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A Comparison Study On Pre And Post Merger Of Bank Of Baroda

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***Abstract*:** Banking Industry in India witnessed a large-scale merger in recent times, which was earlier often sought out solution in the corporate to improve the efficiency and profitability. Bank mergers are more often witnessed across Europe and America. We have witnessed few acquisitions/mergers in the past few decades after liberalization. Present situation of mergers in the Banking Industry is primarily due to the weak position of some banks with respect to recovery of loans. This would result in incurring losses and failing to meet the liquidity needs of the deposits side. There have been mergers both in Public Sector Banks and Private Sector Banks. It is also observed that some private banks have been acquired by public sector banks in the interest of depositors and investors. This research paper focuses on and analyses the factors that lead to the merger of Bank of Baroda, Vijaya Bank and Dena Bank. Three years financial data before the merger decision of the three banks is collected for the analysis and three years data after the merger decision of these three banks. Data analysis is done on pre merger and post merger data with the help of mean. This research paper has concluded with that after the merger, the Bank of Baroda has increased their profitability level and even her volume of business in terms of total assets and even their return on equity.

Keywords: Bank of Baroda, Vijaya Bank, Dena Bank, Pre-merger, Post-merger, Profitability.

INTRODUCTION

<u>Bank</u>

As per the Banking Companies Act of 1949, a bank is a financial institution that dispenses banking and other financial operations to their customers. A bank is generally considered as an institution which provides fundamental banking services such as providing loans and accepting deposits.

<u>Merger</u>

Merger is the process of the consolidation of two or more companies through financial transaction purchase of assets. In this process ownership of one entity transferred to another entity. The purpose of this is to increase the growth of business. There are the following types of mergers horizontal, vertical and conglomerate merger.

BANK OF BARODA: - Bank of Baroda, often shortened as BOB, provides nationalised banking services to the citizens of India. It is an Indian Multinational public sector bank headquartered in Vadodara, Gujarat. It is the second largest public sector bank in India after State Bank of India, with 153 million customers (March 2023).The Bank established on 20th July 1908 by the king Sayajirao Gaekwad III, in the princely state of Baroda, Gujarat. BOB established its first branch in Ahmedabad. The bank grew domestically until after World War II. BOB has established a large number of branches and is now operating globally.

History of Bank of Baroda

- 1908 The bank of Baroda Ltd. Founded Bank of Baroda as a private bank.
- 1918 Mumbai received a branch.
- 1937 Ahmedabad received a branch.
- 1949 opened branch in Delhi.
- 1953-1969 launched three offices in Fiji, five in Kenya, three in Uganda, one in London, and a single one in Guyana.
- 1969 The Bank of Baroda Ltd. Was renamed Bank of Baroda once it was nationalized.
- 1969-1974 erected three branches in Mauritius, two in the UK, and one in Fiji.
- 1974 built two branches in the UAE after entering wealthy gulf nations (Dubai & Abu Dhabi).
- 1976 one regional rural bank out of 19 sponsored.
- 1977 for rural development, created Gram Vikas Kendra.
- 1984 introduced credit card.
- 1991 housing finance, asset management, and capital market operations created subsidiaries.
- 1996 IPO was used to enter the capital market.
- 1997 opening a new location in Durban.
- 1999 began depository operations.
- 2000-2001 created a distinct risk management department and hired Arthur Andersen India Pvt. Ltd. as a consultant.
- 2002 Debit card affiliation with VISA.
- 2004 inked an agreement to market non-life insurance products with National Insurance Company.
- 2004-2005 Expanding the ATM network, introducing 24-hours operations in five locations nationwide, offering multicity checks, and launching IT- enabled business information.
- 2006 created a Singapore an offshore banking business.
- 2007 cooperation with Life Insurance Company of UK based, establishment of a branch for the younger generation, agreement with Dun & Bradstreet for SSI, joint venture for the assets management industry with Pioneer Global Assets Management, Italy, and introduction of gold coins.
- 2008-2009 opened new urban retail loan factories and introduced new loan products, signed a memorandum of understanding with auto manufacturers, opened four new branches in China, the United Arab Emirates, Uganda, and Kenya, and received approval from the China Banking Regulatory Commission to open a full-fledged branch in Guangzhou.
- 2009-2010 inaugurated 6 new retail loan factories (in Chandigarh, Gamdevi, Patna, Coimbatore, Ranchi, and Allahabad), created 3 loan factories, worked on the new project “Navnirmaan Baroda Next,” and all branches utilized the Core Banking Solution (CBS) platform to provide Anywhere Anytime, the ability to conduct RTGS and NEFT transactions, and provided housing loan subsidies for urban poor people. Got a commercial banking license from BIA Bank in Malaysia, where merged ownership of BOB, IOB, and Andhra Bank, built 1 branch in New Zealand and 10 in the UK, and signed a MOC with the Dubai Multi Commodity Centre Authority for trade.
- 2010-2011 inaugurated seven new branches: one in the UK, five in the UAE, and one in New Zealand; offered loans secured by jewellery; introduced new term deposit products; opened a branch in Noida for the next generation; opened five loan factories (in New Delhi, Raipur, Ludhiana, Nasik, and Jodhpur); and introduced the Baroda Pensioners Savings Account and the

Jeevan Surekha Savings Account. Provided a mobile banking option and expanded the banking network.

- 2013 established the 100th branch in Dubai, started a loan factory for agriculture, and expanded the availability of e-banking services.
- 2014 introduced door-to-door banking services and creative services for rural development.
- 2016 adopted social media sites like Twitter, YouTube, and Facebook, created the Navodaya initiative, and backed FIFA Under-17 World Cup.
- 2017 offered digital cash management and supply chain finance, and also utilized Instagram to demonstrate the bank's existence.
- 2018 released the Kisan app using the Linked in Platform to support bank presence.
- 2020 presented BOB NOWW for cutting-edge banking.
- 2021 BOB World was introduced, the website was centralized, and the consumer was given information through KYC for creating an online account.
- 2022 created the Quora platform for the bank's presence, won a wonderful place to work award, and became the bank with the greatest technology usage.

PAST ACQUISITION

- 1958 The Hind Bank merged.
- 1961 merged with The New Citizen Bank ltd.
- 1963 Surat Banking Corporation merged.
- 1964 acquired the Tamil Nadu Central Bank and Umaraon Peoples Bank.
- 1972 merged the Uganda business of Bank of India.
- 1975 bought the maximum number of shares in Nainital Bank and Bareilly Corporation Bank in Uttar Pradesh.
- 1988 merger of Delhi's 34 branches of Traders Bank Ltd.
- 1993 merged the London branch of Union Bank of India and Punjab & Sind Bank.
- 1999 The Bareilly Corporation Bank merged.
- 2002 The Benares State Bank Ltd. merged.
- 2004 The South Gujarat Local Area Bank merged.
- 2019 Merger of Dena Bank and Vijaya Bank.

The merger of BOB with Vijaya Bank and Dena Bank was suggested by the government on September 17, 2018, and the plan was accepted by the union cabinet on January 2, 2019. Three public sector banks namely, BOB, Vijaya Bank, and Dena Bank merged on April 1, 2019. Following the merger, Bank of Baroda has become the second largest public sector bank in India in terms of market capitalization and the business of SBI.

VIJAYA BANK

History

Vijaya bank was founded on 23rd October 1931 by late Shri A.B. Shetty and other enterprising farmers in Mangalore, Karnataka. The objective of the founders was essentially to promote banking habit, thrift and entrepreneurship among the farming community of Dakshina Kannada district in Karnataka State. The bank became a scheduled bank in 1958.

Vijaya Bank steadily grew into a large All India bank, with nine smaller banks merging with it during the 1963-68. The bank was nationalised on 15th April 1980. The bank has built a network of 1512 branches, 48 Extension Counters and 1528 ATMs, that span all 28 states and 4 union territories in the country.

DENA BANK

History

Dena Bank is an Indian commercial bank based in Mumbai. The bank was founded by the Devkaran Nanjee family on the 26th of May, 1938. At the time of establishment, its name was Devkaran Nanjee Banking Company Ltd. Further, the banking company was incorporated as a Public Ltd. Company in December 1939, changing its name to Dena Bank Ltd. Dena Bank is one of the well known banks in the country and has a very good market share. The bank has around 240 branches and around 150 ATMs across the country. The bank has already provided around 1.8 lakh debit cards to the account holders. The loan was given for the purpose of development in the year 1995. The bank is also credited with the introduction of a credit card facility in the rural sector of India named as “Dena Krishi Sakh Patra”.

LITERATURE REVIEW

Patel Brijesh (March 2023), research on “A Study on Merger and Acquisition by Bank of Baroda, Dena Bank and Vijaya Bank”, 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.

Jethva Siddharth (February 2023), researched on “Merger and acquisition in the banking sector: A study on merger and acquisition by Bank of Baroda”, This study aims to investigate the trends, motives, and outcomes of M&A activities in the bank of Baroda, with 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.

Rao Mayur (February 2022), researched on “A Study on Merger of Bank of Baroda, Vijaya Bank and Dena Bank”. This study is about the merger of Bank of Baroda, Vijaya Bank and Dena Bank. The Study helps us in knowing the pre- merger and post- merger performance of the Bank. This Paper evaluates the Financial Performance of the banks before merger and after merger through analysis of various ratios of the banks. The aim of this paper is to know that whether it is beneficial to the Banks get merged or not.

Kishore Sai (May 2021), researched on “Analytical Study on the Merger of Bank of Baroda, Vijaya Bank and Dena Bank, on the back drop of their NPAs”. This research paper focuses on and analyses the factors that lead to the merger of Bank of Baroda, E-Vijaya Bank and E-Dena Bank. The possible advantages and disadvantages are inferred. Seven years financial data before the merger decision of the three banks is collected for this analysis. Data analysis is done using the financial tools such as Ratio Analysis and Trend Analysis. Various ratios indicating the health of Advances side of the bank and its profitability are calculated. The trend of NPAs and the recovery patterns are studied. The suitability of merger decision with its after effects is proposed to be concluded.

Karthikeyan & Hema (2020), conducted a study on to analyze the performance of three financial institutions that are Bank of Baroda, Dena Bank and Vijaya Bank using CAMEL method. This research aims to evaluate financial analysis of these banks through Capital adequacy, Asset quality, management efficiency, Earnings and Liquidity. The findings of this paper reveal that to some extent mergers and acquisitions have been successful in Indian banking sector.

Sinha P. & Gupta S. (2011), studied a pre and post analysis of firms and conducted that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicate the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on share holder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency etc.

RESEARCH METHODOLOGY

3.1 Objectives of the Study

- To study the impact of merger on profitability of the Bank of Baroda.
- To identify the impact of merger on volume of the business in terms of total assets.
- To identify the impact of merger on volume of the business in terms of return on equity.

3.2 Hypothesis to be tested:

- H_{01}: There is no significant impact of merger on profitability of the Bank of Baroda.
- H_{02}: There is no significant impact of merger on volume of the business in terms of total assets.
- H_{03}: There is no significant impact of merger on volume of the business in terms of return on equity.

3.3 Scope of the Paper

The paper has taken into account the impact of merger on profitability of Bank of Baroda and identifies the impact of merger on volume of business in terms of total assets as well as return on equity.

3.4 Data Collection Method

Secondary method- Data which are not originally collected but rather obtained from published or unpublished sources are known as secondary data.

3.5 Sources of Information

Secondary Source i.e. Website of BOB, Dena Bank and Vijaya Bank.

3.6 Sampling Plan

Sampling Method: Non Probability Convenience Sampling method

Sample Size: Bank of Baroda, Dena Bank and Vijaya Bank.

3.7 Sources of Data: The sample has taken from:

- https://www.nseindia.com
- https://www.moneycontrol.com

DATA ANALYSIS AND INTERPRETATION

Study on the Financial Performance of Bank of Baroda, Dena Bank and Vijaya Bank Pre-Merger and Post-Merger Analysis:-

This part of the study focuses on the examination of financial indicators of the involved three banks by working on the below-listed ratios over a period of three financial years from 2016 to 2018 as PRE-MERGER and three financial years from 2019 to 2021 as POST-MERGER.

- H_{01}: There is no significant impact of merger on profitability of the Bank of Baroda.

(1) Net Profit (in cr.)

BANKS	PRE-MERGER				
	2016	2017	2018	MEAN OF BANKS	PRE-MERGER MEAN
BANK OF BARODA	(5396)	1383	(2432)	(2148)	(923)
DENA BANK	(935)	(864)	(1923)	(1241)	
VIJAYA BANK	382	750	727	620	

Source: Own Compilation

BANK	POST-MERGER			
	2019	2020	2021	POST-MERGER MEAN
BANK OF BARODA	434	546	829	603

Source: Own Compilation

	Pre- Merger Net Profit	Post- Merger Net Profit
Bank of Baroda	-923	603

Source: Own Compilation

Figure 1: Comparison of Pre and Post merger of Bank of Baroda in accordance of Net Profit

Source: Own Compilation

Interpretation: It is observed from the figure 1 that Bank of Baroda faced huge loss before the merger in accordance of net profit, which got settled from 2019 after merger with Vijaya Bank and Dena Bank. And after the three years of merger Bank of Baroda has increase its net profit by nearby 34%. So that we can say that we are rejecting the null hypothesis which was said that "There is no significant impact of merger on profitability of the Bank of Baroda".

- H_{02}: There is no significant impact of merger on volume of the business in terms of total assets.

(2) Total Assets (in cr.)

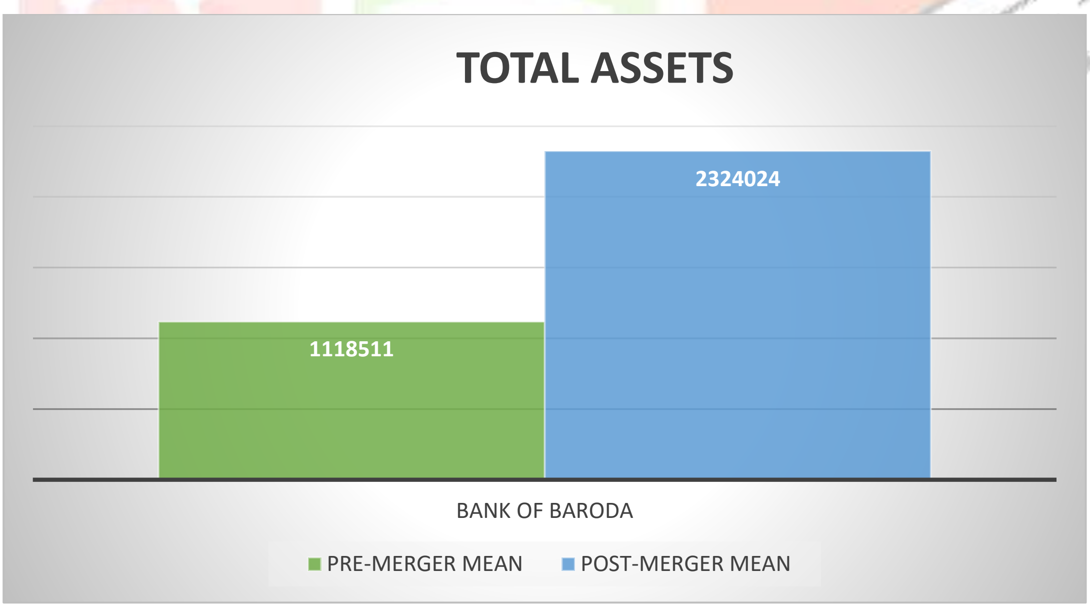
BANKS	PRE-MERGER				
	2016	2017	2018	MEAN OF BANKS	PRE-MERGER MEAN
BANK OF BARODA	6,71,376	6,94,875	7,20,000	6,95,417	11,18,511
DENA BANK	1,33,442	1,29,531	1,20,860	3,03,260	
VIJAYA BANK	1,45,409	1,54,882	1,77,632	3,59,502	

Source: Own Compilation

BANK	POST-MERGER			
	2019	2020	2021	POST-MERGER MEAN
BANK OF BARODA	7,80,987	11,57,916	11,55,365	23,24,024

Source: Own Compilation

Figure 2: Comparison of Pre and Post merger of Bank of Baroda in Volume of business in terms of Total Assets



Source: Own Compilation

Interpretation: It is observed from the figure 2 that Bank of Baroda faced huge loss and decreasing its total assets by adjusting their debts before the merger, which got settled from 2019 after merger with Vijaya Bank and Dena Bank. And after the three years of merger Bank of Baroda has increased its volume of business in terms of total asset. So that we can say that we are rejecting the null hypothesis which was said that "There is no significant impact of merger on volume of the business in terms of total assets."

- H_{03}: There is no significant impact of merger on volume of the business in terms of return on equity.

(3) Return on Equity (ROE in %)

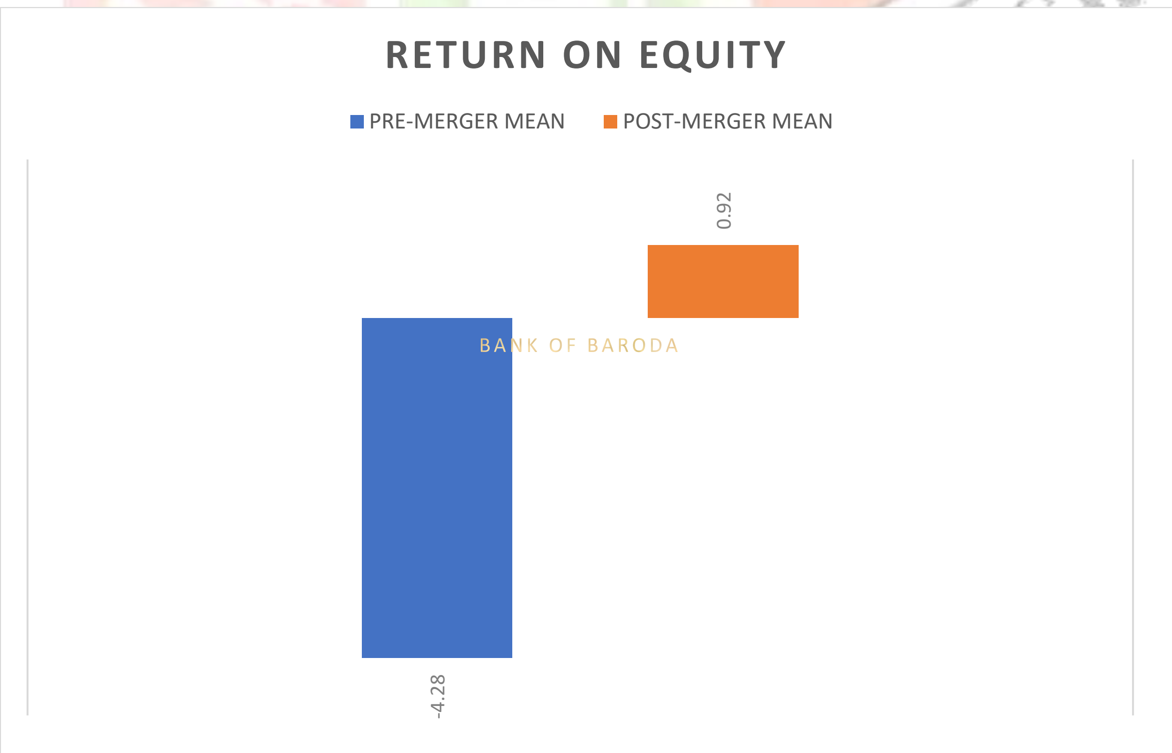
BANKS	PRE-MERGER				
	2016	2017	2018	MEAN OF BANKS	PRE-MERGER MEAN
BANK OF BARODA	(13.42)	3.43	(5.60)	(5.19)	(4.28)
DENA BANK	(13.09)	(12.52)	(20.89)	(15.5)	
VIJAYA BANK	5.84	10.25	7.39	7.83	

Source: Own Compilation

BANK	POST-MERGER			
	2019	2020	2021	POST-MERGER MEAN
BANK OF BARODA	0.94	0.76	1.07	0.92

Source: Own Compilation

Figure 3: Comparison of Pre and Post merger of Bank of Baroda in Volume of business in terms of Return on Equity



Source: Own Compilation

Interpretation: It is observed from the figure 3 that Bank of Baroda faced huge loss and decreasing its return on equity before the merger, which got settled from 2019 after merger with Vijaya Bank and Dena Bank. And after the three years of merger Bank of Baroda has increased its volume of business in terms of return on equity. So that we can say that we are rejecting the null hypothesis which was said that "There is no significant impact of merger on volume of the business in terms of return on equity."

FINDINGS

- The government's decision to merge two strong banks i.e. Bank of Baroda and Vijaya Bank with the weak bank i.e. Dena Bank was the best strategy and successful.
- It is observed that performance of Bank of Baroda increases after merger with Vijaya Bank and Dena Bank.

CONCLUSION

Mergers are the best tool to overcome the issues of low performing entity and organization. It is better for the company or banks to get merged rather than to get liquidate and close the entity. The merger can be saviour for the customers of the banks and also to the shareholders and management of the banks. Merging the banks with one another is a challengeable one related to cultural, integration, human resource and operational issues. Mergers leads Public sector Bank (PSBs) to get strengthen and became efficient and results in the growth of the economy. The merger of Bank of Baroda, Vijaya bank and Dena bank leads the Bank of Baroda to be the second highest Public sector unit (PSU) after State bank of India.

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