will get Rs.7,050 crore (2019) ; Central Bank of India will get Rs.3,300 crore(2019); UCO Bank NSE 0.77 % will get Rs.2,100 crore, PNB will get Rs.1,600 crore(2019), and Bank of Baroda will get Rs.600 crore(2019). Kumar said Bank sheets will inform the administration of capital prerequisites and numbers concluded.

To enter the worldwide budgetary market and to make due in the high-hazard field of rivalry with unfamiliar Banking mammoths, Indian Banking industry gravely needs union. The most ordinarily embraced technique for solidification of Banks is merger. Merger of two frail Banks or merger of a powerless Bank with a solid Bank is supposed to be quicker and less exorbitant approach to improve gainfulness. Likewise, it is a superior plan to have one major, sound, solid and gainful Bank than to have a few sickly and loafer Banks. One more significant thought process behind the mergers in banking industry is to accomplish economies of scale and degree. As the size expands, the proficiency of the framework likewise increments in light of the fact that the enormous tasks empower the Banks to cut down the usable expense significantly, which thusly encourages the Banks to offer better rates to its clients. Alongside differentiated exercises, mergers empower the Banks to stretch out the business to different sections at numerous areas the nation over and the globe. Thus, the dangers are spread across different locales and fragments, which shield the Banks from an unfriendly business cycle or an unforeseen money related emergency. Customers will have a wide cluster of items like common assets and protection to look over, in extra to the customary credits and stores. By consolidating the high level (as far as innovation) with the low level (as far as innovation) will have up gradation on the cards. Bank merger brings the best and the most exceedingly terrible of the combined Banks, which implies shortcomings of the Banks will likewise at first get into the framework before they can be gotten rid of.

Keywords: **Mergers and Acquisitions, Indian Banks, Global Partners, Recapitalization, Governance Reforms.**

Introduction: A merger is an understanding that joins at least two existing organizations into one organization. There are a few kinds of mergers and furthermore a few reasons why organizations complete mergers. Mergers and acquisitions are regularly done to extend an organization's range, venture into new portions, or addition piece of the pie. These are done to expand investors esteem. Frequently, during a merger, organizations have a no-shop piece of information to forestall buys or mergers by extra organizations. A merger is the willful combination of two organizations on comprehensively equivalent terms into another lawful substance.

India reported a broad union of state-possessed Banks that will see 10 of them being converged to frame four greater moneylenders to fortify a segment battling with an awful credit cleanup and planned for making loan specialists of worldwide scale that can bolster the economy's flood to $5 trillion by 2024. "We need to make cutting edge Banks," money serve Nirmala Sitharaman told journalists. After this the complete number of Public Sector Banks in the nation will boil down to 12 from 27 Banks in 2017. The administration has just injected Rs.68,855 crore, out of Rs.70,000 crore reserved for capital imbuement for the current monetary year.

In enormous Banks merger, Punjab National Bank NSE 0.45 % will assimilate Oriental Bank of Commerce and United Bank of India to frame the country's second-biggest state-possessed loan specialist with consolidated business of Rs.17.94 lakh crore, overwhelming Bank of Baroda with Rs.16.13 lakh crore. SBI drives state-claimed Banks with business of Rs.52.05 lakh crore. Canara Bank will retain Syndicate Bank, giving it a consolidated business of Rs.15.2 lakh crore and positioning it at fourth, while Union Bank of India will amalgamate with Andhra Bank and Corporation Bank (Rs.14.59 lakh crore, fifth). Indian Bank will assimilate Allahabad Bank (Rs.8.08 lakh crore). The merger of monetarily not performing great Banks with well performing Banks is a major move by the legislature towards development of Indian Banking framework. In spite of the fact that there are a few troubles and faults while and after the merger which are less powerful than benefits and advantages from the merger. This will make accounting reports more grounded, giving them more prominent ability to loan, as indicated by the administration.

❖ **Bank Merger and Acquisition Process**

➢ The procedure of combining or getting two Banking associations is amazingly mind boggling; it requires a lot of time and exertion from both purchaser and merchant. The business, lawful, operational, hierarchical, bookkeeping, and duty gives all must be tended to if the merger or obtaining is to be fruitful. All through the procedure, valuation can be a significant contribution to the dynamic procedure, from introductory objective examination through combination of the elements.

➢ Merger and obtaining (M&A) techniques are critical so as to determine the most extreme advantage out of a merger or procurement bargain. It is very hard to choose the procedures of M&A, particularly for those organizations that are going to make a merger or procurement bargain just because. For this situation, they take exercises from the past M&A that occurred in the market between different organizations and end up being fruitful.

Objectives: So as to know the impact of enormous Banks merger on execution as far as gainfulness, liquidity, influence and action, the authors have been planned to utilize proportion examination of pre and post consolidating. This study also focuses on to recognize the variables compelled to combine the Banks, to look at the pre & post blending position of the Banks. This study also would like to examine the post-merger working execution as far as productivity, liquidity, influence, action and also measure the effect of converging on NPA's.

Research Methodology:

I have taken 10 open segment Banks consolidated and became 4 open segment Banks. Data assortment has been gathering through optional sources like magazines, sites identified with money areas.

- **Ratio analysis:** Ratio analysis thinks about detail information from an organization's fiscal reports to uncover experiences with respect to productivity, liquidity, operational effectiveness, and dissolvability.
- **NPA:** It is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.
- **Provision Coverage Ratio:** Banks typically put aside a part of their benefits as an arrangement against terrible credits.

PCR = Total Provisions/ Gross NPAs

Analysis and Results:

Table 1:- Data analysis of market share of merging Banks:

Anchor Bank	Name of Bank	Business (₹trn)	Amalgamated business(₹trn)	Market share	Position
Punjab national Bank	Punjab national Bank	11.82	17.94	7.7	2nd
	Oriental Bank of commerce	4.04			
	United Bank of India	2.08			
Canara Bank	Canara Bank	10.43	15.2	6.6	4th
	Syndicate Bank	4.77			
Union Bank	Union Bank	7.41	14.59	6.3	5th
	Andhra Bank	3.99			
	Corporation Bank	3.20			
Indian Bank	Indian Bank	4.30	8.08	3.5	7th
	Allahabad Bank	3.78			

Source: economictimes.com

Interpretation: In the above table 1.1, we can observe that after merging the Oriental Bank of commerce and United Bank with Punjab National Bank, the amalgamated bank with ₹17.94 trillion business has become 2nd largest PSB in India with a market share of 7.7.After merging Syndicate Bank with Canara Bank, the amalgamated bank with ₹15.2 trillion business has become 4th largest PSB in India with a market share of 6.6. After merging Andhra bank and Corporation Bank with Union Bank, the amalgamated bank with ₹14.59 trillion business has become 5th largest PSB in India with a market share of 6.3. After merging Allahabad bank with Indian Bank, the amalgamated bank with ₹8.08 trillion business has become 7th largest PSBs in India with market share of 3.5.

Table .2: Data analysis based on income, expenditure, sources of funds, application of funds

Table 2.1: Data analysis based on income, expenditure, sources of funds, application of funds of Canara Bank and Syndicate Bank.

Description	Canara Bank	Syndicate Bank	Total
Income/Expenditure			
Interest earned	46896.72	21725.41	68622.12
Total income	54269.13	23949.23	78218.36
Total expenditure	56380.53	27051.58	83432.11
Operating profit	-2111.40	-3102.35	-5213.75
PBT	-2111.40	-3102.35	-5213.75
PAT	547.15	-2587.73	-2040.58
Cash profit	975.98	-2370.50	-1394.52
Sources of funds			
Equity paid up	753.24	2487.91	3241.16
Reserves& surplus	36935.99	15787.93	52723.92
Net worth	31241.07	16578.44	47819.50
Deposits	599123.02	259883.13	859006.14
Borrowings	41042.64	25604.45	66647.09
Capital employed	31241.07	17078.44	48319.50
Application of funds			
Gross block	12442.65	4291.50	16734.15
Investments	168678.05	77763.40	246441.45
Cash &Bank balance	66531.24	17156.77	83688.01
Advances	428114.77	205044.40	633159.17
Total assets	711782.81	312970.86	1024753.67

Source: economictimes.com

Interpretation:- In the above table 2.1, we can observe that after merging syndicate Bank with Canara Bank, the total assets of amalgamated bank has been Rs.1024753.67 crores with which a bank can expand their performance and activities. We can also observe that after merging Canara Bank which having cash profit enters into cash deficit due to cash deficit in Syndicate Bank.

Table 2.2: Data analysis based on income, expenditure, sources of funds, application of funds of Indian Bank and Allahabad Bank

Description	Indian Bank	Allahabad Bank	Total
Income/Expenditure			
Interest earned	19182.06	16915.78	36097.84
Total income	21073.50	18969.49	40042.99
Total expenditure	20790.31	27263.76	48054.07
Operating profit	283.19	-8294.27	-8011.08
PBT	283.19	-8294.27	-8011.08
PAT	320.93	-8294.27	-7973.34
Cash profit	580.14	-8153.00	-7572.86
Sources of funds			
Equity paid up	480.29	2096.84	2577.13
Reserves& surplus	19235.17	7298.86	26534.03
Net worth	16620.42	9395.70	26016.12
Deposits	242040.80	214330.08	456370.88
Borrowings	12137.54	12495.68	24633.22
Capital employed	16620.42	16291.70	32912.12
Application of funds			
Gross block	6090.79	5054.18	11144.97
Investments	65271.55	80237.69	145509.24
Cash &Bank balance	20027.61	14249.95	34277.56
Advances	181261.91	142212.17	323474.08
Total assets	280388.28	249576.66	529964.94

Source: economictimes.com

Interpretation:- In the above table 2.2, we can observe that after merging Allahabad Bank with Indian Bank, the total assets of amalgamated bank has been Rs.529964.94 crores with which a bank can expand their performance and activities. We can also observe that after merging Indian Bank which having cash profit enters into cash deficit due to cash deficit in Allahabad Bank.

Table 2.3: Data analysis based on income, expenditure, sources of funds, application of funds of Union Bank, Corporation Bank and Andhra Bank:

Description	Union Bank	Corporation Bank	Andhra Bank	Total
Income/Expenditure				
Interest earned	34313.67	15622.65	19202.88	39139.20
Total income	39355.38	17504.09	22290.97	79150.44
Total expenditure	43288.53	23829.39	24682.26	91800.18
Operating profit	-3933.16	-6325.30	-2391.29	-12649.74
PBT	-3933.16	-6325.30	-2391.29	-12649.74
PAT	-2933.41	-6325.30	-2767.10	-12025.80
Cash profit	-2559.59	-6148.76	-2631.25	-11339.59
Sources of funds				
Equity paid up	1763.02	1198.84	2884.49	5846.34
Reserves& surplus	24968.63	15415.68	10447.24	50831.54
Net worth	24496.84	15712.33	12371.96	52581.13
Deposits	417504.81	184564.11	219852.93	821921.85
Borrowings	43275.60	8394.26	10314.59	61984.44
Capital employed	24600.84	15712.33	12371.96	52685.13
Application of funds				
Gross block	7063.11	2918.79	3905.08	13886.98
Investments	128391.21	60018.61	66914.83	255324.65
Cash& Bank Bal	43163.08	12570.12	1547.97	71281.17
Advances	298780.10	121251.21	158847.91	578879.22
Total assets	498580.53	213624.11	254043.98	966248.63

Source: economictimes.com

Interpretation:- In the above table 2.3, we can observe that after merging Corporation Bank and Andhra Bank with Union Bank of India the total assets has been Rs.966248.63 crores with which a bank can expand their performance and activities. We can also observe that the cash deficit has been raised due to the merged banks also had cash deficit.

Table 2.4: Data analysis based on income, expenditure, sources of funds, application of funds of Punjab National Bank, Oriental Bank of Commerce and United Bank of India:

Description	PNB*	OBC*	UBI*	Total
Income/expenditure				
Interest earned	52417.14	17867.69	8559.88	78844.71
Total income	59514.52	20536.77	10944.46	90995.75
Total expenditure	74884.83	24167.54	15525.37	114577.7
Operating profit	-15370.31	-3630.77	-4580.91	-23582
PBT	-15370.31	-3630.77	-4580.91	-23582
PAT	-10026.41	54.99	-2315.93	-12287.4
Cash profit	-9442.40	335.34	-2190.20	-11297.3
Sources of funds				
Equity paid up	920.81	1370.21	7427.92	9718.94
Reserves& surplus	44276.70	17531.03	4070.96	65878.69
Net worth	41615.28	17399.93	10575.10	69590.31
Deposits	681874.18	232645.38	134983.32	1049503
Borrowings	46827.97	14119.37	2203.72	63151.06
Capital employed	41615.28	17399.93	10575.10	69590.31
Application of funds				
Gross block	10975.65	4420.72	2503.08	17899.45
Investments	209723.00	79267.82	60976.03	349966.9
Cash &Bank Bal	77295	16476.09	9663.49	103434.6
Advances	462416.23	159284.81	66955.10	688656.1
Total assets	789265.79	271909.57	151529.93	1212705.3

Source: economictimes.com

Interpretation:- In the above table 2.4, we can observe that after merging Oriental Bank of Commerce and United Bank of India with Punjab National Bank the total assets has been Rs.1212705.3 crores with which a bank can expand their performance and activities. We can also observe that the by merging OBC raised cash profit but merging UBI reduced cash profit for PNB.

Table 3: Data analysis of Provision Coverage Ratio & Non-Performing Assets Ratios of Indian Banks:

Anchor Bank	Name of Bank	Provision coverage ratio(PCR)%	PCR(amalgamated Bank)%	Net NPA ratio%	Net NPA ratio (amalgamated Bank)%
Punjab National Bank	Punjab National Bank	61.72	59.59	6.55	6.61
	Oriental Bank Of Commerce	56.53		5.93	
	United Bank Of India	51.57		8.67	
Indian Bank	Indian Bank	49.19	66.21	3.75	4.39
	Allahabad Bank	74.15		5.22	
Canara Bank	Canara Bank	41.48	44.32	5.37	5.62
	Syndicate Bank	48.83		6.16	
Union Bank	Union Bank	58.27	63.07	6.85	6.30
	Andhra Bank	68.62		5.73	
	Corporation Bank	66.60		5.71	

Source: economictimes.com

*Provisioning Coverage Ratio

- Banks typically put aside a part of their benefits as an arrangement against terrible credits.
- A high PCR proportion (in a perfect world above 70%) implies most resource quality issues have been dealt with and the Bank isn't helpless.

*Gross Non-Performing Assets (Npas)

- NPAs demonstrate the amount of a Bank's credits are at risk for not being reimbursed. In the event that intrigue isn't gotten for 3 months, a credit transforms into NPA.
- A exceptionally high gross NPA proportion implies the Bank's benefit quality is fit as a fiddle.

*Net NPAs

- Banks accommodate a few credits turning sour. The net NPA is that bit of awful advances which has not been accommodated in the books.
- Net NPA is a superior marker of the strength of the Bank.

Table 4: Data analysis based on various factors of Banks pre& post merging:

Table 4.1: Data analysis based on various factors of Banks pre& post merging in Punjab National Bank, Oriental Bank of Commerce and Union Bank of India:

Description	PNB*	OBC*	UBI*	Amalgamated Bank
total business(in ₹ crs)	118,82,224	4,04,194	2,08,106	17,94,526
gross advances	5,06,194	1,71549	73,123	7,50,867
Deposits(in₹ crs)	6,76,030	2,32,645	1,34,983	10,43,659
CASA ratio	42.16%	29.40%	51.45%	40.52%
Branches	6,992	2,390	2,055	11,437
PCR	61.72%	56.53%	51.17%	59.59%
Cet-1 ratio	6.21%	9.86%	10.14%	7.46%
CRAR ratio	9.73%	12.73%	13.00%	10.77%
Net NPA ratio	6.55%	5.93%	8.67%	6.61%
Employees	65,116	21,729	13,804	1,00,649

Source: economictimes.com

*PNB=Punjab national Bank

*OBC=oriental Bank of commerce

*UBI=united Bank of India

Table 4.2: Data analysis based on various factors of Banks pre& post merging in Union Bank, Andhra Bank and corporation Bank:

Description	Union Bank	Andhra Bank	Corporation Bank	Amalgamated Bank
total business(in ₹cr)	7,41,207	3,98,511	3,19,516	14,59,434
gross advances	3,25,392	1,78,690	1,35,543	6,29,130
Deposits(in₹cr)	4,15,915	2,19,821	1,84,568	8,20,304
CASA ratio	35.50%	31.29%	31.59%	33.42%
Branches	4,292	2,885	2,482	9,609
PCR	63.27%	68.62%	66.08%	63.07%
CET-1 ratio	8.02%	8.43%	10.39%	8.68%
CRAR ratio	11.74%	13.69%	12.30%	12.36%
Net NPA ratio	5.55%	5.73%	5.71%	5.30%
Employees	37,252	20,346	17,770	75,384

Source: economictimes.com

Table 4.3: Data analysis based on various factors of Banks pre& post merging in Canara Bank and Syndicate Bank

Description	Canara Bank	Syndicate Bank	Amalgamated Bank
total business(in ₹cr)	1,04,249	4,77,046	15,20,295
gross advances	4,44,296	2,17,149	6,61,365
Deposits(in ₹cr)	5,90,033	2,59,807	8,58,930
CASA ratio	29.18%	32.58%	30.21%
Branches	6,310	4,032	10,342
PCR	41.46%	48.83%	44.32%
CET-1 ratio	8.31%	9.31%	8.62%
CRAR ratio	11.90%	14.23%	12.63%
Net NPA ratio	5.37%	6.16%	5.82%
Employees	58,350	31,635	80,885

Source: economictimes.com

Table 4.4: Data analysis based on various factors of Banks pre& post merging in Indian Bank and Allahabad Bank

Description	Indian Bank	Allahabad Bank	Amalgamated Bank
total business(in ₹cr)	429972	377837	807859
gross advances	187886	163652	351448
Deposits(in₹cr)	242078	214335	456411
CASA ratio	34.71%	49.49%	41.85%
Branches	2876	3229	6104
PCR	48.13%	74.55%	66.21%
CET-1 ratio	10.96%	9.55%	10.36%
CRAR ratio	13.21%	12.51%	12.39%
Net NPA ratio	3.75%	5.22%	4.39%
Employees	19,004	23210	42614

Source: economictimes.com

***CASA ratio**

- It is the proportion of current account and savings account deposits in the total deposits of the Bank.
- A low CASA ratio means the Bank relies heavily on costlier wholesale funding, which can hurt its margins.

***Capital Adequacy Ratio (CAR)**

- It is also known as Capital to Risk (Weighted) Assets Ratio (CRAR).It is the ratio of a Bank's capital to its risk. National regulators track a Bank's CAR to ensure that it can absorb a reasonable amount of loss and complies with statutory Capital requirements.
- It is a measure of a Bank's capital. It is expressed as a percentage of a Bank's risk-weighted credit exposures. The enforcement of regulated levels of this ratio is intended to protect depositors and promote stability and efficiency of financial systems around the world.

In the above tables 4, we observe that after merging

- The CASA ratio of Punjab National Bank has raised, which is an advantage to bank and also CRAR ratio has raised, which is also an advantage to bank.
- The CASA ratio of Union Bank has reduced, which is a disadvantage to bank but on other hand CRAR ratio has raised, which is an advantage to bank.
- The CASA ratio of Canara Bank has raised, which is an advantage to bank and also CRAR ratio has also raised, which is an advantage to bank

➢ The CASA ratio of Indian Bank has raised, which is an advantage to bank but on other hand CRAR ratio has reduced which is a disadvantage to bank.

❖ **Exchange to shareholders of merged banks:**

➢ For each 1000 shares of OBC and United Bank, 1150 shares and 121 shares of PNB are distributed separately.

➢ For each 1000 shares of corporation Bank and Andhra Bank, 325 offers and 330 portions of Union Bank are distributed individually.

➢ For each 1000 shares of Syndicate Bank, 158 shares of Canara Bank are designated.

➢ For each 1000 shares of Allahabad Bank, 115 shares of Indian Bank are designated.

Findings:

➢ The author has found that by the way toward combining a huge capital base would help the acquirer Banks to offer a huge advance sum.

➢ These huge Banks have the option to contend all-inclusive and expanded their operational proficiency by diminishing their expense of loaning.

➢ Through the way toward combining the administration conveyance has been improved.

➢ After this blending procedure the recapitalization need from government to banks has been diminished since the banks will have adequate capital assets to do.

➢ Customers will have a wide cluster of items like common assets and protection to look over, in extra to the customary credits and stores.

➢ By consolidating the high level (as far as innovation) with the low level (as far as innovation) will have upgradation on the cards.

Conclusion:-

➢ India needs interest in gigantic amounts to transformed India into a 5 trillion economy. On the off chance that Banks have adequate cash to finance huge tasks than the financial improvement of the nation would accelerate. Thus, the merger of the 10 PSBs in the four significant Banks appears to be a decent advance in guaranteeing the accessibility of the cash for the venture reason in the nation.

➢ After these mergers, the loaning limit of the Public Sector Banks expanded and their asset report got solid.

➢ There is consistently a danger of disconnecting the client base following a merger. Above all else, there is the dread about the security of cash kept, particularly in when cybercrimes are uncontrolled. Furthermore, Banking arrangements at some point change, alongside innovative stages and that may not go down well with client base, particularly with long haul and old clients. In some cases such clients respond genuinely to such changes and Banks must be set up to lose a few clients after such a progress.

➢ The number of Bank offices positively expanded after merger, which makes it hard for the administrative center of the consolidated element to control and screen all exercises. Furthermore, the distinctive working environment societies coming into contact will undoubtedly cause a few conflicts initially before they start to adjust. Further, Bank merger brings the best and the most exceedingly terrible of the combined Banks, which implies shortcomings of the Banks will likewise at first get into the framework before they can be gotten rid of.

References

[1] Abhishek Tripathi, Merger and Acquisition in Indian Banking Industry, Lambert Academic Publishing, 2013

[2] Rohan Rai and H P Mathur, Mergers and Acquisitions in Indian Banking Sector, VDM Verlag, 2010

[3] Ingo Walter, Mergers and Acquisitions in Banking and Finance, Oxford University, 2004

[4] Devarajappa, S. (2102), " Mergers in Indian banks; a study on mergers of HDFC Bnak Ltd and Centurion Bank of Punjab Ltd." ,Vol 1, issue 9, ISSN 2277 36

[5] Lubatkin ,M (1983) : Mergers And Performance Of The Acquiring Firm , Academy Of Management Review, Vol 8, No 2, PP 218-225

[6] Alexandra Reed Lajoux and Dennis J. Roberts , The Art of M&A ,Mc Graw Hill Education, 2014

[7] M Jayadev, & Rudra Sensarma , An Analysis of Mergers in Indian Banking

[8] Bill Snow , Mergers and Acquisitions FOR DUMMIES , Wiley Publishing Inc.,2011