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AN ANALYTICAL STUDY OF MERGERS AND ACQUISTIONS WITH REFERENCE TO UNION BANK OF INDIA

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ABSTRACT: Union Bank had merged with Andhra Bank and it came into effect from April, 2020. In this regard the financial performance of Union Bank and Andhra Bank had been compared between pre-merger and post-merger period. Three years pre-merger (2017 to 2019) and post-merger (2020 to 2022) financial years have been used for conducting this research work. Secondary data had been taken financial statement of Union Bank and Andhra Bank has been procured from respective websites and reliable sources. The analysis of mergers gives knowledge about the actual performance of the banks. When the bank performance does not meet the expectations then such decisions of mergers need to be avoided in future. Hence in this regard the merger between Andhra Bank and Union Bank had been great success. Public sector banks are viewed as static organizations and more bureaucratic in nature. However the recent decisions by banking sector had surprised by adopting latest technology. Further it is evident that Union Bank had enhanced the quality of its services with sophisticated technology. The customers of the bank can perform various activities such as deposits, payments and loan application filling by using internet banking. Overall merger between Andhra Bank and Union Bank had been proved a success in the banking sector.

Keywords: Mergers, acquisition, banking, fundamental analysis, financial performance.

INTRODUCTION:

Mergers and Acquisitions (M&A) have become important process for business reorganization all over the world. The developments of mergers and acquisitions removed physical limitations and lead to cross-border mergers & acquisitions, with transnational corporations, have understood a noteworthy fraction. In India business environment marketplace motivated M&A are fundamentally an occurrence from late 1990s. Earlier mergers and acquisitions in India are encouraged with platform by third party organizations or through government platforms. Since the business environment had experienced lot of competition from large sized global organizations the national companies have been thinking mergers or acquisitions had been most viable solution for sustaining gin the business. In recent time the mergers occurred in banking sector had taken the attention of researchers in financial management area. In this study the mergers with regard to Union Bank with Andhra Bank had been empirically investigated.

Business expansion had become important aspect and it should be rapid to compete with global organization and it had given huge scope for mergers and acquisitions as popular phenomenon. Organizations have attained the benefits such as sharing knowledge, sharing technology, market expansions and sharing financial resources with mergers and acquisitions. However mergers and acquisitions are long term plans and takes at least one year time for successful completion of the process. Organizations sometimes depend on third party organization to make both the parties to become a single organization with clear goals and objectives.

Mergers and Acquisitions in India

Mergers and acquisitions (M & A) have taken a significant role in the conversion of the manufacturing sector of India after the completion of Second World War. The social, political and economic conditions at the period of Second World War and post- Second World War had accelerated the growth of mergers and acquisitions to implement mergers & acquisitions (M & A). The declined in world economy growth due to inflation, recessions and downturns had given an opportunity for innovative business models for making the world a better place and it had been implemented through mergers and acquisitions.

Table I: Recent Mergers in India

ANCHOR BANK (BIDDER)	TARGET BANK
UNION BANK OF INDIA	• ANDHRA BANK • CORPORATION BANK
PUNJAB NATIONAL BANK	• ORIENTAL BANK OF COMMERCE • UNITED BANK OF INDIA
CANARA BANK	• SYNDICATE BANK
INDIAN BANK	• ALLAHABAD BANK
STATE BANK OF INDIA	• BHARATIYA MAHILA BANK • STATE BANK OF TRAVENCORE • STATE BANK OF PATIALA • STATE BANK OF BIKANER AND JAIPUR • STATE BANK OF MYSORE • STATE BANK OF HYDERABAD
BANK OF BARODA	• DENA BANK • VIJAYA BANK

The purposeful significance of mergers and acquisitions (M&A) had experienced huge change sine post liberalization and from 1991 onwards. The monopoly restrictive trade policies (MRTP) Act along with other legal legislations were implemented to protect the average customer from monopolistic policies for huge large business organizations and foreign businesses to alternative for the M&A direction intended for expansion. Subsequently, securities exchange board of India (SEBI) Regulations of 1994 and 1997, have been formulated and enforced for protection of business organizations.

Table II: Benefits and Reasons for Mergers

Benefits with Mergers	Reasons for Mergers
• Expansions • Growth of business • New technology adoption • Reaching new markets • Global marketing • Synergy with new form • Product range increases • Tax exemptions • Tax benefits • Competitive advantage	• Helping with weak target company • Overcoming crisis during recession • Protecting the interests of stakeholders • Economies of scale • Economies of scope

SIGNIFICANCE OF THIS STUDY:

It is an important factor for banking organization to survive in the highly competitive market. Whenever recession or financial meltdown had occurred organizations are thinking about mergers and acquisitions. The financial organizations have been considering that mergers are essential for sustaining in the competitive business world. Due to liberalization and globalization foreign banks have entered into Indian banking sector. Due to their vast size they might tough competition for banks of Indian origin. The private banks are already giving tough competition for public sector. Hence there is need for evaluation for knowing the performance of mergers and acquisitions in financial sector.

SCOPE OF THE STUDY: There can be various parameters to assess the performance of strategic decisions made by organizations. In this study only merger between Andhra Bank and Union Bank would be considered. The existing performance of the bank would be compared with the pre merger position of the company. The mergers and acquisitions had taken place in public sector and private sector in the last one decade. But in this study considers the mergers in public sector.

OBJECTIVES OF THE STUDY

- To study the financial performance of Andhra Bank and Union Bank during pre-merger period.
- To compare the performance of pre-merger performance of Union Bank with Andhra Bank.
- To know the impact of mergers announcement on stock price of the selected banks.
- To know the benefits with strategic decisions such as mergers and acquisitions.

LIMITATIONS OF THE STUDY

1. Recent pandemic had affected all the industries and more importantly banking sector.
2. The study period is very small and it would be tough to generalize the result.
3. Collection of data for analysis is completely dependent on secondary data.

Literature Review

1. **Aggarwal and Garg (2022)** had used secondary data from sixty eight mergers during the year from 2007 to 2012 financial years to study the impact of mergers on profitability. The tools such as accounting-based numbers are under three categories for solvency; profitability and liquidity with seven variables have been used in analysis. It is evidence by using five year accounting-based performance data compared with five years data in post merger. Such equivalent assessment is completed for three years between post-merger and pre-merger. It is found from the analysis that merger has notably influenced liquidity and profitability of the acquiring firm. Next in service firms the improvement is high in post merger period compared with manufacturing firms.
2. **Ishwarya (2019)** had opined to a little amount M&A's has been triumphant in Indian financial and banking sector. Government and Policy development agencies cannot promote merger between physically powerful and troubled banks because it will have adverse impact on the powerful banks. They need to share the capital with weaker banks and it causes trouble to the existing shareholders. After liberalization from 1991 onwards twenty five mergers have taken place in Indian banking sector. Further these mergers have provide the profitability in banking system.
3. **Reddy *et al* (2019)** had found that ideally, M&A declarations do not generate worth for the organizations in either Indian or Chinese business economies. The researchers have created a mean model for Chinese firms and Indian firms to study the impact of merger announcement on firm market value in the economy. The authors have used confidence levels 90 percent, 95 percent and 99 percent to know the confidence interval for the mean value of the market of firms in respective economies.
4. **Krishnaveni and Teja (2019)** have made empirical investigation on mergers and found that M& A in financial services and banking have presented optimistic influence on the investors of both ING VYSYA BANK (target bank) and KOTAK Mahindra bank (bidder bank), Secondly they have reviewed the perception towards merger between TOORENT PHARMA (bidder) and UNICHEM LABS LTD (target). In the third case they have reviewed between merger in oil and gas industry and steel sector. It is evident from their examination there could be mixed reaction among the investors with regard to mergers and acquisitions.
5. **Patel (2018)** had described the methodology to evaluate the performance by using financial statements in post merger period. Vertical Merger is a type of strategy of non-competing firms where one's outcome product is essential component of other firm. Hence such combination (merger) can be implemented when two units or firms perform their business in different sector. For example AIRTEL in

telecom industry had merged with INFRATEL Company which provides network infrastructure. Another type of merger is Horizontal merger where tow units or entities belong to the same industry and it happened between Union Bank and Andhra bank where the same business activity of each firm at the individual level. Third type of merger known as 'Accretive Merger' takes place when a business with price-to-earnings ratio buys another business with low price-to-earnings ratio. A conglomerate merger takes place when there is no commercial outcome is expected with the merger.

RESEARCH METHODOLOGY

In this research methodology the complete process of research was briefly explained. This study depends on mostly on secondary data. Hence the process adopted in procuring secondary data had been discussed. However primary is not used in research in the area of evaluating the performance of mergers and acquisitions. When organizations implement mergers they need to observe the post performance of the organization. Hence they need to compare the pre-merger financial performance and post-merger performance. There are many valid reasons for implementing mergers and acquisitions in business world. This study had been conducted using information on mergers and acquisitions. The research methodology adopted in this research work is described as follows.

Data Collection

Secondary had been used for conducting this research work. The websites of selected organization and stock market website had been used for gathering financial statements and stock price. The study period is two years data before merger and two years data in post-merger period. The secondary data had been taken from reliable sources and it had been cleaned before conducting the actual analysis. The information procurement from various sources had been systematically tabulated in MS-Excel.

Table III: Study Period

	From	To	Years
Pre-merger	2017- 2019	2019	3
Post-merger	2020-2022	2022	3

STATISTICAL TOOLS

Secondary data analysis had been used for conducting the data analysis. The tools for data analysis are

- Independent samples t-Test
- Descriptive Statistics
- Ratio analysis (using balance sheets)
- ANOVA
- Forecasting using exponential smoothing method.
- Linear Regression line

Data Analysis & Interpretation
Fundamental Analysis using ratios

Comparison of financial performance

		Pre-Merger			Post Merger		
		2017	2018	2019	2020	2021	2022
NPM%							
	Union Bank	1.69	-16.02	-8.65			
	Andhra Bank	0.96	-18.98	-14.71			
Post Merger	Union Bank				-7.78	4.22	7.70
EPS (INR)							
	Union Bank	8.08	-69.45	-25.08			
	Andhra Bank	2.56	-42.12	-21.66			
Post Merger	Union Bank				-12.49	4.54	7.73
CASA%							
	Union Bank	34.43	34.08	36.09			
	Andhra Bank	29.32	31.04	31.38			
Post Merger	Union Bank				35.58	36.32	34.12

(Source: Calculated from financial statements)

Interpretation: The net profit margin of Union Bank is negative before merger and it had become positive in post-merger period. The net profit in post-merger is positive in last two years. The earnings per share (EPS) is negative and it had improved in post-merger period. The current account to savings account (CASA) percent is high at Union Bank and low at Andhra Bank in pre-merger period and in post-merger period the CASA had increased.

Comparison of NPM%

Average of Selected Ratios

Ratios		**Pre-Merger**	**Post Merger**	
		2017-2019	**2020-2022**	**Result**
NPM%				
	Union Bank	-7.66		
	Andhra Bank	-10.91		
	Union Bank		1.38	Positive
EPS (INR)				
	Union Bank	-28.82		
	Andhra Bank	-20.41		
	Union Bank		-0.07	Moderate
CASA%				
	Union Bank	34.87		
	Andhra Bank	30.58		
	Union Bank		35.34	Positive

(Source: Calculate using MS-Excel)

Interpretation: The average net profit margin (NPM), earnings per share (EPS), and current assets to savings account (CASA) in pre-merger period (2017 to 2019) have been compared with averages of post-merger period (2020 to 2022). The net profit margin (1.38) is positive, EPS (-0.07) is moderate and CASA (35.34) is positive.

Comparison of Ratios of Union Bank

Ratio	Pre-merger 2017 to 2019	Post-merger 2020 - 2022
Net Profit/Share (Rs.)	-17.85	1.24
ROCE%	1.59	1.81
ROA%	-0.51	0.06
Net Interest Margin (X)	1.97	2.23

Interpretation: The net profit per share (M = -17.85) in pre-merger period is negative and it had become positive (M = 1.24) in post-merger period. Return on capital employed (M = 1.59) is low in pre-merger period in comparison with post-merger period (M = 1.81). Return on assets (ROA) is negative (M = -0.51) is low or negative compared with ROA in post-merger period (M = 0.06). Hence performance of Union Bank had increased after merging with Andhra Bank.

Descriptive Statistics

	Before Merger (From April 2017 – March 2020)	**After Merger** (From April 2020 to March 2022)
Mean	95.21	34.60
Standard Error	6.64	1.39
Median	84.70	34.45
Standard Deviation	39.81	6.81
Sample Variance	1584.94	46.42
Kurtosis	-0.62	-0.74
Skewness	0.60	0.13
Range	147.75	23.75
Minimum	28.70	23.65
Maximum	176.45	47.40
Sum	3427.60	830.30
Count	36	24
Confidence Level (95.0%)	13.47	2.88

Interpretation: The share price during pre-merger (April 2017 to March 2020) has 36 observations which is monthly share price. The share price of Union Bank (M = 95.21, SD = 39.81, Min = 28.70, Max = 176.47, Confidence Level = 95%). In post-merger period the share price of Union Bank (M = 34.60, SD = 6.81, Min = 23.65, Max = 47.40, Confidence Level = 95%).

Independent Samples t-Test

H1: The mean of stock price of Union Bank is same before merger and after merger.

t-Test Assuming Unequal Variances

Statistic	Before Merger	After Merger
Mean	95.21	34.60
Variance	1584.94	46.42
Standard Deviation	39.81	6.81
Observations	36	24
Hypothesized Mean Difference	0	
Df	38	
t Stat	8.94	
P(T<=t) one-tail	0.00	
t Critical one-tail	1.69	
P(T<=t) two-tail	0.00	
t Critical two-tail	2.02	

Source: Output from MS-Excel

Interpretation: A two samples t-Test with unequal variances had been conducted using MS-Excel data analysis package. The two variables in the test are before merger (M = 95.21, SD = 39.81) and after merger (M = 34.60, SD = 6.81). There is significant difference between mean value of stock price before merger and mean value of stock after merger ($t = 8.94$, $p < 0.05$). Hence H1 is not supported because the mean value of share price merger is differs between pre-merger and post-merger.

H1: The share price mean value differs between the three years in post merger at Union Bank

Descriptive Statistics of ANOVA

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
FY 2020	12	710.55	59.21	272.33
FY 2021	12	355.55	29.63	23.10
FY 2022	12	474.75	39.56	20.14

One-way ANOVA Test

ANOVA

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	5439.87	2	2719.93	25.86	0.00	3.28
Within Groups	3471.30	33	105.19			
Total	8911.172431	35				

Interpretation: The share price for each financial year had been considered to known the mean difference in share prices between the three financial years. The mean value of share price is high in FY 2020 compared with FY 2021 and FY 2022. One-way ANOVA test had conducted to find difference in means values of share prices between the three years. It is evident that share price had been significantly different between the three years ($F(2, 23) = 25.86$, $p < 0.05$).

SUGGESTIONS

- Share holders and investors can anticipate increase in share prices from now onwards.
- Union Bank profits have directly increased with mergers decision.
- Now customers may get additional services with mergers.
- Merger between two similar organizations lead to synergy effect.
- The Union Bank can reach its products to various locations and specifically in South India.

CONCLUSION

Merger between Union Bank and Andhra Bank had proved to be success. The profitability of newly formed Union Bank had constantly increased in post merger period. The impact of pandemic had not been observed in the performance of Union Bank. The demand for banking services had increased due to increase in online transaction and digital payments. However the bank performance had been consistent from the viewpoint of profitability. The banking sector plays a vital role in the economy for supporting other sectors.

Union Bank and Andhra Bank merging is best strategic decision in the recent years. Union Bank scope and reach had increased after implementing merging decision. The goal of merger had been attained by Union Bank. Now the bank is more concerned about improving customer service after completing the merger process. The market capitalization of Union Bank had increased and given its competitive advantage. In future some more banks need to merger for entering into global financial services sector.

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