

A STUDY OF RECENT TRENDS OF MERGERS IN BANKING INDUSTRY

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Abstract

During last decade, Govt. has changed the policy of amalgamating non-profitable banks into a profitable bank. Recently RBI announced the merger of Vijaya Bank, Dena bank with Bank of Baroda. This paper has been prepared to study the case of Bank of Baroda's analysis after merging Vijaya Bank and Dena bank. They have joined their hands together, one nice thought spoken in the advertisement is that "Together we are, make us better to best" which is based on the strategy of the term 'synergy' which means $1+1+1 = 4$. However, as a stakeholder, we have to know that, is the acquisition deal really worthy for an acquirer, or the shareholders of the acquirer, shareholders of the merged bank, customers and employees of the banks or anyone who is directly or indirectly connected with this deal? With the advantages of merger, there are many disadvantages also to be seen. There are lots of branches of amalgamated banks which may not be necessary to run by the acquirer bank to save the cost. There are lots of employees who might be moved to somewhere else to work after the merger. Thank god! This is a merger of public sector banks which might not generate any consequences of job cuts, yet it is very difficult to say anything about any merger without looked into both the aspects of financial and non-financial. This paper focuses on both the aspects of the merger in case of Vijaya Bank and Dena Bank amalgamated into Bank of Baroda.

Keywords: Merger, Bank Merger, Case Study, Non-Performing Assets, PSBs

INTRODUCTION

Banks are generally considered as money market institutions as most of the banks are circulating the money in terms of shorter period of time by providing services of saving deposits, fixed deposits, and current deposits against which they provide lending for car, home, education, industry etc. As per the economy, in under-developed nations there are less banks seen and as and when the country comes into the category of developing nations, numbers of banks go increasing. There are three stages in the journey of developing nations – preliminary developing nations where numbers of banks are increasing, developing nations in the middle stage where steady environments are seen with respected banks and Final stage where numbers of banks go decreasing. This is a usual trend to be seen for developing nations as the country might be moving towards the developed nation. The reason to decrease the numbers of banks does not mean that the development of the country has stopped, but it happens as the investments in the long-term funds like in capital markets go increasing than financial markets. Let us hope for the positive vibes towards our nation that India is moving towards being a developed nation by doing such kinds of merger in banking industry. In India, the merger in banking sector has become venerated throughout the country since the beginning. A large number of public sector bank, private sector bank and other banks are already merged in India. The primary goal behind mergers of banks is always seen as to manage the NPAs and smooth functioning of the banks.

HISTORY OF INDIAN BANKING:

There are four stages of Indian Banking history seen till date as explained below:

➤ **1st wave (from 1920 to 1969):** Indian Banking system was patterned by the British Banking System. There were joint stock companies who were used to do banking business before the independence. Mergers and acquisitions are not an unknown happening in Indian Banking. In fact, the predecessor of State Bank of India, the Imperial Bank of India was born out of consolidation of three Presidency Banks way back in 1920.

The Banking Regulation Act of India, 1949 has been framed. Till the pre alleviation era Indian government nationalized 14 banks in the year 1969.

➤ **2nd wave (from 1969 to 1999):** In this era, many co-operative and private banks emerged. The trends of mergers have also been seen in case of many small, private and co-operative banks which were merged into public sector banks. Actual growth in banking industries was seen in this era. Computer banking systems evolved. The trend of mergers has not only been seen in Scheduled Commercial Banks but also found in case of Rural Regional Banks (RRBs). India had 196 RRBs since 1989 but most of non-profit making banks are merged and remains only 103 RRBs when the RRB Act was passed in 1996.

➤ **3rd wave (from 2000 to 2012):** International impact of liberalisation and its outcomes are seen in this duration. Competition Commission of India (CCI) as well as the sector regulator, Reserve Bank of India (RBI) showed their heights in the international market. More than 20 mergers have been seen in the Indian Banking industries under the supervision of RBI and CCI. More seriousness has been seen towards Assets-Liability Management (ALM) and Non-Performing Assets (NPA).

➤ **4th wave (from 2013 onwards):** This is known as the era of digitalisation where most banks have focused into internet banking and mobile banking. The concept of E-wallet has also arrived and people are using it widely too. Many well-known private banks and major public sectors banks are providing most of the investment alternatives as one spot solution. Demonetisation took place meanwhile to strengthen banking industry from black money with fresh issue of currency notes. Mature and strengthening decisions with regards to mergers of banks have been taken. Under the “India Vision 2020”, Banking sector will play supporting role to financial market fully. Government will also plan to decrease the numbers of public sector banks from 21 banks to only 9 or 10 banks in near future.

Since 1969, total 40 merger or acquisition deals were seen till date. The list is given as below:

Sr. No.	Name of the Banks Acquired	Name of the Banks got Merged	Year of Merging happened
1	Bank of Baroda	Vijaya Bank and Dena Bank	2019
2	State Bank of India	Bharatiya Mahila Bank (BMB)	2017
3	State Bank of India	State Bank of Travancore, Bikaner and Jaipur, Hyderabad, Mysor, Patiala	2017
4	Kotak Mahindra Bank	ING Vyasa Bank	2014
5	ICICI Bank	Bank of Rajasthan Ltd.	2010
6	HDFC Bank	Centurion Bank of Punjab	2008
7	ICICI Bank Ltd	Sangli Bank	2007
8	Indian Overseas Bank	Bharat Overseas Bank	2007
9	Centurion Bank of Punjab	Lord Krishna Bank	2006
10	Federal Bank	Ganesh Bank of Kurandwad	2006
11	Nainital Bank	Bank of Baroda	2006
12	IDBI Ltd	United Western Bank	2006
13	IDBI Ltd	IDBI Bank	2005
14	Bank of Punjab(POB)	Centurion Bank	2005
15	Bank of Baroda	South Gujarat Local Area Bank	2004
16	Oriental Bank of Commerce	Global Trust Bank	2004
17	Punjab National Bank	Nedungadi Bank Ltd.	2003
18	ICICI Bank	ICICI Ltd.	2002
19	Bank of Baroda	Benares State Bank Ltd.	2002
20	ICICI Bank Ltd	Bank of Madura Ltd	2001
21	HDFC Bank Ltd.	Times Bank Ltd.	2000
22	Bank of Baroda	Bareilly Corporation Bank Ltd.	1999
23	Union Bank of India	Sikkim Bank Ltd.	1999
24	Oriental Bank of Commerce	Bari Doab Bank Ltd.	1997
25	Oriental Bank of Commerce	Punjab Co-operative Bank Ltd.	1996
26	State Bank of India	Kashinath State Bank Ltd	1995
27	Bank of India	Bank of Karad Ltd.	1994
28	Punjab National Bank	New Bank of India	1993
29	Bank Of India	Parur Central Bank Ltd.	1990
30	Central Bank Of India	Purbanchal Bank Ltd.	1990

31	Indian Bank	Bank of Thanjavur Ltd.	1990
32	Indian Overseas Bank	Bank of Tamilnadu Ltd	1990
33	Allahabad Bank	United Industrial Bank Limited	1989
34	Bank of Baroda	Traders Bank Ltd	1988
35	Punjab National Bank	Hindustan Commercial Bank Ltd	1986
36	State Bank of India	Bank of Cochin Ltd	1985
37	Canara Bank	Lakshmi Commercial Bank Ltd	1985
38	Union Bank of India	Miraj State Bank Ltd	1985
39	State Bank of India	National Bank of Lahore Ltd	1970
40	State Bank of India	Bank of Bihar Ltd	1969
Source: Reserve Bank of India (www.rbi.org.in)			

RESEARCH METHODOLOGY:

➤ Objectives of Study

The research work emphasizes on analysing a case study on bank merger with respect to Vijaya Bank and Dena Bank amalgamated into Bank of Baroda. To judge and to conclude this research problem in the best way, the following objectives are prepared.

- To study the impact of merger and acquisition on profitability of the acquirer bank.
- To analyze an increase in liquidity of Bank of Baroda by comparing the performance of pre-amalgamation and post-amalgamation.
- To know if the success of the scheme of amalgamation proposed by the government is worthwhile in this case.
- An attempt to do limited research on the topic of amalgamation in banking industry.

➤ Sampling Plan:

The study has been carried out on the micro-level, as it is conducted for a case study and moreover this case study is a recent merger in banking industry.

- ▶ **Sample Size:** 01 Acquirer Bank i.e. Bank of Baroda.
- ▶ **Sampling Method:** Judgmental sampling method (as it is based on case study)
- ▶ **Sample Selection:** Based on recent amalgamation policy adopted by the Government in Banking sector.
- ▶ **Sample :** Vijaya Bank and Dena Bank amalgamated into Bank of Baroda.

➤ Data Collection and Data analysis of Case study

The data used for this case study has been collected from ACE Equity and Bloomberg data base from the library of IIM Ahmedabad.

Other relevant information has been collected from the Bank of Baroda website.

Data collection has been done for 1-year time duration as only 1 year has been passed since the merger announced.

➤ Significance of the Study:

- ▶ To Shareholders:
 - ✓ Shareholders have the right to know whether the decision of amalgamation taken by government proved right or wrong for themselves.
 - ✓ The study helps the shareholders by providing them an information about return on their investment after a year of merger.
- ▶ To General Public:
 - ✓ The study will help to make them aware about facts and figures of the amalgamation of Dena Bank and Vijaya Bank into Bank of Baroda.
 - ✓ The customers of these three banks also get acquainted with information for the entire amalgamation object of the Government.
- ▶ To Employees of the banks:
 - ✓ Research will also help to understand the policy decided by the Government for the employees of the banks especially of Vijaya Bank and Dena Bank.

ABOUT AMALGAMATION

Banking experts often comment that marriages in India are arranged by parents, and the government is performing a role of matchmaker to make a deal for smooth operation of public sector banks.

	Bank of Baroda	Vijaya Bank	Dena Bank	Merged Entity
Total Business (Rs crore)	10,29,811	2,79,674	1,72,937	14,82,422
Gross Advances (Rs crore)	4,48,327	1,22,348	69,917	6,40,592
Return on Assets (annualised)	0.29%	0.32%	-2.43%	-0.02%
Net NPA Ratio	5.40%	4.10%	11.04%	5.71%

Note: As per June 2018 results

The government owns 68.77% in Vijaya Bank, 80.74% in Dena Bank and 63.74% in Bank of Baroda. Foreign Portfolio Investors (FPIs) hold 1.29% in Dena Bank, 4.91% in Vijaya Bank and 10.35% in BoB. After the merger, the government will own 65.74% in the merged entity.¹

SWAP RATIO

When ex-Finance Minister Shree Arun Jaitley announced that Dena Bank and Vijaya Bank is going to merger into Bank of Baroda. At that time the share swap ratio of Vijaya Bank was 402:1000 and Dena Bank got 110 equity shares of Bank of Baroda for every 1,000 shares they held. Because of that swap ratio, shareholders of Vijaya Bank lost ₹ 3 per share while Dena Bank lost 4.80 per share.

NET WORTH OF SHAREHOLDERS

On 1st April, 2019, BoB closed at Bombay Stock Exchange at ₹119.4 per share while Vijaya Bank and Dena Bank closed at ₹ 51.05 and ₹ 17.95 respectively.

Bank	No. of Equity Shares	Net worth	Total worth	Result
Vijaya Bank	1,000	51.05	51050	
Bank of Baroda	402	119.4	47998.8	
	1000	3.0512	3051.2	
			5.98	Percentage Loss
Bank	No. of Equity Shares	Net worth	Total worth	Result
Dena Bank	1,000	17.95	17950	
Bank of Baroda	110	119.4	13134	
	1,000	4.816	4816	
			26.83	Percentage Loss

Source: Bloomberg²

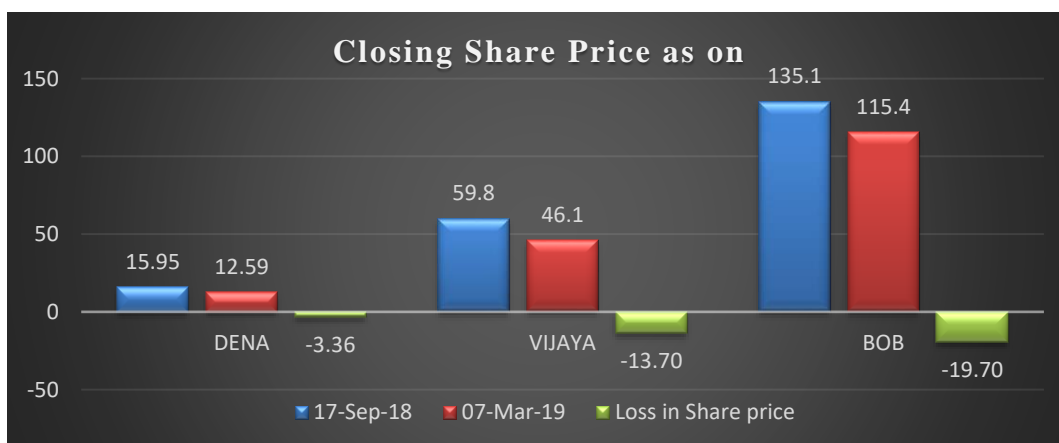
Above table is prepared to show gain or loss on the day of merger bared by shareholders of Vijaya Bank and Dena Bank. It shows total loss of ₹ 3.0512 per share. Ultimately the shareholders of Vijaya Bank bared around 6% loss as far as it is concerned with net worth. It seems alright for the Vijaya Bank's shareholders in case of amalgamation with bigger and well-known bank i.e. BoB. But Dena Bank's shareholders were in loss, as they had to bear approximately 27% loss in their net worth i.e. for ₹ 4.816 per share on 1000 shares.

Particulars	Dena Bank	Vijaya Bank	BoB		
17-Sep-18	15.95	59.8	135.1	17-Sep-18	135.1
07-Mar-19	12.59	46.1	115.4	22-Oct-19	92.5
Loss in Share price	-3.36	-13.70	-19.70		-42.60
Loss in percentage	-21.07	-22.91	-14.58		-31.5322

Source: Ace Equity

¹ <https://www.livemint.com/Industry/XihVSIwXVQZEmG1BMqL3BP/BoB-sets-share-swap-ratio-for-merger-with-Vijaya-Dena-banks.html>

² www.bloomberquint.com/amp/business/wip-a-year-in-merger-of-bank-of-baroda-dena-bank-vijaya-bank-is-far-from-complete



The above chart is prepared up to the date of 07th March 2019 only because 07th March was the last day when Dena Bank's and Vijaya Bank's share was traded on the Stock Exchange. After that only Bank of Baroda is being continued. As we can see from the last column of the second row of the above table, the share price of the BoB is decreased from ₹ 135.1 to ₹ 92.5 on 22nd October, 2019. The last two rows of the above table show the loss in share price and in percentage where we can see that investors of BoB suffered more than the investors of Dena Bank and Vijaya Bank. Till 17th September 2018, investors of BoB lost ₹ 42.60 per share i.e. around 31.53% loss.

ABOUT AN EMPLOYEE

- ✓ While announcing the amalgamation, union cabinet stated that every permanent employee and officer of Vijaya Bank and Dena Bank shall hold his or her service or office in the transferee bank i.e. Bank of Baroda same as they serviced before. They will also be eligible to get the same salary or remuneration and not be less than what they would have drawn from their earlier bank.
- ✓ Whenever any merger or amalgamation scheme is announced, one of the main issues is the reorganisation of the employees. For that Dena Bank and Vijaya Bank offered an exit option to their employee under the scheme of "disassociate" under which the employees would get pensions also as per their existing salary, if they want to opt for it.
- ✓ "Around 250 to 260 employees from Dena Bank and Vijaya Bank opted for an exit using their right to disassociate from the bank", said a banker directly familiar with the matter.⁴
- ✓ No VRS (voluntary retirement scheme) is provided to any of the employees.

CONCLUSION

Due to this amalgamation, BoB becomes third largest public sector bank in India. Bank of Baroda advertised as "Ab saath hain teen, behtar se behtareen". The object of amalgamation is always of economies of scale and it cannot be easier to measure. However as far as it is concerned with return to shareholders, it is found negative for the shareholders of all three banks till the date since merger has been announced. The shareholders of Bank of Baroda lost more than amalgamated banks. On the positive side, Dena Bank had 11.4% net NPA ratio but after the merger with Bank of Baroda, merged entity remains only 5.71% net NPA ratio. From the view point of Return on Assets (RoA), due to Dena Bank's negative return of 2.43%, Vijaya Bank and Bank of Baroda had faced negative return of 0.02% after the amalgamation from positive return of 0.32% and 0.29% on assets. Moreover, it is also found that around 250 to 260 employees opted for disassociate option and did not like to join Bank of Baroda. The other major issue that has also been found was that most of the employees of Dena Bank and Vijaya Bank have to move to other branches or other area or even another city.

³ <https://indianexpress.com/article/india/aran-jaitley-economy-rupee-gdp-npa-5360970/>

⁴ <https://www.bloombergquint.com/business/wip-a-year-in-merger-of-bank-of-baroda-dena-bank-vijaya-bank-is-far-from-complete>

^v <https://www.bankofbaroda.in/amalgamation-of-vijaya-bank-and-dena-bank-with-bank-of-baroda.htm>

^{vi} www.bloombergquint.com/amp/business/wip-a-year-in-merger-of-bank-of-baroda-dena-bank-vijaya-bank-is-far-from-complete

^{vii} <https://pib.gov.in/newsite/PrintRelease.aspx?relid=187080>

^{viii} <https://www.ibef.org/news/bank-of-baroda-dena-bank-vijaya-bank-to-be-merged-create-indias-third-largest-bank>

^{ix} <https://testbook.com/blog/bank-merger/>